

## **A Discussion about the Development of Socialist Market Economic System with the Transformation of Government Function**

**Wang Yuan**

The grade 1 at Postgraduate level  
Dongxiang (ethnic)  
Mainly engaged in the public organization and strategic administration  
School of political science and public management  
Southwest University  
Beibei Chongqing  
China

**Wang Zuojun**

Associate Professor  
Mongolian (ethnic), PHD  
Mainly engaged in strategic administration and organization theory  
School of political science and public management  
Southwest University  
Beibei Chongqing  
China

### **Abstract**

*Since the establishment of the socialist market economic system on the 14th Chinese Communist Party Congress which was held in 1992, the relationship between government and market remains the core issue in the modern society. No matter how one side trades off and the other side takes turns, both of the government and the market should present their collaboration in the social and economic development. This paper reviews the development of China with the socialist market system since the reform and opening up. Meanwhile, on the basis of deepening the transformation of government functions and the development of socialist market system, many problems are pointed out existing in the transformation of government functions and coordinating the development of the market system, and some relevant proposals are put forward.*

**Keywords:** socialist market economic system; government functions; the government and the market

### ***Cooperative Development***

The Decision on Major Issues Concerning Comprehensively Deepening Reforms adopted at the Third Plenary Session of the 18th CPC Central Committee has put forward: The basic economic system should evolve on the decisive role of the market in resource allocation to deepen the reform of the economic system. The reform of the economic system is the focus of all the efforts to deepen the all-round reform. The core issue is how to deal with the relationship between government and market, ensure the decisive role of the market in resource allocation and better the Role of government.

The thought is to enrich and develop the socialist market economic theory, which marks our understanding of the socialist market economy reaching a new height, but also puts forward new requirements and guidance for the development and improvement of China's socialist market economic system. On the 14th Chinese Communist Party Congress, a systematic deployment has been made for comprehensively deepening reforms, as well as emphasizing on upholding and improving the basic economic system, accelerating the improvement of the modern market system, and the transformation of government functions, and the construction of a unified, open, competitive and orderly market system, which is the basis of the decisive role of the market in allocating resources. Meanwhile, scientific macro-control and effective governance, are the inherent requirements to take a full advantages of the socialist market economy system.

## 1. Discussion on the Establishment of Socialist Market System and the Transformation of Government Functions

Since the reform and opening in 1978, China's government have had a profound discussion and reflection on the all-round government and highly centralized planned economy. considering the malpractice of highly centralized and management our government and academia have proposed a "transformation of government functions" policy objectives. In 1984, CPC Central Committee's Resolution on Economic Reform has put forward that the government and enterprises should implement segregation of duties, and government should play a proper role in the economic management.

In 1992, a report "To speed up the pace of reform and opening up and modernization construction, and take the cause of socialism with Chinese characteristics a greater victory" was proposed in the 14th Congress of the Communist Party of China. Report summarized 14 years experience of reforms since 1978 when the reforms began, decided to seize the opportunity to speed the development, and determined the socialist market economic system is the goal of China's economic reform. The establishment of this economic system has put forward new requirements for China's economic reform and the functional transformation, but also provided for China's economic development and governance the basis and direction, and propose government to change the relationship between government and enterprises, to achieve a division between them.

In this period, government bound market through financial, tax and other policies in the market economy. Government-owned enterprises mainly engages in natural monopolies, telecommunications, utilities, infrastructure, finance and insurance sector as well as public services, but the government must carry out the management in accordance with market rules. During this time, our government regulates the national economy through planning, regulation and other administrative means, but also put forward new demands for the SOE reform: under the same premise the basic framework of public ownership, reform the management mechanism and benefit distribution mechanism, and Operating policies of the central government will devolve to local and state-owned enterprises and form a 'decentralization' of public ownership economy.

In 1993, The Decision on Major Issues Concerning Socialist Market Economic System adopted at the Third Plenum of the 14th CPC has pointed out: the establishment of a socialist market economic system, is to make the market at the national macro-control allocation of resources play a fundamental role, and put forward: The main functions of government management for economy is the setting up and implementation of macro-control policies, to improve infrastructure, and create a favorable environment for economic development. Meanwhile, it has to foster market system, monitor the market operation and maintain the fair competition, regulate social distribution and organize social security, control population growth, protect natural resources and ecological environment, manage state-owned assets and supervise the operations state-owned to achieve the country's economic and social development goals. Government has not directly intervened in their production and business activities, but use economic, legal and necessary administrative means to manage the economy. It was also during this year, a clear objectives of the reform of state-owned enterprises has been made out: "clearly established ownership, well-defined power and responsibility, separation of enterprise from administration, and scientific management". The establishment of the goal laid the foundation for the modern enterprise management system and also played a "vanguard" role in the transformation of government functions.

