

The Basic Picture of Market Economy Operation Under the Complement of Freedom and Regulation

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Abstract: Market economy is the foundation of the modern global economic system. Its operation principle is based on the independent decision-making of individuals and enterprises, and it spontaneously adjusts the balance between supply and demand through the market mechanism. The "invisible hand" is an economic concept put forward by Adam Smith in his book *The Wealth of Nations*. That is, in the market economy, individuals seem to be guided by an "invisible hand" in the process of pursuing personal interests, which makes their behavior ultimately promote the improvement of the overall welfare of the society. In the market economy, this "invisible hand" coordinates the relationship between supply and demand through the price mechanism, guides the effective allocation of resources, and makes the individual's pursuit of interests to increase the social wealth unconsciously. The "invisible hand" is one of the core principles of the operation of the market economy, explaining how the market can effectively allocate resources and promote the growth of economic welfare without a central plan. However, the market economy is not without defects, so proper regulation is needed to ensure its healthy and stable operation. Government regulation plays an important role in the economic operation through the implementation of proactive fiscal policy and prudent monetary policy, as well as flexible and moderate industrial policies. Therefore, it is necessary to coordinate the relationship between the two and give full play to the role of the government and the "two hands". The role of the government and the market is not opposite, but complement each other. They should be coordinated, complement each other's advantages and make concerted efforts.

Keywords: "Invisible hand", Government regulation, Price mechanism.

1. Introduction

From the current situation of the economic system of all countries in the world, the majority of the market economy, but the real goal of economic prosperity is the countries that have established a standardized and effective market economic system. Modern market economy has two basic forms, one is modern capitalist market economy, or modern western market economy; the other is socialist market economy. The thorough study of the western market economic system is of great reference significance for the establishment and improvement of China's socialist market economic system. Market economy run immediately in a certain place and institutional environment, in the law of value, competition, the law of supply and demand under the realistic operation of market economy, namely through the market price signal to transmit supply and demand information, guide the pursuit of interests maximization economic main body to adjust the consumption and production behavior, market economy is the price mechanism for the allocation of resources, through the supply and demand of the exchange of goods and services. Moreover, the market shows that the mechanism shows that in the market economy, price acts as a signal to guide producers and consumers to make decisions. Producers decide what to produce and how much to produce according to the principle of profit maximization, while consumers decide what to buy and how much to buy according to the principle of utility maximization. This spontaneous adjustment of supply and demand allows resources to be allocated to the most efficient uses. Under the condition of modern market economy, "clear code price" is a common trading mode. At the same time, the "clear price" transaction mode can provide the micro basis for Marx's capital cycle theory and Keynes's effective demand

theory.

Although individual behavior is for the pursuit of their own interests, this pursuit often leads to the improvement of the overall social welfare under the action of the market mechanism. For example, individual enterprises meet market demand by improving efficiency and providing better products and services, which to a certain extent realizes the optimal allocation of social resources and maximize social welfare. In the process, the market and the government, although the "invisible hand" mainly describes the spontaneous regulation ability of the market, but also need to recognize the limitations of the market, such as the possible market failure (such as insufficient supply of public goods or the formation of monopoly). In this case, the government's macro-control role is particularly important to make up for the shortage of the market.

2. Theoretical Principle

2.1. Adam Smith's "invisible hand"

The economic thought of "invisible hand" reveals that the essence of market allocation of resources is composed of various market entities and the composed of invisible market laws. For more than 200 years, the market theory of economics has been continuously developed and innovated on the basis of Adam Smith's "invisible hand" thought. Friedman believes that the price system is such a mechanism that requires neither central instruction or communication with each other or love each other. The inspiration of Adam Smith's genius was his realization that price arises from a voluntary transaction between buyer and seller —, in short, from the free market.

The price system coordinates the activities of millions of people, each of whom pursues their own interests and makes

everyone a better off. Obviously, according to Friedman, Smith's "invisible hand" refers to the price regulation mechanism. Other economists with the same explanation include Gramp, Gordon, Hahn and Coase. Such an explanation emphasizes the trading function of the market, which regards the market as a resource allocation mechanism. This is consistent with the economists' common belief that the market (resource allocation) mechanism is the "invisible hand" and that the government intervention is the "visible hand".

2.2. Market Failure and Government Regulation

The fully competitive market structure is the best way to allocate resources, but in the real economy, the fully competitive market structure is only a theoretical assumption, and the theoretical assumptions are too harsh, and it is impossible to meet all in reality. Due to monopoly, externalities, incomplete information and in the field of public goods, only the price mechanism to allocate resources cannot achieve efficiency- -Pareto optimal, leading to market failure.

