

# The Examination and Correction of the Mainstream Macroeconomic Theory in China's Economic Practice

## Thinking Based on China's Fiscal Policy Practice

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### ABSTRACT

Macroeconomic policy is a central component of mainstream macroeconomics and a core issue in the application and research of macroeconomic theory. It has always been a focal point of interest for both economists and the public. By analyzing the guiding principles, objectives, content, and system of China's fiscal policy during the 13th and 14th Five-Year Plan periods, it is argued that China's fiscal policy differs from the short-term aggregate demand management policies primarily aimed at stimulating the economy and promoting employment as seen in mainstream macroeconomics. Its content is richer and has transcended the theoretical framework of Western mainstream macroeconomics on fiscal policy. China's fiscal policy is people-centered, with the vision of shared prosperity, emphasizing both aggregate balance and structural coordination on the demand side and supply side, while also balancing long-term and short-term goals. It possesses continuity, stability, and sustainability, and is more forward-looking and flexible.

**Keywords:** *China, Fiscal policy practice, Mainstream macroeconomics, Examination and correction.*

### 1. INTRODUCTION

The mainstream macroeconomic theory of modern Western economics originated from John Maynard Keynes's (John Maynard Keynes) famous work "The General Theory of Employment, Interest Rates, and Money" in 1936. By the 1980s, a relatively complete macroeconomic system had been largely established, encompassing fundamental research areas such as the determination of national income, inflation and unemployment theories, economic growth and business cycle theories, as well as macroeconomic policies.[1] This formed a basic framework and different perspectives of macroeconomic principles, models, and policies. However, it is important to recognize that Western macroeconomics developed against the backdrop of economic conditions and issues in developed countries like Western Europe and the United States. Although it contains many universally applicable general principles and

methods, it is not a universal theory. [2] Therefore, when using macroeconomic theory to interpret economic realities, explain macroeconomic policies, or address economic issues, especially when interpreting China's economic policy practices, one should not apply the basic principles of macroeconomics without analysis or consideration of China's national conditions. Instead, one should start from China's social system, actual national conditions, long-term goals for economic development, and combine these with China's historical, political, economic, and cultural backgrounds and development concepts to study and research macroeconomic policies from multiple perspectives and levels, avoiding the linear thinking logic of Western macroeconomic fiscal policy analysis that is overly model-based, structured, and mathematical. China, with a population of 1.4 billion and the world's second-largest GDP, stands as a socialist market economy. Its economic development achievements have captured global

attention. A wealth of literature has been accumulated in macroeconomic policy, theory, practice, and development experience, offering vast and valuable Chinese material for theoretical innovation and development, summarization of experiences, and analysis of policy effects.[3] This paper uses recent practices of China's fiscal policy as an example to explore the gaps in mainstream macroeconomic fiscal policy theory regarding the objectives, content, and system of China's fiscal policy, and attempts to make corrections and improvements.

## **2. FISCAL POLICY THEORY IN MAINSTREAM MACROECONOMICS AND ITS DEFECTS**

Fiscal policy is a crucial component of mainstream macroeconomics courses and one of the primary policies used by governments to intervene in macroeconomic conditions, drawing significant attention from economists and the public. The general definition of fiscal policy in mainstream macroeconomics is: the choices made regarding government spending, taxation, and borrowing levels, or decisions about the levels of government revenue and expenditure, aimed at promoting employment growth, mitigating economic fluctuations, preventing inflation, and achieving stable growth. Fiscal policy primarily operates through government fiscal revenues and expenditures, with national finance encompassing both government revenue and expenditure. The dominant fiscal policy ideology is represented by Keynesianism, which emphasizes the expansionary role of government deficit spending on aggregate demand. It posits that when aggregate demand is insufficient, i.e., the economy is operating at a level far below its potential output, increasing government purchases will boost aggregate demand, thereby stimulating economic growth. Commonly used analytical models include the IS-LM model and the AD-AS model.[4] Domestic textbooks often use the IS-LM model to explain types, content, and effects of fiscal policy. Key topics covered include the types of fiscal policy, crowding-out effects, and the shortcomings of fiscal policy. In terms of its basic principle and content, there are many defects in the discussion of fiscal policy in mainstream macroeconomics.