In 1997, the 15th Chinese Communist Party Congress was held, in which it is put forward that China should focus on economic construction, accelerating economic reform, and deepening political reform. We should adhere to and improve the socialist market economic system, make market play a fundamental role in the allocation of resources with the national macro-control, transform the government functions according to the requirements of the socialist market economy, to achieve the separation of government and enterprises, and hand over the rights of production and operation effectively to enterprises. In the Fourth Plenary Session of the Fifteenth Central Committee of the Communist Party of China held in 1999, it put forward that: Nation Dos and Don'ts, SOEs can move on and retreat, to proceed to adjust the layout of the state economy.

Since 2000, a socialist market system with Chinese characteristics has been initially established. Then, in November 2001, China joined the World Trade Organization (WTO), so that China's reform and opening to got a more in-depth development, at the same time, function of our government also presented a new challenge, which is required a coordination with the development of the market economy system, and under the economic reform and social development, our government functions are being changed and re-shaping.

At this stage, the transformation of the government functions achieved a greater development, and the total amount of government functions was gradually reduced, while the economic functions and social functions were growing strong. With the influence of globalization, the transformation of government functions moves toward " good governance " and " governance " , with a greater use of economic and legal means to carry out management.

## ***2. Deepen the Transformation of Government Functions and the Development of the Socialist Market Economy***

### **2.1 Practical operation with separate government functions from enterprise management**

Around the year of 2000, our country did a lot of "big move" to achieve the separate government functions from enterprise management. For example, Government ministries lifted the administrative subordinate relations between their entity economy and Subordinate enterprises, reduced a great number of the professional economy sectors and all kinds of administrative companies, developed social intermediary organizations; Strengthen and improve the supervision mode of state-owned enterprises; Prohibited the army, the armed police force to run enterprises, and began to reform state-owned monopoly industries such as telecom, electric power, railway, civil aviation and so on.

After that, in order to deepen the reform of the separate government functions from enterprise management, the state proposed to improve the system of enterprise ownership, diversify their ownership and the establishment and improvement of separating the financing of new investment system. The implementation of these reforms makes SOEs planned economy growing out of the old system, gives full play to the functions of government macro-control, helps it get rid of some unnecessary constraints, and makes the operation mechanism more market-oriented, to achieve a long-term, stable, fast and healthy growth in economy.

### **2.2 The transformation of the relationship between government and market**

With the establishment of socialist market economic system, government has changed highly centralized planned economic system. While our government continues to foster the development of commodity markets, it also gradually grows production factor markets, such as the production market, financial IT markets, to build a unified, open, competitive and orderly market system. Government has relaxed controls on the market, and assigned part of the functions to the intermediary organizations in order to promote the fundamental role of market in allocating resources.

Since 1993, our country has gradually formed the framework of market economy legal system. The government must provide effective laws, regulations and other relevant principles for the market economy, to regulate the market players, to clarify the rights and responsibilities of its own to realize a unified and orderly market economy. The government should adjust the relationship between the market main bodies, set laws and regulations to maintain fair competition; strengthen macro-control, promote the set of relevant laws to ensure market economy to play the fundamental role in the allocation of resources. These moves could make the government function standardized and legalized in the main market economic activities while regulating, supervising the market. Began in 2001, the government vigorously regulated the system of market economy, against the illegal activities like , bad faith, forge proof, tax evasion and other disturbing the order of market behaviors.

### **2.3 Government established a social security system correspond to market economy**

Since 1993, China's social security system has entered the new stage of reform and innovation. First, with the state-owned enterprise reform, " laid-off workers employment service centers in the " work system has been set up in the country. Re-employment center not only issues the laid-off workers basic cost of living, also pay social insurance premiums for them, as well as vocational training and other services. Besides, in terms of pension, it unified the basic pension system accordance with the " combined with system account " model.

