ATLANTIS PRESS

Advances in Social Science, Education and Humanities Research, volume 543
Proceedings of the 2021 6th International Conference on Social Sciences and Economic Development (ICSSED 2021)

Research on the Conjunction Point Between Government and Market in the Allocation of Resources in Market Economy

Gao xiao qian

School of business, University of Jinan, Jinan, China
jinanhongguo@126.com

ABSTRACT
The relationship between the government and the market has been debated for hundreds of years in the field of economics, a lot of research results have emerged. The perfect market mechanism can make the resources, elements and means of the market effectively allocate and play the maximum utility. With the development of market economy in China, it is found that market failure still exists in market operation. For example, monopoly, externality and the field of public goods are beyond the reach of market power alone. To eliminate the influence of information asymmetry and other factors brought by monopoly, to avoid the external effects of the market's failure to automatically balance economic activities, to ensure a fair distribution of social wealth, and to reduce the excessive cost of achieving the balance of total social supply and demand through the market, we must give full play to the role of the government in the operation of the market economy to ensure the healthy, stable and orderly development of China's market economy. Government and market are two different systems or institutional arrangements of social resources allocation, which complement and promote each other in many fields. By analyzing the effectiveness of resource allocation between government and market, this paper discusses what level and what extent government and market are more favorable to resource allocation, so as to maximize the efficiency of resource allocation.

Keywords: *Resource Allocation, Government and market, Market failure, Government behavior*

1. INTRODUCTION

For a long time, there has been a dispute about the relationship between the government and the market under the condition of market economy. The economic liberalism school represented by Adam Smith and the Keynesian economic school, are two main schools of thought in Western economics on the subject. The focus of the dispute between the two schools is whether, what and how the government should intervene in the market economy. Although there are some disputes about the degree of government intervention in the economy, neither economic liberalism nor Keynesianism has absolutized their views. Adam Smith advocated the use of "invisible hand" to regulate the economy, against excessive state intervention. He did not completely deny state intervention. He also put forward some ideas of state intervention. Keynesianism advocated state intervention, but it also proposed "cooperation between the authority of the state and private policy forces" (see Keynes, The General Theory of Employment, Interest and Money), he does not completely negate the regulation of the economy by the market. He points out that "government control and market regulation are intertwined to organize production and consumption" (see Samuelson, economics) . The two universities' views on the degree of government intervention in the market have taken place in different stages and backgrounds of the development of market economy. When too much government intervention affects economic development, the idea of economic liberalism will prevail; when problems such as market self-regulation mechanism, market defects and market failure need state intervention, the idea of strengthening state intervention will prevail. It can be seen that no school has an absolute view on the relationship between the government and the market. In practice, it is also a trade-off between the two, such as "big society and small government", "strong market and weak government", "efficient market and promising government" and so on.

2. RESOURCE ALLOCATION LOSS CAUSED BY MARKET FAILURE

The market mechanism is the way to allocate resources through market competition, that is, the mechanism to realize the allocation of resources through free competition and free exchange in the markets, it is also the realization of the law of value.[1] The market we are faced with is a market composed of countless commodities, accidents and uncertainties. There are often situations in which the market cannot play an effective role. This is related to market failure leading to poor allocation of resources, and it is also related to the lack of government intervention in some areas. If the market fails, some economic behaviors can't be effectively regulated by the market mechanism. If we don't intervene, these behaviors will be out of control, and even lead to the chaos of the whole economic operation. This requires the government to intervene and implement the necessary means to regulate. Market failure is mainly reflected in the following aspects:

2.1 Monopoly hinders the effective allocation of resources

Economics assumes that the market is completely competitive, but the existence and development of monopoly is undeniable in the market economy, which limits and weakens the regulating function of the market mechanism based on free competition, it is a restriction on efficiency priority and efficiency improvement.

