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On the Phased Features of the Contemporary Capitalist Contradictions —The Deep Cause and the Revelation of the International Financial Crisis

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Abstract :“Virtual economy” and “foam economy”, the main symbol of international super financial monopoly capital, have some phased features, which should be analyzed from three layers: the economic contradiction of the developed market, the contradiction of the capitalist country itself and the contradiction of the international monopoly capital, whose formation have experienced four stages after World War II. We should grasp this feature, take the time pulse, improve self-awareness in carrying out the concept of scientific development, make use of virtual economy, recognize clearly the nature of neo-liberalism and get rid of its impact.

Key words : Phased features of the contemporary capitalism; the international super financial monopoly capital; Neo-liberalism

In recent years ,the United States political figures (such as the Former Secretary of State Condoleezza Rice) have been declared the United States economic recession will not happen, some scholars are also talking about the prosperity of capitalism, and even excessively praise which is the ideal of human society. However, the international financial crisis broke out and proliferated towards the real economy of the Countries in 2008, triggering a global economic recession. Marxist scientific analysis told us: the basic

contradictions of capitalism not only did not overcome, but manifested with a new form. This paper attempts to reveal the underlying causes of the international financial crisis, recognizing the stage characteristics of contradictions of contemporary capitalism.

The International Super Financial Monopoly and Its High Degree of Virtualization

Lenin once referred to imperialism is monopoly capitalism and rotten dying capitalism. Lot of people think this theory is out of date. Objectively speaking, Lenin estimated short about time at that time, but his judgment about the general trend of capitalist development is still correct. As Lenin said: "the complexity of the process and concealing on the nature of things can postpone death, but it can not escape avoid death."^[1] (p.483) the current international financial crisis has shown it phase characteristics, namely, which access to international financial super-monopoly capitalism and forming a high degree of virtualization --- Kingdom of the bubble economy, We can grip its features through analyzing the concrete form of this crisis.

First, the higher virtualization of the financial capital aggravated disorder of the capitalist market economy, contrary to the laws of the market. the market economy structure generally includes three parts: Basic (market players) is enterprise which assume social division and consumers which digest Products, hub (middle) is diversified markets which play the role of contact and configuration, upper is Government's macro-control. Finance is between the middle and upper classes, which is both a means of macro-control, and businesses of operating currency(commercial bank and financial markets). According to Engels's argument, One of the major characteristics in the developed economic market is "cephalopods inversion" ^[2] (p.699): Originally the production process decide the circulation process(trade), the circulation process decide the finance. but later the finance turn into an independent process and counterproductive in the entire economic process, which played a decisive role in many occasions and the time (so-called the core of the modern economy). At the same time, the finance has its own independence movement and its crisis. In this way, which also form the positive effects and negative effects. Financial characteristics is great changes, which come out the two-fold effect with Non-equilibrium and non-linear. Lenin, who put the finance as the "superstructure" of the commodity economy, pointed out: "financial capital is mobile flexible in particular, which is intricately intertwined at home and abroad. it is not personalized and separate from the direct production, which is particularly vulnerable and have been highly concentrated in particular, so, the fate of the whole world is simply on the hands of the hundreds of billionaires and millionaires."^[3] (p.142) the finance would arise from economic crisis on itself, but which is rooted in the entity, dominated by the law of value. The American financial crisis began in the real estate bubble

burst (Price seriously deviated from the value, and finally forced to return to the value), appeared the sub-prime crisis. This indicates that the financial capital, in particular the virtual capital, once is over the earth more than the real economy, socio-economic would become enormous bubble (virtual capital originally contained large and small bubbles), the value of regression (bubble burst) will result in great harm, which cause tremendous negative effect at macro-control level. Experts estimate that the financial --- virtual capital which the United States made caused 400 trillion U.S. dollars of false wealth, including 8000 billion U.S. dollars of the national debt near, more than one trillion U.S. dollars of residents of debt, over 50 trillion dollars of bank Debt, nearly 500 billion U.S. dollars of budget deficit, and more than 300 trillion U.S. dollars which the financial derivatives have created, which was much higher than the real capital (equivalent to 30 times of the United States GDP). This has far exceeded the limits of the market economy can permit, the whole economy is set up at the bubble that is more imaginary than the beach, which is contrary to the law of value fundamentally.

