

Original Article

# Resisting the Disorderly Expansion of Capital is Precisely to Defend the Orderly Development of Capital: Discussion on the Issues Related to Government Regulation and Capital Expansion

OU Chun-zhi<sup>1</sup>, JIA Kang<sup>2</sup>

<sup>1</sup>China Academy of New Supply-side Economics, PhD of Public Administration at Renmin University of China, Postdoctoral Fellow at the Research Institute for Fiscal Science, the Ministry of Finance, P.R.China,

<sup>2</sup>China Academy of New Supply-side Economics, President of the Research Institute for Fiscal Science, the Ministry of Finance, P.R.China.

<sup>1</sup>Corresponding Author : [moffk@icloud.com](mailto:moffk@icloud.com)

Received: 14 September 2023

Revised: 23 October 2023

Accepted: 09 November 2023

Published: 28 November 2023

**Abstract** - In 2021, the state launched a heavy campaign to resist the disorderly expansion of capital. The political, business and academic circles have both support and doubt for evaluating both market mechanisms and government regulation. However, tracking back to the application of Adam Smith's "invisible hand" as well as the capital operation practice in ancient and modern times at home and abroad for hundreds of years, we can know that the relationship between the government and market, if handled improperly, will precisely be the source for the disorderly expansion of capital, and will certainly damage the public interests to a certain extent. The government's responsibility is to create a fair, transparent, lawful, and honest business environment for the market to guarantee that the market fully plays its role of optimizing the allocation of resources, timely correcting market failure, and guiding the healthy operation of the capital. We should set "traffic lights" for the development of the capital by law through a series of effective policy combinations to resist and prevent the disorderly expansion of capital, to guard and guide the orderly expansion of capital and to achieve the prosperous development of the economics and society.

**Keywords** - Capital, Regulation, Market, Capital expansion, Government Regulation.

## 1. Introduction

Since the Chinese government launched a heavy campaign to resist the disorderly expansion of capital in 2021, the market has been shaken, and expectations have been weakened. There have been various opinions on this. Some criticize the crime of capital expansion, some strongly question the government regulation, and some emphasize making up for the market failure. It is well known that capital is the funds used in the production and management process for value addition (i.e., value-added, also known as return on investment), and it is not always the same in history. Different from the capital in the era of capital, which was criticized by Marx as "capital comes dripping from head to foot, from every pore, with blood and dirt", in contemporary economic life, including in China, which is developing and improving socialist market economy, capital is no longer a pejorative term but refers to a factor of production. In the capital structure of a socialist market economy, there is both state-owned capital and private capital. It has become a neutral concept.

Generally, capital always seeks a larger scale and more abundant profits in its accumulation, both its mission and its logical end. The intrinsic attribute of capital is to seek a continuous return on investment, i.e., the appreciation based on the preservation of value, which is also expressed as capital expansion. This expansion can be distinguished into two categories: orderly and disorderly. The basic point of this paper is that resisting the disorderly expansion of capital is to defend the orderly development of capital. In view of the disorderly expression of the capital, such as the fake nucleic acid test and community supply monopoly shocking the people in the current epidemic, as well as the hotly debated real estate in recent years, compulsory education training, entertainment, Internet oligopoly, Internet finance and other market chaos born by the disorderly expansion of capital, which disturbs the healthy order of the economics, destroys the fair competition market and infringes on the rights and interests of workers, etc., should the government regulate? Undoubtedly, the government should regulate. But it must be pointed out that



the government's inappropriate, absent and overstepping regulation forms the chaos of disorderly expansion of capital, poor market expectation, lack of confidence, and so on. This paper tries to make a discussion by linking theory with practice.