2.2 Information asymmetry limits the completeness of the market

Information asymmetry refers to the fact that each person in a transaction has different information. In market economic activities, people of all kinds have different understanding of relevant information; people who have sufficient information are often in a favorable position, while people who lack information are in a disadvantageous position.[2] In the market, buyers or sellers may monopolize some information. In order to avoid risks and prevent fraud, the party with information disadvantage is unwilling to trade with the party with information advantage, which greatly limits the scope of the markets, thus causes the consumer to produce the inefficient consumption, the producer lacks the efficient production. As a result, the main body of economic behavior does not have enough and perfect information, so it is impossible to take the optimal behavior to realize the effective allocation of resources.

2.3 External influence

In the market mechanism, the market is often unable to solve the external negative effects associated with economic activities. Under the condition of perfect competition, the adverse externalities of production often damage the effective allocation of social resources.[3] Competitive Firms, in their pursuit of profit maximization, must set their output at a price equal to marginal cost, whereas output that maximizes social benefits should have a social average price equal to its marginal cost, therefore, the production of products is excessive,[4] the social cost rises and the social welfare decreases, and the optimal allocation of resources cannot be realized.

2.4 Production of public goods

The demand of public goods exists objectively. Even if the social productive forces get great development and the products are abundant, the contradiction between the human dream and the reality resource restriction still needs to be coordinated by public goods. [5] Due to the "free rider problem", simply relying on the market mechanism to solve the production of public goods will make the actual production quantity of public goods far less than the society needs. Therefore, the market mechanism can effectively solve the production of private goods, but cannot solve the production of public goods.[6] In this way, the contradiction between the lag of public goods production and the life and development of social members is very sharp. The production, supply, pricing and management of public goods and quasi-public goods must be provided by public organizations. In Modern Society, it is mainly provided by the government (including central government and local government). However, because the government is different from the market, the highest goal it pursues is fairness but not efficiency, therefore, it is bound to lead to inefficiency, and will also lead to many rent-seeking phenomena, resulting in waste of resources.

2.5 Inequality and unemployment

The "Matthew Effect" in a fully competitive market mechanism tends to make the rich richer and the poor poorer. The more capital owned, the more advantageous it is to compete, the more likely it is to improve efficiency, and the more income and wealth are concentrated to capital and efficiency. On the other hand, the increase of the gap between the rich and the poor will affect the consumption level and make the market relatively narrow, and then affect production, restrict the full use of social and economic resources, and make social and economic resources unable to achieve the maximum utility. The problem of unemployment is also the result of the action of the market mechanism, when the technology is further developed, the capital saves the cost, will replace the labor force with the machinery and equipment; the ups and downs in the operation of the market economy will also lead to the instability of capital demand for labor, forming the problem of industrial reserve army.[7] On the one hand, the existence of unemployment is not conducive to social stability, on the other hand, it also affects the level of consumption and market capacity.

3. THE THEORY OF ECONOMIC FUNCTION OF GOVERNMENT

The failure of market mechanism inevitably brings the demand of government intervention. But economics argues that government itself is dysfunctional, and that government intervention in the economy is often ineffective. Annie Kruger, Professor of economics at the University of Minnesota in the United States, puts forward that "the basic principle of state interventionism to overcome market failure is based on two premises: first, the government's goal is to achieve economic efficiency, including growth [8]; second, there are no information costs, management barriers or other implementation barriers." Under the assumption of these two premises, the government intervention can overcome the market failure and succeed. If these two premises do not exist or one of them does not exist, the government intervention will fail.