In medical insurance, basic medical insurance was to promote<sup>[1]</sup>. Finally, the urban minimum living standard line, unemployment insurance and minimum living guarantee for urban residents and other standard bricks are gradually improving.

The Decision on Major Issues Concerning Constructing a Harmonious Socialist Society put forward: by 2020, a social security system covering urban and rural residents basically has been established. This is one of the main tasks the goal of building a socialist harmonious society. The report in Seventeenth Party Congress further put forward: accelerate the establishment of social security system covering urban and rural residents.

In China, the social security system mainly consists of social relief, social insurance, social welfare and social special care. And basic pension, basic medical care, the minimum living security system serve as the key, and charity and commercial insurance as supplement. It is an important pillar of the socialist market economic system to reform the basic endowment insurance system of enterprises, institutions, and improve the social security system, but it is also related to the overall reform, development and stability.

#### 2.4 The improvement and re-build of government function

In 1992, the goal of the economic reform, put forward in the 14th Chinese Communist Party Congress, is to set socialist market economic system, and determine the administrative system and institutional reform. So as requirements of the 14th Chinese Communist Party Congress, our country will step into a stage in which we will fully explore the establishment of a market economy and supporting the administrative system.

This stage of administrative reform is to adapt to the requirements of the socialist market economic development, realize the separation of enterprise from administration, hand over the power to the enterprise which belongs to them, and reduce the specific approval of the transaction and the direct management of the enterprise. It demand to strengthen macro-control on the part of the macro-control requirements, make a balance among national economy strategy, planning and the total economy, and make production policy to nurture and develop the market. While focusing on the implementation of the national civil service system, and comprehensively promote the organs, institutions, corporate personnel system reform, to meet the needs of establishing a modern enterprise system, and to explore the state-owned assets management system, finally to promote economic sector to play the functions of planning, coordination, oversight and service. The State Council consisted of 41 departments (including the general office of state department), 3 subordinate departments and 5 administrative offices, 59 in total. The number of non-permanent institutes of the State Council has been reduced to 26 from 85.

The strength of reform in 1998 is the biggest one, with the institution change and personal adjustment. According to the spirit of the 15th Party Congress, the goal of the reform is: Establish a highly efficient, well-coordinated and standardized administrative system, improve the national civil service, establish high-quality professional administrative cadres, and an administrative system in socialist market economy with Chinese characteristics.

According to the requirements of developing the socialist market economy, it need to transfer the government functions, separate government from enterprises, transform the government functions to macro-control, social management and public services, and give the production and operation rights to the enterprises. Meanwhile, according to the simplification, uniformity and efficiency principle, we should adjust government organizations to realize better troops and simpler administration. Further it is to strengthen macroeconomic regulation department, adjust and reduce the professional sector of the economy, adjust the social services sector appropriately, strengthen law enforcement and regulatory authorities, and develop social intermediary organizations.

At this stage, the Chinese government has started to vigorously reform the administrative examination and approval system. Administrative examination and approval system is an important measure to adjust the government enterprises, market and social relations with the transformation of government functions. Since 2001, all provinces, autonomous regions and municipalities have successively introduced the reform. By 2002, the State Council and its departments have canceled 789 administrative examination and approval projects, involving 56 departments and units. In which the number of economic management affairs is 560, involving 167 community management services, and other administrative matters and some related affairs 62.

Since 2000, local government agencies have got advanced the economic and social functions of local government have further changed.

According to statistics, the provincial government agency got an average reduction from 55 to 40, and municipal, prefecture-level government agencies was reduced from 45 to 35, county government agencies was reduced from 28 to 18. In terms of staffing, the reduction in the provincial government is 48.2%, in municipal and county party and government institutes, that is 19.4% .

In the Seventeenth Party Congress, the report further emphasized to speed up administrative reform, and build up a service-oriented government.

It needs to accelerate the separation of government and enterprises government-owned capital, the affairs and the market intermediaries, to standardize administrative practices, strengthen administrative law-enforcement agencies, reduce and standardize administrative examination and approval, reduce government intervention in micro-economic operations.

Since 1992, the Chinese government according to the perfection and development of the market economy system, the self-transformation functions are constantly improving and developing. In 2000 China initially established a market economy system, had the further development in market-oriented reforms. Especially after China's accession to WTO, the Chinese government pledged, in accordance with the rules of WTO's, to manage the economy, reduce tariffs and remove non-tariff barriers, liberalize trade operations, open trade in services markets, strengthen intellectual property protection, and promote further economic integration into the global economy. Around the market system, government will carry out a more comprehensive reform on its function even a reshape, the reform in government and business, government and the market, government and society as well as government agencies is outstanding, and it steps towards limited government, law-based government, responsible government, divided right government and effective government .