## 2. Capital

Capital has always been a hot topic due to its strong impetus for concentrating or over-concentrating personal wealth in the accumulation and distribution process of private capital. Looking around the world, some countries, even including China, have had the trend of increasing the capital/labor income ratio to varying degrees in recent decades. Suppose the capital expands disorderly in the monopoly mode of "not even a blade of grass growing under the big tree". In that case, it will definitely solidify and exaggerate this trend, the direct result of which is the widening gap between the rich and the poor, as well as various social problems. If we want to change the trend, we should establish a new mechanism or improve the existing institutional mechanism and form a series of effective public administration modes and corresponding public policies, contributing to the whole social welfare while guiding the capital to make profits. If guaranteeing the smooth operation of market mechanism and also making up for market failure, the combination of both is the soil for the healthy and orderly development of the capital, which will bring reasonable capital/labor income ratio, active investment, roaring consumption, flourishing science and technology, and prosperous economy.

There have been a lot of research achievements in this aspect in the academic circle. Chun, Yi and Tse pointed out that the capital monopoly brought about the decrease of employment rate, which has a negative impact on the comprehensive welfare of the workers and even more impact on the employment and income of the low-skilled workers. Harms and Hefeker pointed out that diversified capital investment helped reduce unemployment. Michl pointed out that the workers' welfare was seriously limited due to the capitalist's control of the capital accumulation process. Sawyer pointed out the hindrance of monopoly capital to economic development. Amitava, Krishna, and Dult pointed out the possible revision to price theory with the emergence of monopoly capital. Connolly and McAfee found a positive correlation between high-tech capital and productivity through study but could not prove its relationship with excess returns. Glomm and Mendez pointed out that the more competitive market and less regulation on the capital would increase the rate of return on capital, and that removing monopoly power could significantly increase total revenue. Antoci, Sabatini and Sodini developed a theoretical framework to analyze the role of social capital participation in economic growth and technological progress and pointed out that the relationship between technological progress and social capital showed an inverted U-shape curve under certain parameters. Thompson thought that social capital stimulated innovative

activities, leading to higher monopoly profits, which generated higher levels of social capital and formed a self-reinforcing mechanism. From previous studies, it is easy to find that capital development under the market mechanism can vitalize the economy and increase the well-being of all the people. It also generates negative problems, such as monopoly, that cannot be ignored. In relation to this, it should be noted that government regulation may also breed more monopolies, and the disadvantages of capital monopolies are countless in practice.

## 3. Regulation and Market

There are generally three major ways human beings manage the world: ideological, administrative and market approaches, of which regulatory (administrative) and market approaches are the most commonly used tools for government intervention in economic development. The substitution and supplementation of government and the market is a matter of economics as well as a matter of political science and involves the question of how to deal with the relationship between the government and the market, and the government and society, or how to define the boundaries and interaction mechanism between the government and the market, and between the government and society. In the evolution of traditional public administration, the size of government in many countries tended to be large. A large government implies a large amount of regulation, a large number of tasks and divisions of labor for public service provision, and a large amount of financial support. It will inevitably crowd out the role of the market to a certain extent, may lead to prevalent rent-seeking, and may also lead to the formation of monopoly under the help of regulation. It is the same as the monopoly caused by market failure. Of course, this will also promote the voices and appeals of "anti-government" and "anti-market".

### 3.1. *The Substitution and Supplement between the Government and Market*

"Anti-government" and "anti-market" are two extremes and both seem to be justified, but both extreme claims do not help solve the practical problems. For the wildly growing capital (such as financial capital), we indeed need to continuously develop new tools to control them. At the same time, as the national policy tools of modern society, the tax and transfer payment system and administrative controls are too complicated and tough and often difficult to be understood and accepted by the public, which then, in turn, undermines their social and economic utilities. It must be admitted that the government and market should not exist in isolation; that is, they should not be isolated and torn apart from each other but should cooperate, benefit from each other, and complement each other. Generally, the government is often more inefficient than non-governmental organizations (NGOs). In the past, we often attributed this to bloated institutions and bureaucratic red tape in the public service, but these are only presentations and part of the reason. There is a significant difference