3.1 Analysis of efficiency

Many western scholars believe that the government's intervention in market failure is inefficient, that is, there is a problem of government failure. Joseph Stiglitz's theory of government intervention holds that government failure should be viewed from a different perspective. It is not only in the government departments that there is low efficiency, but also in the private sector. Empirical Studies show that neither statistics nor specific examples can prove that government is less efficient than the private sector.[9] In other words, the efficiency of the government is not worse than that of the market. For example, in some large private companies, employees do not hold shares or hold a small amount of shares, and they also lack the incentive of profit maximization from the perspective of principal-agent theory. At the same time, Stiglitz acknowledges that the government is grossly inefficient in some respects, due to a lack of competition, the absence of bankruptcy threats, the commitment to social goals, the excessive pursuit of fairness, and the limited scope of its authority. These disadvantages can be improved by some measures. For example, government enterprises are encouraged to compete with private enterprises or among government enterprises.

3.2 Judgment of comparative advantage

In some ways, the government has a comparative advantage in correcting market failures. The government has the power to tax, and it can direct consumption and production through corrective taxation. Smoking is harmful to health, individual smoking will increase their health risk, such as the occurrence of lung cancer. As an insurance company, it lacks the information of the policy holder's smoking. At this time, the information asymmetry between the insurance company and the policy holder will occur, which will lead to moral hazard. The government's tax on cigarettes can restrain people's smoking, reduce moral hazard and obtain welfare benefits. The government can also prohibit some behaviors by force, which can bring the benefit of Pareto improvement. For example, in the pharmaceutical industry, government intervention can effectively curb drug prices. In addition, the government has the power of punishment, can pass legislation on the market for the punishment of violations. Economic contracts often contain some default clauses to ensure the normal operation of the transaction. However, in many cases, these clauses cannot effectively punish the defaulter. At this time, the government's certain laws and regulations can effectively solve these problems. The function of the right of punishment is more embodied in the solution of external problems, such as pollution.

4. THE DIALECTICAL RELATIONSHIP BETWEEN GOVERNMENT AND MARKET IN THE TRANSFORMATION OF ECONOMIC DEVELOPMENT MODE

4.1 Adhering to market orientation and promoting economic development

Market economy has the advantages of flexibility and effectiveness, which has been fully affirmed by people. The economic, social, cultural, technological and resource factors of a society jointly determine the economic development mode it will choose. The market plays a role in the process of resource allocation. First of all, it allocates resources to adapt to the changes of supply and demand. The change of the relationship between supply and demand is reflected in the change of price, which is the choice of the market subject to maximize the interests. Market economy is the independent economy of its participants. Both producers and consumers participate in market exchange based on their own interests. Their behavior of maximizing their own interests promotes the increase of public welfare. In the market economy, people tend to get more profit and welfare with less resource and pursue the principle of maximization. It is the free interaction of countless participants in the market that promotes the rapid economic development with the stimulation of the principle of maximization.

4.2 Strengthen the promotion of the government, push for faster economic growth

We adhere to the market-oriented principle in economic development, not negate and exclude the role of the government, the government's role in promoting the development of the market economy is an important guarantee. While emphasizing the guiding role of the market, we should also see that the market is not omnipotent, but also defective. A foreign economist pointed out that up to now, no mechanism or means has been found to allocate resources more effectively than the market mechanism, but the market also has no brain and conscience. He point out that, the disadvantage of the market is that the regulation of the market is a spontaneous adjustment afterwards. Its role can effectively allocate resources, and it will also lead to the overproduction of products and cause economic crisis. At the same time, market regulation cannot solve the problem of fairness, although it is helpful to improve efficiency. Survival of the fittest is the rule of market competition. In this process, the winning enterprises gradually form a monopoly, and the employees of the eliminated enterprises are forced to lose their jobs. The problem caused by this is that the market does not care, nor can it manage well. To solve these problems, the government should intervene in the market economy to some extent and regulate the market operation to some extent.

4.3 Realizing the organic combination of government and market, promoting economic development

The transformation of China's economic growth mode is essentially the process of input, use and distribution of economic resources, and the combination and re combination of economic growth modes. In practice, whether the specific economic system, economic environment and economic policy can adapt to the economic development and improve the efficiency of resource allocation is the standard to evaluate whether the government and the market can combine organically.