From the patterns, the market economy greatly expand its spontaneous negative effects. A feature of the capitalist economy is closely integrated with the market economy, and the market economy has duality, namely: the positive and negative effects of spontaneity. The negative effect of this is more than a positive effect in the modern capitalist society. From the origin , the market economy is a form of expression in the production of society, that is, the deepening social division of labor is integrated with the increasingly close social, which require organic integration between market mechanism and macro regulation. Market economy, as one kind of exchange in the society, has formed three steps with its improve the level of the society(in addition to simple commodity economy): the first step belongs to low-level, the original economic adjustment and resource allocation, which mainly relies on self-regulation with the platform of the capitalist system, as if biological single-cell organism relies on self-regulation; the second step belongs to the intermediate level, which is dominated by large capital ownership with individual self-regulation, achieving financial domination economy (namely, "cephalopods inversion" phenomenon) with a certain degree of the macro-control system. as if biological many cell biology, which has the regulation of cellular layer and body fluids, could not overcome spontaneous disability from the root, the modern capitalist market economy is the case; the third step belongs to advanced level, which gives full play to the micro-adjustment function under the macro-regulation, combining market with plan, as if the higher animal of the biosphere has the commander-in-chief above the nervous system(Engels called it "neural organ") ,apart from the regulation of cells and fluids. The truth shows that the advanced level (third) of the market economy must eliminate interference of private economy, especially eliminating interference of the big monopoly capital on the running of society, perfecting "nerve organ" with the system platform of the public ownership and the government leading role, reflecting dialectical unity of the productivity of society and social relations of production,

which is the socialist market economy. However, the developed capitalist market economy, particularly enormous financial monopoly capital, puts the negative effects of market economy spontaneity to the extreme, violates the law of society and the rules of developed market economy.

Second, the basic contradiction of capitalist society is advanced to a new acute high degree because of the combination a high monopoly with a high speculation. That is the contradictions of the production of society and the private possession make the developed market economy abnormal, anarchy is exacerbated under the neo-liberal theories, A small number of big monopoly capital giants earn their money with virtual economy --bubble economy. People know interest-bearing capital formula is $G-G'$. In fact, the value-added capital formula of Physical capital is omitted ($G-W-G'$). However, the tremendous financial oligarchy market is developed, financial oligarchies do not want to further trouble, who is simply engaged in the trade of "money makes money". a string of "financial innovation" makes $G-G'$ into the chain transactions of buy space and short selling, which is separated from entities of creating value and the foundation that value decide price. In order to alleviate the lack of effective demands, the United States takes consumer lending, savings rate is very low, which is the root of sub-prime crisis. The sub-prime interest is up to 24 percent, the real estate bubble reach up to 38%, hundreds of banks share this fantasy cake through financial innovation. Engels said "the contradiction between the social production and capitalist possession violently erupted in crisis. Circulation of commodities temporarily comes to a halt; medium of circulation (the currency) becomes circulation of barrier; all the laws of commodity production and circulation of commodities have been reversed. The conflict of economy reached a peak: mode of production opposes exchange, the productivity fights against modes of production which is surpassed by the productivity."^[4] (p.627) Although the monopoly of the big capitalists earn a lot of money, more than 100 banks went bankrupt in this financial crisis in the United States, especially the big banks have taken place a chain reaction, the stock market has sharp declined, which appeared so-called the days of "black blood", even some big financial capitalists (including Soros) are the loss. The United States Government aided the two Real estate banks Fannie Mae and Freddie Mac with a large amount of money, also funded 700 billion U.S. dollars (amounting to 850 billion U.S. dollars), some insurance companies became state-owned, but "disease" is still not bottomed. 14 billion U.S. dollars help Ford and other auto giants recently. Soros, Giant financial speculator, the Southeast Asian financial crisis maker, said: "This (the Wall Street crisis) is the result that the market fundamentalism what I said and its automatic adjustment theory. Neither is crisis because of some external factors, nor is it caused by natural disasters, which is caused by the defects system, which occurred within the rupture."^[5] What about the reason? generally believed, it is caused by weak financial supervision. This is just a technical level, the most fundamental is the basic contradiction of the capitalist society: the contradiction between the production of society and private ownership of

means of production, and the contradiction between individual enterprise organized and the entire socio-economic disorder. This is so-called the inherent deformity of "free market economy system" which could not overcome: At first, A totally free market economy has never existed in the world, because it goes against the objective laws of society production; second, the modern big monopoly capitalists control the spontaneity of the market, are engaged in speculative activity, third, the government who is on behalf of the big bourgeoisie interests serves a small number of rich tycoons possibly, they can not have strict financial supervision System, only have the freedom that hundreds of millions of the consortiums exploit and plunder the wealth all over the world. The U.S. economy goes into recession at this time, the unemployment rate of it reached 8.6% (It is estimated that it will be more than 10% in 2009). This indicated that the fundamental contradiction of the United States is irreconcilable because wealth of 1% of the rich is equivalent to wealth of 50% of lower-middle people

Third, the US-led modern capitalism dominates the world through a new form, exacerbate the contradiction with the people of the world. After World War II, the United States become the biggest hegemony country, it is the only overlord in 20th century 90's. In order to exploitation and oppression the people of the world, apart from the use of military means, technical means and the general economic means, the United States control and exploit the world with U.S. dollars. Former U.S. Secretary of State Kissinger said: "If you control the oil, you control all countries; if you control food, you control all of the people; if you control the money, you control the entire world." the United States has all of the three weapons.