between the government and the private sector, leading to greater direct efficiency in the private sector; however, this efficiency originates not from the organizational form but from the simplicity of the goal. If the task assigned to the civil servants is to improve the administration efficiency with "business methods", this misunderstands the concept of administration efficiency. In many cases, one of the reasons for allowing the government to do things is precisely because we do not want the government to act in a way of profit maximization, but pursue multiple objects through trade-off and combination. If the government wants to pursue direct efficiency, then it can successfully act in a profitable way. It is easier for the government to make profits by giving themselves a monopoly status, but that is a departure from the government's responsibilities. With the rise of neoliberalism in the last century, government authority has been weakened in this movement, and the size of government has been reduced accordingly.

Even public affairs, which have always been the government's responsibility, can be brought into the market system through contracting, PPP and other innovative forms in this wave of marketization. In the wave of "privatization (demutualization)" that appeared in western countries in the 1980s, it is obvious that the excessive worship of the market has neglected the natural defects of the market. In addition to its inspiring positive effects, the "Washington Consensus" tends to show the inability of the market to deal with externalities, public service provision, social justice, and long-term macroeconomic equilibrium, which is where its main flaw lies. Therefore, even if the market has the incomparable advantages of the government, the government still needs to formulate and implement public policies to regulate, manage and serve society to make up for the market failure, which is the reason and purpose for the existence of the government, and also the limit of the government's substitution by the market (as well as the developing third sector – public welfare organizations and volunteer organizations). Even though the government has been criticized for its bureaucracy and red tape, the necessary size of government must still be in place. It can also be understood that the market cannot completely substitute the regulation, but regulation should never be everywhere. Wherever there is the factor of monopoly or a distortion of free market competition, government regulation is needed to protect the interests of competitors, consumers and labourers. It should be alerted that the government can standardize the market through regulation, thus confining the market to an increasingly limited scope.

However, such regulation should be dynamically optimized with the times, especially in the information age of the new technological revolution with the rapid development of the digital economy. The key to keeping up with the times is to conduct the reasonable supervision of the head enterprises of digital economic platforms in a "prudent and inclusive" manner, which is intuitively bound

to be characterized by "oligopoly" in innovation. The essence of capital regulation is to make Smith's "invisible hand" do its best under the protection of the government, hopping like a fish in the sea and flying like a bird across the sky, thus striving to make the market full of righteous vitality while playing its decisive role in the allocation of resources.

### **3.2. Correctly Understanding Smith's "Invisible Hand"**

There is one important point to be clarified. When referring to the "invisible hand", the extreme "market fundamentalists" advocate a completely free market and advocate that the "invisible hand" can solve all the problems, which is a great misinterpretation of Smith. Adam Smith (1723-1790) first put forward the theory of the "invisible hand" in *The Theory of Moral Sentiments*, "an invisible hand leads them to make almost the same distribution of the necessities of life as could be made by the land if it were equally distributed among all the inhabitants, and thus unwittingly and unknowingly and thus unconsciously advances the interests of the community". In *The Wealth of Nations*, Smith emphasized that every individual "ordinarily neither intends to promote the public good nor knows in what degree he himself is promoting that good. .... It is only his own interest that he contemplates. Like many others, he is guided by an invisible hand on such occasions. His pursuit of his own interests often enables him to promote the interests of the community more effectually than would be the case if he had really intended to do so." In these two paragraphs, it seems that the "invisible hand" can promote the public interest of society through the self-interested behavior of people. However, it must be noted that the individual in the market referred to by Adam Smith has been a "social man" rather than a "natural man". Smith said clearly that without the government's protection, the pure sense market could not exist for even one day, leading to the later famous market failure doctrine.