### ***2.1 Insufficient Analytical Tools and Assumptions***

For a long time, the IS-LM model is the main tool for the analysis of macroeconomic policy theory in macroeconomic textbooks, and the IS-LM model itself has many unreasonable and fundamental defects. Such as the continuation of the analytical paradigm and mathematical expression of classical economics, the IS curve describing the flow income of the product market and the LM curve describing the stock currency of the money market are put together as analytical tools; policy analysis is a static analysis, which can not reflect the dynamic and uncertainty of the real economy. Ignoring the impact of price on aggregate demand and aggregate supply; focusing on short-term analysis, it does not take into account other factors that affect its long-term effects in the process of policy functioning. Furthermore, the mainstream macroeconomic textbooks still assume that money is neutral, which leads to the failure of fiscal policy theory to fully consider the complexity and importance of the impact of the money market on the product market when analyzing actual economic problems, and the lack of understanding of the interaction between money and finance in the modern economy.

### ***2.2 Only Focusing on Incremental Policy, Ignoring the Efficiency of the Use of The stock***

The theoretical effect of incremental policy has always been seen in the analysis framework of financial tools in mainstream macroeconomics. The efficiency of the use of large public capital, that is, stock assets, has not been accumulated in the past. If there is a large amount of idle or inefficient use of stock capital, it indicates that public goods investment has been surplus. In addition, the potential impact of large assets such as municipal infrastructure housing, urban state-owned land and housing of residents with weak or strong commodity attributes, as well as large stock assets such as public utilities, resident services, education and medical care, and employment on the macro economy has not been fully considered, which makes fiscal policy theory easy to produce uncertain social problems when dealing with economic crises and economic bubbles, such as social problems when public services and government expenditures are restricted.

### ***2.3 One-sided Understanding of Fiscal Deficit and Debt Problem***

The functional fiscal theory in mainstream macroeconomics and the effect of debt financing have been controversial. Opponents believe that government borrowing may not only affect the potential of future private investment, but also lead to the subsequent weakness of economic growth. It may also lead to the reduction of expected disposable income due to the increase of tax burden, which in turn leads to the chain reaction of weak consumption and unsustainable economic growth. It also means that the policy effect of borrowing is offset, and the proportion of government debt and the tax burden of future generations are increased. At the same time, the government may lead to serious inflation in the future by borrowing to make up for the consequences of the fiscal deficit.

In addition, the criteria for judging the safety and risk of government deficits and debt are far lower than reality. The security standards of fiscal deficit and government debt proposed by Western mainstream scholars, such as the warning line of deficit accounting for 2% to 3% of GDP, the EU's deficit of 3% and government debt rate of 60%, are rarely complied with by developed countries in reality[5]. After the global financial crisis in 2008 and the new coronavirus pneumonia epidemic in 2020, the fiscal deficit rate of developed countries has increased significantly, far exceeding the warning line, which shows that the existing macro-fiscal theoretical analysis does not grasp the essence of the problem.

### ***2.4 There Are Multiple Conflicts Between Fiscal Policy Objectives and Resource Allocation Efficiency***

Western mainstream fiscal policy theory pays too much attention to short-term market equilibrium, too much emphasis on solving short-term imbalances or instability, and ignores long-term growth and development issues, which is not consistent with the macro-control function of fiscal policy itself. The participation of government finance in economic activities makes the government naturally become a potential market subject, which means that fiscal policy should not only restore short-term market equilibrium, but also include long-term impact on a country's economy, and must consider its long-term effect on market allocation of resource efficiency. At the same time, the theoretical analysis of mainstream fiscal policy

focuses on short-term problems, which not only affects the allocation effect of inter-temporal coordinated use of fiscal resources, but also limits the selection and use of fiscal policy tools in different periods and different problems, which is not conducive to improving the allocation and use efficiency of fiscal resources. For example, some developed countries used direct cash issuance to stimulate aggregate demand during the COVID-19 pandemic and during the economic downturn. The effect has been questioned, and there have been problems such as high costs, inefficiency, serious waste, and inflation.