In resource allocation, who allocates the resource needs to compare the cost and benefit, that is, the consideration of economic factors. First of all, if the cost of providing services by the government is reasonable and the expected benefits are commensurate, the government should be considered to carry out a certain economic behavior, otherwise it is an ideal choice to hand it over to the market. Similarly, if the same economic behavior is allocated resources by the government and the market at the same time, the government can achieve the lowest total social cost, it should consider the government to achieve resource allocation, otherwise it is the ideal choice for the market to allocate resources. Secondly, it is based on the consideration of social welfare and equity. In the operation of market economy itself, it often leads to polarization between the rich and the poor, which limits some members of society to difficulties. This requires government intervention. But this kind of government intervention, the allocation of resources by the government, often makes some people benefit, while the other people suffer. This needs to consider the limit of social equity and affordability. Of course, we should also consider the satisfaction degree of the object (consumers) of the resource allocation supply, make it pay the social cost, at the same time, achieve the relative satisfaction level, enhance the social welfare. Finally, when considering the introduction of the government to allocate resources in some areas of the economy, there should be strict institutional constraints. It is a deep-water area of reform to study how to properly place the state power system in a reasonable institutional framework, which is effectively restricted by law.

5. CONCLUSION

Government and market are two different forces in the allocation of resources in the economic operation. The essence of the cooperation between government and market forces is that in various fields and levels of economic operation, the Division of Labor and cooperation between government and market forces in resource allocation. As two complementary forces in resource allocation, it is difficult for any resource allocation that is market-oriented without government or government-oriented without market to achieve optimal economic effect. The coordination, mutual improvement and mutual promotion between them are the necessary means to optimize the balance of resource allocation and achieve the optimal economic operation. How to choose the allocation of social resources between the government and the market is a complex problem.it is not only the choice of the proportion of the two to intervene in the economy, but also the influence of the different combinations of the two on the allocation of resources. In choosing a market-based allocation of resources, consideration should be given to the defects and effects of the market, how to reduce such adverse effects through a certain degree of government intervention, and the unavoidable government intervention in certain fields, such as the production of public goods. If we choose to give priority to the allocation of resources by the government, then we should consider the defects of government intervention and its impact, and how the market should play its role to appropriately weaken this adverse impact. As two means of allocating economic resources, government and market have their own advantages and disadvantages, but they can complement each other to some extent to improve each other's functions. Therefore, in the process of selection, we should consider whether to give full play to the advantages of the government in the market economy and minimize the influence scope and degree of market defects, or to give effective play to market forces and inject appropriate government management factors to achieve the best combination of the government and the market in the allocation of social resources. When the combination of government and market resource allocation is recognized by the society, which is more conducive to the operation of the economy and the improvement of efficiency in all areas of the national economy, the combination mode of government and market is the best.

REFERENCES

[1] Atkinson, Stiglitz, (1994) Public economics. Shanghai People's Publishing House Shanghai.

[2] Stiglitz, (1998) Why does the government intervene in the economy. China Materials Publishing House, Beijing.

[3] Osborne, D., Gabler, T., (1996) Reforming government: how entrepreneurship reforms the public sector. Shanghai Translation Publishing House, Shanghai.

[4] Mao, S.L., Li, M., (2000) Economic analysis of limited government. Shanghai Sanlian publishing house, Shanghai.

[5] Zaire, (1963) Introduction to political economy. Business Press, Beijing.

[6] North, D., (1994) Structure and change in the history of economic structure. Shanghai Sanlian Bookstore, Shanghai.

[7] Huang, S.A., (1995) Introduction to property economics. Shandong People Publishing House, Jinan.

[8] Lu, M.M., (2002) An overall analysis of institutional change and institutional innovation. Southern economics,4: 55-57.

[9] Du, W., Gao, L.Y., (2002) Empirical analysis of institutional change and China's economic system reform. Contemporary China economic research, 1: 56-59.