Since the nature of human beings determines that they will fall into a disorderly "state of war" if they leave the "community" state, then in what ways can the government save human beings from the "state of nature"? Specifically, government regulation in accordance with the law is introduced to play a role in making up for market failures, maximizing the public interests, and maintaining social order and justice. Undoubtedly, when the capital market falls into a pure "state of nature", Smith's "invisible hand" will also be disordered, and the government has to act as a "night watchman" as the bottom line and strive for "better functioning". Thus, we know that Smith's "invisible hand" is not a universal and unique panacea and needs the support and cooperation of the government to play its role. The appropriate government regulation can safeguard the sound operation of the "invisible hand" and help when the "invisible hand" fails. The prerequisite for efficiently operating the "invisible hand" is precisely the government's backing. The government and the market are like the back

office and the front desk. Usually, people can easily see and perceive the existence of the front desk because it is vivid and three-dimensional, directly related to the scene of life, and often detached from the back office that is indirectly related to us. However, from the point of view of the sustainable development of the economy and people's well-being, for standardizing the operation of the capital, it is difficult to make a simple judgment about who is more important. When the market operates smoothly under the reasonable support of the government, the government, acting as the back office, should better not come to the front desk frequently.

## **4. Government and Regulation**

### ***4.1. The Responsibilities of the Government***

What is the dispensable importance of the government as the back office of the market? Although human history has proved many times that the market has unparalleled advantages in creating social wealth and that it is the most basic, effective and decisive institutional arrangement for allocating resources, it sometimes fails; that is market failure. It only applies to achieving "social equity" under equal rules and equal opportunities per the law. It fails to achieve "social equity" under the orientation of equalizing appropriate outcomes in accordance with the law.

In the field of market failure, the market adjustment mechanism must give way to the government regulation mechanism. The government can correct market failures by the following methods: first, direct or indirect monetary subsidies, such as special subsidies, tax exemption and tax rebates; second, controlling the number of licenses to restrict or prohibit later competitors, such as the eligibility for the tax incentives of the enterprises accepting a certain proportion of the disabled for employment; third, necessary government regulation on the industries and sectors that substitute or complement each other; fourth, government regulating prices, such as necessary fixed prices in some certain circumstances.

The government is the most important provider of public services. The nature of its power is public power, and its mission is to meet the public needs of society, to respond to the people's appeals, and to safeguard and promote public interests. Its main responsibilities are reflected in the administration of public affairs and the provision of public goods and services. Its behavior must be in a state of responsibility and bear the corresponding public responsibilities in politics, administration, law and social culture, ecological environment and other aspects. Its operation should follow the public value and public spirit of openness, fairness and justice. Its administration and service process should reflect the people's participation and social supervision. The performance of the government's basic functions mainly relies on establishing a public financial system to allocate public resources effectively. The core function of the government is to control the contradictions and conflicts between the interests of

diversified social subjects within the scope permitted by the social order and to balance the interests of all parties.

Looking at the development of the world's modern history over the past 300 years from the perspective of government functions, there is also an obvious but relatively slow process of progress. The brutal primitive accumulation of capital in Britain and Germany in the 19th century was strongly condemned by socialists, which also prompted these countries to reflect and gradually strengthen their public functions in market regulation, labor protection, pension insurance, protection of women's and children's rights and interests, as well as education, medical care and public health, housing, social security, and so on. The governments of various countries began to intervene in macroeconomic management and a wide range of public services on a larger scale. This is the beginning of the people's inclusive understanding of the government and the practical basis for safeguarding the effective operation of Smith's "invisible hand".

### ***4.2. Analysis of the Necessity of Government Regulation***

In a general sense, regulation has existed since the existence of human social organization, and it is inevitably universal. The earliest regulation can be traced back to primitive tribal times. Whether it is Hobbes's "Leviathan", Locke's "community", or Adam Smith's "social man", they are all based on the fundamental concept of "national government", which recognizes the existence of a larger "public" and the partial surrender of individual rights by individuals in search of political protection and economic interests. That is to say, the existence of the public interests and the governmental mechanisms that go with it is undeniable. In other words, the assumption of "completely free choice" for pure "personal interests" in microeconomics cannot be fully justified. In modern society, people are forced to give up the absolute right of choice they had in the state of nature and accept the protection and laws of the community. All they can do is pursue the fairness, justice, cleanliness, and higher efficiency of these laws. Based on this, government regulation is a rule made in the public interest against individuals or a group of individuals. Its purpose is to avoid the infringement of the interests of employees and consumers by the subjects of capital and the economy, which is manifested in the wanton control of the entry of others, the monopoly of prices, the abuse of power over consumers and labor, and the unilateral determination of the conditions and quality of service, and so on.