### ***3. The Defects in the Transformation of Government Functions and Coordinating the Development of the Market System***

#### **3.1 Significant deficiencies still exist in the separate government functions from enterprise management**

However, the relationship between government and enterprises has actually been in an "embarrassing" state. Although the separate early in the reform has been proposed, but there has been no effective progress. On the one hand, considering the state-owned assets, the Government has taken to the presence of state-owned enterprises and financial institutions as well as the board of supervisors and inspectors to asset management institutions and large companies authorized to operate state-owned assets and other measures. But through these measures, state-owned enterprises has been out of the planned economy system, which began to have more and more market-oriented operation mechanism. But government intervention is still a lot, so an effective management system for state-owned enterprises, state-owned assets and has still not been formed. On the other hand, the government is entitled as representative of state-owned assets, and restricted by information, benefits, labor and other factors, has not performed the duty well, so that a considerable part of state-owned assets is out of control, resulting in a large number of loss of state assets.

There are difficulties in the restructuring of a considerable large state-owned enterprises. The intervention of Government for the establishment of enterprises, the appointment and removal the leaders, the field of trade and investment is still very serious. Many large companies do not have the autonomy for real investment, finance, and the government investment and financing projects for companies have to go through layers of approval, leading companies lost a lot of market opportunities. In the petroleum and petrochemicals, railways, electricity and other natural monopoly industry, that the market wants to introduce competition is still quite difficult. So, how in practice to achieve true separation of government and corporate functions, the establishment of effective state-owned assets management system is in dire need to think about.

#### **3.2 The imperfect system for government oversight the market order**

At this stage, there are still a lot of market order problems. For example, the market order disorders, non-standard and counterfeit products are flooding, tax evasion, tax evasion, foreign exchange and other phenomena are rampant smuggling. In some areas, local protectionism has become administrative monopoly which hinders the free movement of capital, technology, goods, labor in various businesses, hinders the improvement and development of market economy, resulting in a disturbance of market operation. Faced with such a market order, the government lacks the execution and binding force for management and standardization of the market order.

First, the orders proposed by government on the management of market laws and regulations are not perfect, so many companies can "take advantage". Secondly, the intensity of law enforcement is not enough. Many laws and regulations exist in name only, and do not get strong execution resulting in less effectiveness. Meanwhile, local protectionism and fragmentation are very serious, which seriously inhibit a unified, open, fair and competitive market system to form. Vicious competition, crowding out new social groups, largely hinders the management of social affairs.

### 3.3 The huge challenges in building the social security system to adapt to market economy

Since the 16th Party Congress, our government is trying to build social security system to cover the whole society, including pension insurance, unemployment insurance and medical insurance.

But with the great challenges brought by our population "aging" and the urbanization, with unemployment population increasing, many major institutional and systematic issues needing to be addressed, pressure on the social security is increasing.

The split of management system makes urban and rural medical insurance management divide by different departments or institutions, so there exists a lack of convergence between the coordination mechanism. There are also some problems about repetitive ginseng and government subsidies, repeated construction and resource waste. Collection system of social costs varies, collection agencies determined by the respective provincial governments, leading to a broken link in social insurance management. Management and service system can not meet the requirements of the development. Along with the rapid expansion of the social security system covering the crowd, especially the extension to rural area, the problems of poor infrastructure, inadequate staffing, capacity building lag become more and more serious.

### 3.4 Government itself becomes the biggest obstacle in its function transformation

Excessive government regulation, involving all areas of social life, often turns out to be a situation of "regulate too much" and "regulate too details" in the management process. Especially in the striving for benefits, some profitable issues are striven for but the others are ignored, which shows that authority and responsibility are not uniform, and service concept lag, even exists the official Standard 'thinking'. This led to the shelter, nepotism and corruption phenomenon. While the government takes a lot of expenditure, bureaucratic phenomenon is serious, response is low, public service is weak as well as institutional corruption and other issues.