### ***2.5 Overemphasis on the Crowding out Effect in the Analysis of Policy Effects***

One of the core theoretical foundations in mainstream macroeconomic analysis of fiscal policy effects is the crowding-out theory. This theory implicitly assumes that government spending, as part of aggregate demand, inevitably drives up interest rates when it is used to stimulate the economy, thereby displacing private investment. In reality, in fact, during the depression period, interest rates are generally low or even declining. Furthermore, public investment within government spending is not a competitive sector. With these two considerations, how could it possibly crowd out private investment? Furthermore, the traditional mainstream macroeconomics' view of government spending as non-productive misdefines the government's role. In fact, a significant portion of public investment in government spending is productive. In most countries, public expenditure inevitably boosts private investment. For instance, global leadership in key technological fields not only enables nations to maintain dynamic advantages in international competition but also drives continuous innovation, R&D investment, and productive investments from private sectors across industrial chains. This reveals that mainstream macroeconomic analysis frameworks have deviated from the true nature of fiscal policy, severed the relationship between fiscal policies and both the state and enterprises, and consequently led to theoretical assessments of fiscal policy efficiency, fiscal deficits, government debt, and fiscal sustainability that diverge from reality.

### ***2.6 The Gap Between Macro-fiscal Policy Theory and Reality Is Serious***

The mainstream macro-fiscal policy theory in the West has evolved through a cycle of innovation,

crisis, and reinvention.[6] Yet its persistent disconnect from policy implementation and inherent contradictions have significantly diminished its explanatory power. Particularly since the COVID-19 pandemic in 2020 and the post-pandemic era, many nations have shifted from traditional macro-fiscal logic to a new paradigm. Their approaches now extend beyond supply-demand adjustments and market equilibrium restoration, instead prioritizing integrated socioeconomic strategies that emphasize infrastructure investment, social security, technological innovation, and national security.

### **3. PRACTICE OF CHINA'S FISCAL POLICY IN RECENT YEARS**

The guiding ideology of China's fiscal policy practice has always adhered to a people-centered approach and a vision of long-term economic and social goals, rather than treating "economic stimulus" as the sole objective in mainstream macroeconomics. China's fiscal policy practice is characterized by distinct Chinese features and has been continuously adjusted and improved with the development of the economy and society. The main aspects of China's fiscal policy practice from the 13th Five-Year Plan period to 2025:

#### ***3.1 Implementing a More Proactive Fiscal Policy***

The word "positive" has Chinese characteristics and rich meanings. It can be understood as Chinese wisdom such as taking the initiative to deal with, taking precautions, and making long-term plans. This is mainly reflected in improving the fiscal deficit rate, increasing the intensity of fiscal expenditure, and accelerating the progress of expenditure. Through these measures, we will ensure that fiscal policies continue to exert more force and provide more support for steady growth, structural adjustment and people's livelihood.

In recent years, in order to cope with the downward pressure of the global economy and promote the steady development of the economy and society, the Chinese government has repeatedly implemented active fiscal policies. In 2025, it has put forward 'more' positive policy signals, mainly including measures such as increasing fiscal expenditure, reducing taxes and fees, and expanding government bond issuance. These policies have played an important role in

maintaining growth, stabilizing employment, stabilizing expectations, and promoting people's livelihood. In order to support economic growth and structural adjustment, it is necessary to arrange larger-scale government bond issuance, including increasing the issuance scale of ultra-long-term special treasury bonds and local special bonds, and providing financial support for infrastructure construction and industrial upgrading. The issuance of these bonds will help expand effective investment, stimulate economic growth, and promote the counter-cyclical adjustment of fiscal policy.

#### ***3.2 Continuously Optimizing the Structure of Fiscal Expenditure and Strengthening the Precise Delivery***

In these years, the meaning of active fiscal policy is more concrete and more effective. The main performance is that the Chinese government has invested more financial funds in the fields of education, medical care, social security, infrastructure construction and other areas of people's livelihood and supporting scientific and technological innovation, industrial upgrading and other key areas. The fiscal policy in 2025 will pay more attention to optimizing the expenditure structure and strengthening precise delivery. 2025, China's fiscal expenditure on education increased by 5.4% year-on-year, science and technology expenditure increased by 6.5% year-on-year, cultural tourism, sports and media expenditure increased by 4% year-on-year, social security and employment expenditure increased by 10% year-on-year, health expenditure increased by 4.7% year-on-year. This means that financial funds will pay more attention to benefiting people's livelihood, promoting consumption and increasing stamina, especially in the fields of social security such as education, pension and medical care, as well as supporting the development of small and medium-sized enterprises and promoting scientific and technological innovation. By optimizing the expenditure structure, improving the efficiency of capital use, better meeting the needs of the people and promoting high-quality economic development.