For this reason, the government, on behalf of the public, should exercise a certain amount of rational regulation on the market players and capital. This idea of regulation is in line with and surpasses the principle of "Pareto optimality", which is not only economically effective but also contributes to the betterment of the whole society. Therefore, at the principle level, it is necessary and reasonable to resist and correct the disorderly expansion of capital. Here, the appropriate administrative intervention

can be regarded as a kind of implementation and refined supplement of the law in order to correct, to the greatest extent possible, the market failure of the capital caused by the undue monopoly due to a variety of reasons, as well as the hostage kidnapping of public power.

Admittedly, we have seen various phenomena of capital chaos in the past disorderly expansion of capital, which gained unfair competitive advantage through illegal means, such as the seller market in the field of real estate formed by insider operations, which ultimately lead to the collapse of the debt of real estate developers including Evergrande, while many home buyers who could not obtain properties still had to make continuous and uninterrupted monthly mortgage repayments; the unnecessary remedial classes and school districts forced out of the "only bridge channel of famous schools" in compulsory education phase, which crowds out the necessary recreation and sleep time of children and young people to make them physically and mentally exhausted, behind which there is a twisted push of private capital for profit; the "alternative" of improper monopoly nature of the Internet enterprise, which inhabits the free competition of the market; discriminatory pricing making the consumers have to bear a higher cost of living, and so on. With regard to the above chaos, we certainly should have the courage and determination to cut off our wrists and scrape off our bones to cure the poison, create a reasonable institutional environment and impose necessary government regulations in the supporting reforms. However, the problem of the appropriateness and reasonableness of government regulation, the "appropriateness problem", is a difficult problem that should not be underestimated.

#### **4.3. The "Appropriateness" of Government Regulation**

Government regulation is intended to correct market failures, but the government itself can also fail. The phenomenon of rent-seeking just verifies North's portrayal of "government failure": in its efforts to correct market failures, the government often triggers its failures, i.e., government failures, and, most importantly, the consequences of government failures are very likely to be more serious than those of market failures. If resisting the disorderly expansion of capital is a matter of deconstruction, there is no doubt that defending the orderly expansion of capital is a corresponding matter of construction. As the saying goes, it is easy to deconstruct rather than to construct. We can see that the original intention of government regulation is to realize the public interests, but in practice, due to insufficient or improper regulation, the government is either absent or overstepped, deviating from the public interests from time to time, which cannot but cause us to reflect. From the point of view of the original intention of the regulation, the government should make a cost-free and effective response to the demand for social justice and efficiency and formulate the regulation from the public interests. In principle, where there is market failure, where there is corresponding government

intervention. However, there is often the dilemma of the opposite of what is desired. Undeniably, the government does have certain abilities and advantages in dealing with market failure. In the closure and control of the city during the past three years' epidemic, the market mechanism was basically paralyzed, and the "hand" mentioned by Smith could not play a role. Government regulation had to be used as a special means to fully intervene in detecting nucleic acid and guaranteeing supplies at special times. Regrettably, many scandals of nucleic acid testing and supply assurance have broken out one after another in various places. Here, the government controls the market access license based on public interests; which market entity should get the nucleic acid testing and supply guarantee license? Is its basis universal and sustainable, and is it fair to every market player participating in the competition? These odd scandals precisely illustrate that during the special period of market failure, improper government regulation has also often failed to play its role appropriately.