Because the executive powers is being constrained in a limited degree, the administrative transparency is not high. Meanwhile in the judicial field still exists harbor serious miscarriage of justice, judicial corruption and local protectionism phenomenon. And there are still many offside and absence of the phenomenon in the course of the exercise of government functions. Offside phenomenon makes the government can not restructure with the market-oriented economic system, the Government is still doing the things that the market should do; Absence phenomenon the government which should dominates the economic development could not transform to the public service-oriented government in time with the market development and social relations changing, so that, the government has not really done what the government should do and can do, what the market can not do.

## ***4. Policy Recommendations for the Coordinating Development between Government Functions and the Market System***

With the establishment and development of China's socialist market system, our government functions also will be constantly transformed and improved. At present, the market plays a fundamental role in allocating resources with a free price system, the modern enterprise system and the contractual relationship, but the market is not omnipotent. "Market failure" and "market defects" may cause imperfect competition monopolies, unable to meet the demand for public goods, the existence of a large number of incomplete and asymmetric information, and economic equality of income of the powerless. All of these need the government to macro-control and manage the market with its "visible hand". But the "visible hand" can not control all the market, should leave some flexibility for it. Thus, the transformation of government functions is particularly important in the coordinating development of socialist market economy, promote each other on. How to grasp the relationship between government and the market, is a top priority.

### 4.1 Taking economic development as the center, keep the macroeconomic develop stably

Government functions belong to the political system, and the transformation of government functions belongs to the reform of the political system. As a superstructure, political system can counter- products to the economic system, but also be constrained by the level of socio-economic development and economic system. Therefore, during the process of the transformation and improvement of government functions, we must be subordinated to and serve the needs of social and economic development and economic reform. When carrying out the reform of the government we should take the economic construction as the center.

Under the socialist market economic system, the market plays a leading role in the course of the allocation of resources, but the market often contains self-released and blindness, which would result in volatility of macroeconomic in cycle and imbalance of economic output. When this happens, we need the government to carry out effective interventions, macro-control, to avoid such phenomena as inflation, overproduction caused by demand lack, rising unemployment, and social stability undermining.

At present, China is in a critical period of economic system reform, and China's socialist market economic system is gradually maturing. So, illegal monopoly inevitably caused by free competition often leads to market confusion and disorder of system operation. Therefore, the government should actively use economic means and legal means to carry out macro-control, to maintain economic rapid and stable development.

#### 4.2 Insist on step by step, have a good command of the dialectical relationship among reform, development and stability

Since 1992 China has established a socialist market system, China's market economy is constantly evolving and improving. At present, we are at a crucial stage of market economy development, therefore, social stability an important prerequisite for the development of socialist market economy and transformation of government functions, and it is impossible to promote economic development and reform without social stability. Sustained and rapid economic development is the foundation of social stability; reform is the driving force of economic development. Therefore, we conduct the process of transformation of government functions and the coordinated development of the market system must be in accordance with the principle that development is the purpose, reform is the driving force, and stability is the prerequisite. We should unify the intensity of reform, the speed and extent of the development and the social tolerance, which will continue to improve people's lives and that will be an important point for the relationship between reform, development and stability. In this way, the transition of the function of the government and the perfection of market system can coordinate with each other, and promote jointly.

Rationalizing the relationship between government and the market, and carrying out a variety of interests and power for a major adjustment, inevitably will lead to significant changes in the pattern of interests and social relations, and will inevitably encounter many contradictions and problems. Therefore, we should see the complicated, arduous and long-term way to perfect market system and transformation of government functions.

Therefore, we must take in the adjustment process in a gradual manner, and gradually implemented in order to achieve better results.

#### 4.3 Foster the thought for the coordinating development between the transformation of government functions and the market system

Our country is beginning the transition to a market economy under the conditions of the planned economy, long-term planned economy, especially in economically backward regions, make a variety of work in many parts of our country can not develop further, which is mainly caused by backward ideas. Without tangible change their ideas, market-oriented process is bound to be hindered.

Therefore, the Government must change the administrative concepts, to promote market-oriented reforms. Taking service as the purpose, government should change the past "official" and "control" concept, with full respect for market players to indirect macro-management of major management shift. what market can do, government should try to let the market do, only those that the markets can not do, or do badly, should be done by the government, nor even necessarily the government personally do it, but let a third party intermediary organization to do. Government should fully respect the market players, change to indirect macro-management and service concept and break the thought of "no contribution and no fault". The imbalance between social and economic development is absolute but the balance is relative. The government must have the courage to maintain the necessary tension between balance and imbalance to achieve economic stability and development.