The optimization and adjustment of the structure of fiscal expenditure will help to improve the efficiency of the use of funds, better meet the new needs of the people and promote high-quality economic development. In the first three quarters of

### ***3.3 Increasing Transfer Payments to Local Government to Prevent and Resolve Various Risks in a Timely Manner***

In these years, real estate, finance and local debt are the three main risk points. In the practice of fiscal policy, we attach great importance to the prevention and resolution of these three risks. In 2024, the Chinese government issued special bonds many times to resolve various debt risks, and achieved good results. For example, through measures such as strengthening local government debt management, optimizing debt structure, and reducing debt costs, local government debt risks have been effectively prevented and deconstructed, and certain results have been achieved. At the same time, the government strengthens financial supervision to ensure the compliant use and maximum benefit of financial funds. In 2025, efforts will continue to be made to prevent and resolve risks in key areas, mainly to continue to resolve and prevent local government debt risks and real estate market risks. Through measures such as strengthening financial supervision and promoting debt reduction programs, we will ensure the smooth operation and sustainable development of finance.

In order to enhance the financial resources of local governments and ensure that the bottom line of "three guarantees" at the grass-roots level is not affected, in the first three quarters of 2025, due to the adverse autumn harvest of major grain-producing provinces caused by natural disasters, the central government timely allocated and further increased transfer payments to these provinces, which not only helped to alleviate local financial pressure and improve the public service capacity of local governments, but also better guaranteed food security, increased farmers' income and improved people's livelihood.

### ***3.4 Actively Promoting the Reform of the Fiscal and Taxation Systems***

The pace of finance and taxation and the national economy is consistent and dynamic. The Chinese government has continuously promoted the reform of the fiscal and taxation system according to the economic and social conditions of each period, and has constructed a more scientific, reasonable and efficient fiscal and taxation system, including measures such as improving the tax system, optimizing the tax structure, and strengthening tax collection and management. The

fairness and efficiency of taxation have provided more stable and sustainable financial support for economic and social development. In the first three quarters of 2025, China's fiscal revenue increased by 3.6% year-on-year in domestic VAT, 2.2% year-on-year in domestic consumption tax, 0.8% year-on-year in corporate income tax, 9.7% year-on-year in personal income tax, 5.7% year-on-year in imported goods VAT and consumption tax, 4.6% year-on-year in tariff, 8.6% year-on-year in export tax rebate, and 16.2% year-on-year in vehicle purchase tax.

### ***3.5 Strengthening Government Budget Management***

Government budget management is a crucial component of fiscal policy implementation. By strengthening budget management, the integrity and transparency of government budgets can be enhanced; through improved oversight of budget preparation, execution, and supervision, the compliant and efficient use of government fiscal funds can be ensured. For instance, in the first three quarters of 2024, China's non-tax revenue increased by 13.5% year-on-year, primarily due to governments at all levels revitalizing state-owned resources and assets through multiple channels, which led to higher revenue from the paid use of state-owned resources (assets) and state-owned capital operations. Together, these factors contributed to a 10.8 percentage point increase in non-tax revenue growth.

### ***3.6 Taking Initiative to Respond to External Shocks and Challenges***

The current global economic and social situation is complex and changeable, how to deal with the need for policy wisdom. To this end, the Chinese government has actively adjusted its fiscal policy, and in the face of the downward pressure on the economy brought about by external shocks and challenges such as trade protectionism, it has protected the high-quality development of foreign trade enterprises by reducing taxes and fees and increasing export tax rebates. In the face of natural disasters and other emergencies, the Chinese government timely and fully allocates disaster relief funds and allocates disaster relief materials to ensure the basic livelihood of the affected people and post-disaster reconstruction and self-help. For example, China's export tax rebates have continued to increase for two consecutive years. In the first three quarters of 2024, an additional 147.2 billion

yuan was refunded. In the first three quarters of 2025, the export tax rebate increased by 8.6% year-on-year, which strongly supported the growth of foreign trade exports.

It can be seen that the practice of China's fiscal policy in recent years has distinct socialist characteristics and characteristics of the times. Through the implementation of active fiscal policy, the optimization of fiscal expenditure structure, the prevention and resolution of various risks, the steady progress of fiscal and taxation system reform, the strengthening of budget management and the initiative and response to external shocks and challenges, the high-quality development of economy and society has been continuously promoted.