In addition, the government's efforts to rectify the disorderly expansion of capital were mistakenly understood by the market as suppressing private capital and causing the market to lose confidence, which is another derived form of improper regulation. Government regulation to intervene in market failure is one of the basic responsibilities of the government, but how does the government intervene? How can we save the market failure to further enhance market confidence? The key is that government personnel should think deeply and deliberately about urgent matters. In short, there is relatively high complexity and reasonable master requirements for the government to make up for market failures. The regulation actually involves the level of government policies, administrative efficiency, and public credibility, and it is clearly challenging and testing.

#### **5. Be Alert to the Erosion of the Public Interests by Improper Regulation**

From the practice of public administration and public service, it is not difficult to find that the public power of regulation is quite large. In the anti-epidemic special period, when the isolation, lockdown of the city, non-toxic sterilization of the place and other measures are implemented, the enforcement personnel with public power show unusual compulsory effects. Just as it is easy for too large private rights to intrude into the public sphere, too large public power often infringes on private rights and interests. During the epidemic lockdown period of some metropolises called "magic cities", the hotly debated excessive prevention and control violated common sense recklessly. The companies were established with black-box operations under the driving of interests. They became the suppliers of guaranteed supply, a typical case of public power infringing on private rights and disorderly capital expansion. Behind the formal infringe on private rights by public power, there are often substantive infringe on public power by private rights, such as a small group of people

who have the eligibility of supply infringe on the interests of most of the people by "making a fortune in national difficulties", which obviously hedges the government's ability to provide basic security supplies during emergencies, and subsequently causes social injustice and public resentment. In terms of infringing on private rights by public power, it is common for grass-roots organizations to concentrate the power, resources and opportunities in the hands of a small number of people and monopolize the supply of basic security materials, which responds to the disorderly expansion of capital that results in insufficient supply, disorder and other chaotic phenomena.

As early as more than 100 years ago in Europe, Marx and Engels, witnessing the various realities of capital's violation of public power and brutal exploitation of labor in the process of capitalism's primitive accumulation, proposed that the future society should be one in which public ownership of the means of production was the mainstay. However, in the practice of socialism in the Soviet Union and China, the centralized power with public ownership as the "shell" may, due to the lack of necessary checks and balances, appear to be a tool for public power to infringe on private rights in the name of government regulation.

The failure of the former Soviet Union lies in the fact that while resources and power are claimed to be publicly owned, decision-making power is privately owned, turning nominally public power into substantively private rights. The system is formulated and implemented by people in reality, so the strictness of the system and policy at the formulation level and the operability at the implementation level are two very different issues. Human beings are first people with animal attributes, who need survival and safety; second, people with economic attributes, who have individual preferences and cost income considerations; and then people with social attributes, who have appealed for interests and honor.

It is precisely because of the complexity and variability of human nature and the multi-layered nature of needs that the formulation and implementation of regulatory policies are often fraught with unspecifically unpredictable challenges. Even so, we must still include the complex and variable human nature in the rational foundation for formulating public administration and public policies. We can design public policies to guide their selfishness and incentivize their goodness so that the private benefits are combined with public interests, making public administration an art of high standard. So, we must realize that not all political, economic and social problems can be perfectly solved through an extremely strict regulation system or a completely free market mechanism. Otherwise, society may be trapped in a vicious circle of more problems and more stringent government regulations. How can we practically optimize public policy and government regulation based on human nature and give full play to the

free mediation mechanism of the market to stimulate and guide individual behaviors towards the public interests, resist the disorderly expansion of capital and defend the orderly development of capital? It has become an objective need for social progress.