#### 4.4 To strengthen the construction of legal system, and strive to create " the rule of law government "

Modern market economy is an economy ruled by law. If there is no law to protect the market, the unification and fair competition would be broken, so the government should pay enough attention to maintain the fair competition in the market environment and market order with the relative laws. The laws and regulations of our country at the present stage in the development of the market economy system has randomness to maintain.

This would be hidden danger for the development and the perfection of the market system, also lead to corruption of the government, causing the government inefficiency.

Therefore, our country must strengthen the legislation, and establish fruitful legal coordination mechanism, to make the government to " go, the law must be strict, strict law enforcement, violators are prosecuted " . In order to make the government behavior under the protection of the law and subject to supervision and restriction of law.

To make government manage the economy in the extent permitted by law, to avoid direct or excessive market intervention in economic activities, and to bring the whole life into the orbit of the rule of law, to promote the development of the society with " government by law " and " rule by law society " <sup>[4]</sup>.

#### 4.5 To promote the orderly development of the separation of government and enterprise government affairs

Government departments should conduct a comprehensive and in-depth clean on all matters concerning the examination and approval, to maximize the reduction of administrative examination and approval items; the items which do not meet the request of market economy development, can be canceled by regulation under the market mechanism with the government regulation; The government should thoroughly implement the administrative permit law, to reduce and standardize the administrative examination and approval system. Continue to clean up the existing administrative licensing items and non administrative licensing examination and approval items; On a cancelled project, we need to strengthen the follow-up supervision work, put an end to all kinds of covert approval behavior.

Government should improve the administrative examination and approval, simplify and standardize the procedures, formulate operation rules, and to establish and perfect the supervision and restriction mechanism for the administrative examination and approval, to promote openness in government affairs and democratic supervision. That is open to the public, and accept social supervision. We also need to strengthen the innovation of system and management, promote the reform of government institutions, realize the separation of clarifying the relationship between government and enterprise, government and market, government and society, hand over the issues to the social intermediary organizations under the market regulation which do not need the government functions.

#### 4.6 Regulate the social distribution, perfect the social security system

Efficiency and fairness is a hot topic and the key issues at this stage of development in china. If all the items are allocated and adjusted, completely by market mechanism , the disparity of income between rich and poor, between developed and backward areas of the growing disparity will be caused, as well as serious social polarization, even pose a great threat to political and economic development and social stability. In addition, because of corruption, the income gap is too large, which is not only inefficient, and will cause the unfair society, so the government should increase efforts to fight against corruption.

This is our fundamental objective, Therefore, our government need to make the policy for the distribution and redistribution establish the social security system to adjust the income distribution, and prevent polarization between the rich and the poor, fairness, even seek to maximize the interests of the public. In the eighteenth Party Congress, a report put forward a sustainable social security policy for the grassroots in multi-levels, it need to change the wide coverage to " full coverage " , to achieve the goal that everyone could get access to the basic social security.

### 5. Conclusion

Since the Third Plenary Session of the Thirteen Party Congress, the 30 years of reform conducted in China has mainly focused on the reform of economic system. This reform strategy is that the economy can start and implement in a stable political environment and avoid great social unrest.



However, to deepen the reform of economic system requires the political system reform to match the economic system, only reform on the economic system unable to continue to carry on the universal reform. Therefore, in order to adapt to the further development and perfection of the socialist market economic system, it is necessary to speed up the reform and perfection of the political system including the transformation of government functions, to push forward the reform and development in China.

At present, our government continuously improves its reform around the market system to have a better combination with market system, and a more effective allocation of resources, to promote the coordinated development of economy and society<sup>[5]</sup>. We can see from that, the government function in the process of the development of market system gradually " exits from the market " , and leaves a larger room for the market to regulate the allocation of resources. Meanwhile, it mainly use the means of economy and laws to indirectly or directly regulate or control the relationship of government and enterprise, government and market, government and society , to make its own political function, economic function and social function work in tandem with each other, finally to promote the development and perfection of market system. At the same time, the Chinese government is also actively creating a service-oriented government which is rule by law and distinctive with limitedness and effectiveness. It will create a more harmonious atmosphere' for the combination of the reform of China's political system and economic system, and push forward China's reform to a much further and deeper degree.

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