#### **4. CHARACTERISTICS AND INNOVATIONS IN CHINA'S FISCAL POLICY PRACTICE**

From the 13th Five-Year Plan period to 2025, China has made significant contributions through proactive fiscal policies to alleviate the burden on the real economy, activate economic potential, promote high-quality economic development, expand domestic demand, prevent and defuse major risks, achieve targeted poverty alleviation, combat pollution, improve and ensure the level of people's livelihood, effectively control the epidemic, and resume work and production. These efforts have demonstrated the people-centered development philosophy and profoundly revealed the necessity of better leveraging the role of the government under the socialist market economy. Moreover, the practice of China's proactive fiscal policies in recent years has shown marked differences from mainstream macroeconomic fiscal policy theories.

The characteristics and innovation of China's fiscal policy are mainly reflected in the following aspects.

- The fundamental purpose of China's macro-control is different from that of Western developed countries. China's active fiscal policy has always taken the protection and improvement of people's living standards as the primary goal and ultimate goal. It has always adhered to the people-oriented and people-centered development idea, highlighting the publicity and fairness of finance, so that the results of reform and development can benefit the broad masses of the people more and more fairly. This is determined by the nature of China's socialist system. From a higher level, China's proactive

fiscal policy goal is to make the macroeconomic operation more stable and continuously develop productive forces, and strive to solve the contradiction between the people's growing needs for a better life and unbalanced and inadequate development.

- China's macro-control system is more comprehensive and rich. The traditional macroeconomic policies of Western economics focus on the short term and are limited to aggregate demand management. China's macro-control system not only emphasizes the total balance and structural coordination of the demand side and the supply side, but also takes into account the unity of long-term goals and short-term goals. It has continuity, stability and sustainability, and is more forward-looking and flexible. Supply and demand are the two basic aspects of the internal relationship of the market economy and the dialectical relationship of the unity of opposites. Supply-side management and demand-side management are naturally the two starting points of macro-control economy. The former focuses on structural problems, focusing on the long-term and stimulating economic growth momentum; the latter focuses on aggregate issues, focusing on short-term regulation and maintenance of economic stability [3].

- The dominant idea of China's macro-control is to ensure that the market plays a decisive role in the allocation of resources under the premise of how to better play the positive role of the government, that is, the effective market and the coordination of the government. Under China's socialist market economic system, the government's responsibilities and roles are mainly to maintain market order, ensure fair competition, maintain macroeconomic stability, strengthen and optimize public services, promote sustainable development, promote common prosperity and so on. The role of the market and the government, the two are organic unity, not mutual negation, separation of opposites.

- China's financial stock policy and incremental policy go hand in hand, coordinate and complement each other.

The stock fiscal policy refers to the government's policy of adjusting the distribution pattern of national income. It focuses on the rational allocation and optimal allocation of existing financial resources and national income. The main objects of stock fiscal policy include asset stock, income stock and interest stock. For

example, the proportion and method of profit paid by enterprises is a means of stock adjustment. By adjusting the stock fiscal policy, the government can optimize the allocation of resources, improve economic efficiency, stabilize prices, and promote sustained economic growth. The use of stock fiscal policy is mainly reflected in: 1) Adjusting the tax policy: The government can optimize the allocation of resources and promote the adjustment and optimization of the economic structure by adjusting the tax policy, such as reducing the tax burden of enterprises and increasing the threshold of personal income tax. 2) Optimizing the structure of fiscal expenditure: the government can adjust the existing structure of fiscal expenditure, increase support for key areas and weak links, such as increasing investment in science and technology innovation, education, health care and other fields, while reducing expenditure on inefficient or ineffective projects. 3) Revitalizing existing assets: Governments can encourage conditional localities and departments to revitalize idle assets and convert existing assets into cash flow through Asset Securitization, asset disposal, etc., to support other beneficial projects or repay debts.

Fiscal increment policy refers to a policy tool to stimulate economic growth by increasing public expenditure on the basis of the original fiscal expenditure. Such policies usually involve increased investment in infrastructure investment, social security expenditure, education and technological innovation to promote the overall development of the economy. Behind the fiscal increment policy, the government attaches great importance to economic growth, employment stability and improvement of people's livelihood. By increasing fiscal expenditure, the government can stimulate aggregate demand, promote economic growth, and improve social welfare. The incremental fiscal policy is mainly used to stimulate economic growth and expand employment, while the stock fiscal policy focuses more on optimizing resource allocation and improving economic efficiency. It can be seen that through the comprehensive application of these two policies, the Chinese government has better regulated the macro economy and achieved sustained, stable and healthy economic development.