## **6. Setting the "Traffic Lights" for Capital Expansion under the Framework of Comprehensively Implementing the Rule of Law**

The introduction of this paper has pointed out that, in the socialist market economy, there are both state-owned capital and non-state-owned capital, which are all factors of production pursuing the return on inputs, that is, capital preservation and value appreciation. The intrinsic meaning of the concept of "capital" is that it needs to have its function as a factor of production and the accompanying "added value", and then its operation must reflect the expansion characteristics of pursuing value preservation and appreciation, which is the mechanism of power source related to the development of productive forces. Of course, due to the differences in the "comparative advantages" of the state-owned capital and non-state-owned capital, their expansion will also logically have particularities apart from the generalities. The key is how to make capital expand in an orderly manner rather than falling into unfavorable conditions of "market defects" and "inappropriate regulation", which is manifested in disorderly expansion, brutal growth, or the distorted trading of power and money, and collusion between government and business, inhibiting the whole economic vitality. We guide, encourage and defend the orderly expansion of capital, which can be regarded as the things that should be done in the pursuit of the emancipation of productive forces and the pursuit of high-quality development while preventing and stopping the disorderly expansion of capital from abolishing the harmful while promoting the beneficial, the purpose of which is also to pursue the emancipation of productive forces and high-quality development.

So next, we need to emphasize the problem of docking the practical operation. For capital expansion, the central government has clearly expressed the concept of "traffic light." what should be the basis for "encourage" (turn on green light) or "stop" (turn on red light)? That is to say, what is the difference in standards for determining "orderly" and "disorderly"? In the modern state governance scenario of "comprehensive rule of law", the first thing to do is to "take the law as the criterion"; what is legal and compliant is orderly, and what is not legal and non-compliant is disorderly. Therefore, those in order should be encouraged and given the green light, and those in disorder should be stopped and given the red light. In this way, can the positive role of capital be fully utilized while preventing its possible deviations and negative effects?

Our above viewpoint contains a logical premise requirement that to grasp the legal criteria for the "traffic

light" of capital expansion, we must do our best to realize the economic and social fairness and justice at a high level that the law itself should maintain. In other words, in our country, not only a series of supporting rules and systems should be formulated or improved correspondingly to realize "rule by law", but also the system should be guaranteed as "good law" to realize the "rule of good law". The national legal and regulatory system must keep pace with the times and continuously be improved in the dynamic optimization of the "rule of law". This is the key to the inevitable test when dealing with a major practical issue.

What the leader said, "Putting power in an institutional cage", is a very constructive principle for state governance. The CPC is the ruling party, and the ruling party has power, which is public power. Public power is carried out by specific private persons, and there will be inevitable distortions in real life. The key to legislation is to put power into the institutional cage and strive to minimize distortions. If the cage is the law, then it is also necessary to emphasize our philosophy of governance - the rule of law. In order to achieve health democratization, the modern civilization must use the concept of governance under the "rule of law", thus truly "moving towards a republic". From the view of argumentation, "rule by law" takes the law as a tool of rule, while "rule of law" is the "governance of law", expressing the idea that "the law is the highest and greatest".

In popular words, the former is "rule by the sword", while the latter is "rule by the water". In China's thousands of years' of history, there is no lack of "rule by law (rule by the sword)". As early as in the period of Emperor Qin Shihuang, there was law. What is most lacking in the Chinese tradition is the "rule of law (rule by the water)". "Rule by law" emphasizes the instrumental value of the law, while the "rule of law" emphasizes that the law embodies the public will and supreme authority. The "rule by law" is a static system of legal institutions, and the system has good or bad.

The "rule of law" is the dynamic description of a good legal system that is effectively implemented. In the logical orientation, there is only a good rule of law, no bad rule of law. The first task of the rule of law is to eliminate the "bad law" in the existing institutional system, which is illegal.

## References

- [1] Chung Yi Tse, "Monopoly, Employment and Wages," *Labour Economics*, vol. 9, no. 5, pp. 681-697, 2002. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [2] Philipp Harms, and Carsten Hefeker, "Globalization and Unemployment: The Role of International Diversification," *Economics Letters*, vol. 78, no. 2, pp. 281-286, 2003. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [3] Thomas R. Michl, "Capitalists, Workers and Social Security," *Metroeconomica*, vol. 58, no. 2, pp. 244-268, 2007. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [4] Malcolm C. Sawyer, "Theories of Monopoly Capitalism," *Journal of Economic Surveys*, vol. 2, no. 1, pp. 47-76, 1988. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [5] Amitava Krishna Dult, "Competition, Monopoly Power and the Uniform Rate of Profit," *Review of Radical Political Economics*, vol. 19, no. 4, pp. 55-72, 1987. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]

The goal of the rule of law is "good governance with good law", that is, achieving "good effects" when "good law" is operated in the practical order.