The traditional narrow theory of market failure holds that the existence of monopoly, public goods, externalities and incomplete or asymmetric information makes it difficult for the market to solve the problem of efficiency of resource allocation. As a means of resource allocation, the market cannot maximize the efficiency of resource allocation, and then the market fails. When the market fails, in order to maximize the efficiency of resource allocation, it is necessary to rely on the government intervention, which has actually clarified the regulation boundary of the government intervention in the economy. However, on the basis of the narrow market failure theory, the modern broad market failure theory believes that the problems of social fairness and economic stability that the market cannot be solved by the government, so that the government's regulation boundary breaks through the traditional market failure field and is greatly expanded. On the one hand, the expansion of government intervention in the economic field shows that the role of the government in the market economy is becoming more and more important, but on the other hand, the enterprise nature of the government requires that the government's behavior must be regulated to improve the management efficiency of the government.

2.3. The Relationship Between the Government and The Market

Although the market economy emphasizes the spontaneous regulation role of the market, the government still plays an indispensable role in it. The government needs to formulate laws and regulations to maintain market order, protect the rights and interests of consumers, prevent monopolistic behavior, and provide public goods and services. Government and market relationship is an important relationship in the market economic system, both in the capitalist market economy and socialist market economy, xi jinping, general secretary called a "worldwide problem in economics", how to deal with the relationship in our country has always been the core of our economic system reform.

3. The Operation Mechanism of The Market Economy

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The market economy is first characterized by autonomy and flexibility. The market economy gives individuals and enterprises greater autonomy, allowing them to make decisions according to their own interests. This autonomy promotes the flexibility of the economy and enables the market economy to quickly respond to market changes. The second is diversity and innovation. The diversity of competition and market demand drives the development of technological innovation and product diversification, which not only helps to meet the different needs of consumers, but also promotes economic growth and improved social well-being. Specific mechanism of market economy operation:

The price mechanism of the market refers to the internal function of the price to adjust the market supply and demand to be consistent and to make the scarce resources allocated in proportion to the needs. When the market price deviates from the equilibrium price, there will be an imbalance of demand and supply in the market. Generally speaking, the deviated market price will automatically return to the equilibrium price level, thus making the unbalanced state of unequal supply and demand gradually disappear. If supply and demand are balanced for every commodity and service in society, the basic social and economic problem of allocating scarce economic resources as needed will be solved automatically, without planning and government intervention.

The supply and demand mechanism ensures that the market can automatically adjust to an equilibrium point, at which point the quantity that producers are willing to provide is equal to the amount that consumers are willing to buy. If demand is in the market, prices will rise, attracting more producers to the market while also curbing some demand. Instead, if supply exceeds demand, prices will fall, prompting some producers to exit the market and stimulate demand.

Competition is one of the important drivers of the market economy, which can improve efficiency and encourage innovation. Competition among producers to gain market share helps to improve product quality and lower prices, and consumers can benefit from the competition because they can choose more cost-effective products and services.

3.2. The Role of The Government in The Market Economy

The government alleviates the negative impact of the economic cycle and external shocks on the economy and society through macroeconomic policies, rather than artificially changing the cyclical nature of the economic operation. The economic system operating under the market mechanism will form the economic cycle internally, cause inflation and unemployment at different stages of cyclical fluctuations, and affect the economic operation and people's livelihood; in addition, various external shocks at home and abroad will also affect the macroeconomic operation. In the face of these problems, the government adjusts fiscal policies, monetary policies and other macro policies, reducing the fluctuation range of the economic cycle, and gradually reducing the impact of external shocks, thus greatly weakening its negative impact on the economy and people's livelihood, and maintaining economic stability and social

stability.

In reality, our country in the face of the 1997 Asian financial crisis, the 2008 global financial crisis and the recent sudden outbreak of COVID-19, etc., is through the adjustment of fiscal policy, monetary policy, makes the macroeconomic affected by maximum control, maintain the national political security, economic security and social stability. The government provides the maximum possible development space for market entities, and eliminates the restrictive factors for the expansion of various factors to the maximum extent, rather than directly participating in the allocation of factors in market economic activities.