In 2025, China's fiscal policy will have new innovations in terms of being more active, arranging larger government bonds, optimizing expenditure structure, preventing and resolving risks in key areas, and increasing local transfer payments. These measures will help promote the

sustained recovery of the economy and provide a strong guarantee for the completion of the objectives and tasks of the 14th Five-Year Plan and the realization of a good start of the 15th Five-Year Plan.

In summary, these innovative measures help to address economic downward pressure, promote high-quality economic development, and provide more benefits to the people.

## **5. REFLECTIONS AND CORRECTIONS ON THE MAINSTREAM MACROECONOMIC POLICY THEORY IN MACROECONOMICS**

Through combing the practice of China's fiscal policy in recent years, it is found that China's macro-control policy is self-contained, covering long-term, medium-term and short-term aspects, as well as central, provincial and regional levels, with focusing on balanced development and sustainability. Fiscal policy includes active, steady and tight fiscal policy. Such rich and innovative fiscal policy practices can correct and improve many defects of Western mainstream macroeconomics fiscal policy theory to some extent.

### ***5.1 Improving Analytical Tools and Assumptions, Deepening the Theoretical Basis***

First of all, we should try to avoid a single mathematical form and modeling method. Instead, from the analysis methods and tools, we not only should take into account the qualitative and quantitative analysis, but also use the AD-AS model which includes the total supply analysis and the price factors. At present, the global economy is in a downward period. Mainstream macroeconomics believes that aggregate demand is insufficient at this time, and the government needs to stimulate aggregate demand. In fact, it is caused by excess supply, that is, product backlog or excess production capacity, which should reduce production and compress production capacity and adjust economic structure. If the IS-LM model is simply used to pull the total demand into the economy, it is always the opposite. At least, we should focus on the demand structure and total supply, which requires the analysis of AD-AS model. Secondly, it is necessary to fully understand the complex role of money in the modern economy, as well as the mutual influence and restriction

between money and finance, abandon the assumption of monetary neutrality, so that the monetary function can more accurately reflect the economic reality in the theoretical analysis of fiscal policy, and provide a more scientific basis for macroeconomic policy formulation. Third, the crowding-out effect is only a possible inference in Western macroeconomic policy theory, which is not the case in practice, especially in the economic downturn. In fact, the 'pulling-in effect' of China's fiscal policy is more significant. China constantly emphasizes the amplification and driving effect of fiscal policy on private investment.

### ***5.2 Increasing Stock Analysis and Broadening the Research Field***

First of all, all kinds of creditor's rights, property rights, municipal infrastructure, housing and other large stock assets, as well as public utilities, resident services, education and medical care and other large stock employment should be included in the research scope of fiscal policy theory, and included in the stock analysis model from the method and content. Secondly, prudently treat and integrate the discretionary fiscal policy and monetary policy focusing on short-term analysis and the rule-based monetary policy theory focusing on long-term effects, improve the fitting degree of fiscal and monetary theory to the real world, and enhance the applicability and effectiveness of macroeconomic policies in dealing with various long-term and short-term economic problems. Third, continue to try to enrich the useful and rich policy practice cases of developing countries, and then gradually abstract and improve the existing macroeconomic policy theory.

### ***5.3 Correctly Understanding of Fiscal Deficit and Debt***

Amid the lingering effects of the COVID-19 pandemic, spillover impacts of international disputes, and the persistent threat of frequent natural disasters, it is imperative to reassess the scale and role of government fiscal deficits, the rationality of government debt, and the criteria for evaluating them. Based on current economic conditions and national development strategies, the assessment standards for the safety and risks of fiscal deficits and government debt must be flexibly adjusted. This will enable fiscal policies to strike a better balance between promoting harmonious socioeconomic development, ensuring people's livelihoods during critical periods, safeguarding

national security, and maintaining fiscal sustainability.