The principle system, which is composed of the positive list of enterprises developed since the establishment of the Shanghai Free Trade Zone (embodied in the private right of "nothing prohibited by law can be done"), the positive list of the government (embodied in the public power of "thing without authorization should not be done") and the list of responsibilities ("power must have the responsibility" – the accountable system), should be the thinking framework for deepening reform, improving the mechanism of the socialist market economy system and formulating high-level "traffic lights" for capital expansion, and also the legislative thinking for promoting the establishment of the "comprehensive rule of law" system.

## 7. Conclusion

To sum up, we should resolutely resist the disorderly expansion of capital and rectify the various market chaos brought about by market failure with appropriate regulation. However, regulation must not be a simple and rough one-size-fits-all approach, which should avoid the injustice to individual cases caused by the formal generality of the rules. It must not be arbitrary; which should have a clear and rational orientation formed and optimized by the design of institutional arrangements. Our resistance to the disorderly expansion of capital does not mean that we do not need capital, but to defend the orderly expansion of capital through appropriate regulation. We hope that through the necessary regulation, the future economy will operate in a healthier and more orderly manner, market competition will be fairer and more vigorous, and the rights and interests of workers and consumers will be reasonably protected.

The government and the market are no longer simple substitutes for each other or the boundary issue of "One cares about one's own business." (井水不犯河水<sup>1</sup>). High-quality development must adhere to the organic combination of an effective market and a competent but limited government, and this combination, in China's path of catching up to achieve the great national renaissance of modernization, must take certain risks and achieve "unexpected success with regular methods".

- [6] Ellis Connolly, “The Impact of High-Tech Capital on Productivity: Evidence from Australia,” *Economic Inquiry*, vol. 44, no. 1, pp. 50-68, 2006. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [7] Gerhard Glomm, and Fabio Méndez, “Privatization, Deregulation, and Capital Accumulation,” *Southern Economic Journal*, vol. 75, no. 4, pp. 976-995, 2009. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [8] Angelo Antoci, Fabio Sabatini, and Mauro Sodini, “Economic Growth, Technological Progress and Social Capital: The Inverted U Hypothesis,” *Metroeconomica*, vol. 64, no. 3, pp. 401-431, 2013. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [9] Maria Thompson, “Social Capital, Innovation and Economic Growth,” *Journal of Behavioral and Experimental Economics*, vol. 73, pp. 46-52, 2018. [[CrossRef](#)] [[Google Scholar](#)] [[Publisher Link](#)]
- [10] Thomas Piketty, *Capital in the Twenty-First Century*, Harvard University Press, 2014. [[Google Scholar](#)] [[Publisher Link](#)]
- [11] Gordot Tullock, *Economic Hierarchies, Organization and the Structure of Production*, Springer Science & Business Media, 2012. [[Google Scholar](#)] [[Publisher Link](#)]
- [12] Adam Smith, *The Theory of Moral Sentiments*, H. G. Bohn, 1853. [[Publisher Link](#)]
- [13] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Create Space Independent Publishing Platform, Vol. 2, 2019. [[Publisher Link](#)]
- [14] Zeng Guo’an, and Regulation, Government Regulation and Economic Regulation [J]. *Economic Review*, vol. 1, pp. 93-103, 2004.
- [15] Stiglitz, The Role of Government in a Market Economy: Why Governments Intervene in the Economy? [M]. Translated by Zheng Bingwen. Beijing: China Fortune Press, 1998.
- [16] Qing Dynast, and Cao Xueqin, *A Dream of Red Mansions*, Chapter 69, 1978.