3.3. Market Economies of All Countries in The World

Due to the different historical and realistic national conditions, the major western industrial countries have their own characteristics in state intervention, which is a small difference in the same harmony. Modern market economy operates and plays a role in the specific social and economic environment. Because there are two different ways of macro-control, there are generally two types: state intervention market economy and planned regulation market economy.

The market economy system is the combination of government and monopoly capital mixed economic system, has become a "monopoly dominant market economy model", basic belongs to the national intervention market economy, is based on the production of private ownership, monopoly capital strength, in the dominant position in the economy, the government mainly adopt fiscal, monetary and legal means to intervene in the economy. However, Germany emphasizes the combination of market efficiency and social security, which is called the "social market economy model", which basically belongs to the state intervention market economy. All things that the market can regulate by itself will be regulated by the market, and the government attaches great importance to the use of fiscal and monetary policies for macro-control. The market economy system of France emphasizes the guidance of the national plan to the market economy, which is called the "market economy model under the guidance of the national plan", which basically belongs to the market economy of the planned regulation. The main characteristic is that the government intervenes more in state-owned enterprises, pays attention to the regulatory role of national plans, and establishes a "central centralized market research system.

Although the United States and Germany are roughly the same way they regulate their economies, they have different priorities. The US government focuses on demand management, the German government focuses on monetary management, and France takes planning as an important means to regulate the economic operation and an important way to affect the allocation of resources.

4. The Basic Picture of The Market Economy Operation

Although modern mainstream economics is a relatively mature theory about market operation and resource allocation, generally speaking, modern western mainstream economics does not have a ready-made "transition theory" used to guide the major practice of national reform of economic system. This means that the establishment of a socialist market economy in China is not only a major innovation to the

modern market economy theory, but also the practice itself is a major development and contribution to the Marxist theory. Productivity and social division of labor development to a certain level is a premise of market economy and socialism to exist together, in the private ownership of slave society and feudal society, commodity economy has not evolved to the market as the center in the scope of social resources of market economy, it shows that the existence of market economy is productivity and social division of labor development to a certain level. By establishing the public system of the means of production, the socialization of the possession and use of the means of production can solve the contradiction between the social division of labor and the social productive forces. From the perspective of the social system, we have chosen the public system. The socialist country can completely create conditions for the operation of the market economy through the innovation of the organization mode of the public ownership property and the adjustment of the social structure of the ownership.

The operation of market economy is a complex process, involving many factors such as supply and demand relationship, price mechanism, competition and innovation. The basic picture of market economy is the balance of supply and demand. The balance of supply and demand determines the price of goods and services. When the supply is greater than the demand, the price will fall, encouraging the consumer to buy more goods; when the demand is greater than the supply, the price will rise, encouraging the producer to increase production. Through the adjustment of supply and demand relationship, the market economy can realize the effective allocation of resources and the reasonable formation of prices. The second is the role of the price mechanism. Price is an important means of information transmission and resource allocation in the market economy. The market can reflect the changes in the relationship between supply and demand and the scarcity of resources through the fluctuation of price. The pricing mechanism can motivate producers to improve efficiency and reduce costs, but also guide consumers to choose more suitable goods and services. The basic picture of the remarket economy is the promotion of competition and innovation. The intensification of competition in the market economy can improve the market efficiency and promote the optimal allocation of resources. Innovation is the driving force for the development of the market economy. Through the continuous innovation of technology and management, the market economy can achieve sustainable development and growth.

5. Related Conclusions

In general, the basic picture of the market economy is a dynamic and competitive economic system. Through the balance of supply and demand, the role of the price mechanism and the promotion of competitive innovation, the market economy can realize the effective allocation of resources, the improvement of efficiency and economic growth. The market economy is the foundation of the modern global economic system. Its operation principle is based on the independent decision-making of individuals and enterprises. Its success lies in its ability to flexibly respond to the changing market demand and promote technological progress and efficiency through competition.

However, the market economy is not without defects, so proper regulation is needed to ensure its healthy and stable operation. Future research should continue to explore how to

optimize the operation mechanism of the market economy so as to achieve more sustainable and inclusive growth. In the market economy, the role of the government is to guide and supervise. Through the self-regulation of the market mechanism, the market economy can realize independent operation and sustainable development. In order to achieve the maximum efficiency of the overall economic development, the government makes good use of government resources, rather than pursuing the direct benefits of government resources. In the economic and social activities, the government directly grasps certain economic resources, such as state-owned assets, financial funds, government investment, government procurement, state-owned land, etc. These economic resources must be invested in the corresponding economic activities.

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