### ***5.4 Coordination of Policy Objectives and Resource Allocation Efficiency***

First, countries need to creatively develop macroeconomic regulatory systems tailored to their national conditions. When formulating and implementing fiscal policies, they should not only focus on short-term market equilibrium and economic stability but also prioritize long-term socioeconomic coordination and sustainable development. The role of fiscal policy should evolve from merely restoring short-term market balance to actively intervening in and guiding the entire process of high-quality socioeconomic reproduction. This requires fully leveraging the directional guidance and stimulating effects of government infrastructure investments, livelihood expenditures, and incentives for technological innovation in key sectors to enhance a nation's potential growth rate, thereby balancing short-term and long-term objectives. Second, it is essential to break free from the mindset that overemphasizes short-term market equilibrium in fiscal spending. This involves strengthening inter-temporal planning for fiscal expenditures, rationally arranging their scale, structure, and timing, improving the flexibility in selecting and using fiscal policy tools, and enhancing the allocation ratio and efficiency of fiscal resources. These measures aim to avoid resource waste and inefficiency caused by short-term stimulus policies, thereby optimizing the inter-temporal coordination and rational utilization of fiscal resources.

### ***5.5 Strengthening the Combination of Theory and Reality***

First, the crucial role of government expenditure in driving economic growth, promoting social equity, and enhancing national competitiveness must be fully recognized. The government should be viewed as both a proactive guide and active participant in socioeconomic development. When formulating fiscal policies, the productive and guiding functions of government spending must be fully considered. It is essential to clarify that the primary entity of fiscal governance is the nation rather than individual government departments. National fiscal behavior, policies, and efficiency should be understood from a holistic economic perspective, avoiding tendencies toward "micro-level" or "departmentalized" fiscal management.

This approach ensures fiscal policies better serve the nation's overall interests and long-term development goals, fostering positive interactions between fiscal authorities, the state, and enterprises, thereby strengthening the national attributes of fiscal governance. Second, changes in economic conditions and emerging challenges must be closely monitored. Starting from practical issues, fiscal policy theories should be promptly adjusted and enriched to enhance their explanatory power and guiding effectiveness. For instance, during major emergencies like the COVID-19 pandemic, effective fiscal policy responses should be swiftly proposed rather than rigidly adhering to traditional theoretical frameworks. Third, the productive functions of government finance must be emphasized. Fiscal policy theories should fully recognize the productive role of fiscal measures—not only in providing public goods but also in promoting productive activities through fiscal instruments. This includes increasing investments in key areas such as infrastructure, technological innovation, education, and healthcare. By doing so, we can boost society's overall productive capacity, optimize economic structures, and raise potential growth rates. Ultimately, this enables fiscal policies to play a greater role in driving economic growth, advancing social progress, and strengthening national development and security.

## 6. CONCLUSION

Regarding mainstream macroeconomic fiscal policy theory and practice, there has yet to be a broad consensus, such as the effectiveness of macroeconomic policies in stabilizing the economy, the pros and cons of government fiscal deficit policies, etc., which remain hotly debated. How to view these debates and disagreements is indeed a considerable challenge. For the integration of China's fiscal policy theory and practice, as long as we consistently adhere to the standards of people's interests, the criterion of practice testing truth, and the standard of common prosperity, and uphold the basic starting points and general principles of China's socialist system and economic practice, such as analyzing specific problems specifically and deriving theory from practice, many so-called academic disputes will be resolved effortlessly. With China's rise, China has provided the world with numerous Chinese solutions and Chinese wisdom in economic, political, institutional, and cultural development. Explaining the connotation and objectives of China's fiscal policy not only provides fertile ground for the unification and

elevation of 21st-century macroeconomic fiscal policy theory and practice but also offers the Chinese economics community unparalleled resources and opportunities for theoretical innovation. It can be said that economists need to continuously improve their understanding of the purpose, internal mechanisms, and laws of fiscal policy. They should explore and reveal the essence of fiscal policy and the intrinsic mechanisms of its coordination with socioeconomic development from various research perspectives, avoiding the single-minded and unidirectional nature of Western macroeconomic fiscal policy objectives, as well as the linear thinking logic of structural and mathematical analysis of fiscal policy effects. To sort out and interpret the practice of China's fiscal policy, we must not only absorb the beneficial achievements of modern Western economics but also continuously draw on the essence of China's excellent traditional economic thoughts, so as to achieve the dialectical unity of fiscal policy theory in macroeconomics and the practice of China's fiscal policy.

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