First of all, from the expansion of the laws of society, the world economy necessarily linked together (economic globalization), finance is an important bond, the key is who controls it and what to do? The United States exploit all of the world by the U.S. dollars at this time. Since the signing of the Bretton Woods Agreement, countries all over the world adopt trade settlement of the U.S. dollars, which circulate and reserve at the majority of countries all over the world. Particularly, after U.S. dollars delinked from the gold in 20th century 70's, the United States can issue notes at his will, which become his means that making up for the trade deficit and fiscal deficit. In other words, the United States exchange Hard-earned money of workers of all countries in the world(especially Hard-earned money of workers in developing countries) with the rotary of Note Printing Machine , who changes the monetary income into a new financial capital and military strength, further oppressing and exploiting the world the people. The reason why the United States financial crisis became a global danger is that all countries tightly contact with the U.S. through the U.S. dollars. The first spread in Europe, the message that European banks go bankrupt is published every day, these financial institutions have recognized that the losses amount to 250 billion euros. It is estimated that the removal of the disaster need about 610 billion

euros (Equivalent to twice the French national budget), Iceland, Ukraine, Hungary and other countries had been in a "national bankruptcy."The most of developing countries have the United States bonds, who see the United States as an exporter, which affect all over the world, including China (the country buy the United States near 600 billion U.S. dollars debt, and one trillion U.S. dollars stocks). It is estimated that that the wealth of world accesses to the United States is about 30% of the new growth GDP from this means each year.

Secondly, the United States control oil through the advantages of the U.S. dollars. In order to control Middle East oil production, George W. Bush played a 7-year war in the Middle East, including the launch of two Gulf Wars, the war in Afghanistan, and the United States was in the Cold War with Iran. A the hot spot of the world economy is Abnormal rise and the drastic devaluation in oil prices in recent years, which is the second oil crisis after oil crisis of the 20th century 70's. The oil price was 10 U.S. dollars/barrel in 1998,it was 28 U.S. dollars / barrel in 2003, which was close to 140 U.S. dollars / barrel in July 2008. It was estimated this was more serious danger than of the 20th century 70's. The main reason of this crisis was not the relationship between supply and demand that some People of the United States said, but the oil giant's speculation. It is said that the oil giants of the United States hoarded crude oil futures contracts one billion Tons, who controlled the crude oil futures market. America Masters Fund Index added up to 260 billion U.S. dollars from 13 billion U.S. dollars, compared with the commodity market early in 2003, which increased nearly 20 times, gaining a profit of 5 trillion U.S. dollars (Equivalent twice Chinese GDP in 2004), half of the funds was the crude oil futures, the speculative capita was up to 55 billion U.S. dollars in 52 before trading days in 2008.¹ Owing to the financial crisis, the oil price fell below 40 U.S. dollars / barrel in December, affecting a number of oil power. History shows that economic shocks changing from a sharp inflation to deflation, is a symptom of the economic crisis. Oil price, from the high to the drastic devaluation, is also a crisis, which reflects the decline in the real economy and a serious shortage of demand (according to a shortage of oil resources, its future price will still rise.).

Once again, with the financial crisis and the oil crisis, food crisis arise, its prices jumped 140 percent in 2008. This damages not only the poor people of the developed countries, but also the ones of developing countries, which threatened about 10 million people living, 100 million people was in the hunger. 40 countries have sparked mass protests, and some have formed anti-hunger political struggle, resulting in government crisis. Some people in western countries accused that the world food shortages are because of improved livelihood in developing countries, especially the Chinese people to eat more meat, food supply is insufficient. This fully exposed the hypocrisy of their faces. Serious lag of the development of agriculture is a chronic disease of the capitalist industry. As Lenin said: "The large capital acts under the conditions People who suffer from

1 Source: "In the face of abnormal rise in oil", "Outlook" magazine, paragraph 24, in 2008.

hunger, agricultural development hopelessly lags behind industrial development "[6] (p.604) . But the more Direct reason is that large capital groups and their country's monopoly get the great excess profits. Japanese scholars said that the premise of American domestic and foreign affairs are "food is the fundamentation of the country ", the United States carry out " the world strategy that food is a weapon. " First of all, it ensures the interests of giant of food distributors. Although the sub-prime mortgage crisis in 2008 caused the recession of American economy, companies such as Cargil, ADM, Bunge Corporation profited \$ 1.03 billion, \$ 0.52 billion and \$ 0.39 billion separately. What's more, U.S. Department of Agriculture restricted the agricultural production to control the corn's price in the world. For instance , it restricted the production of corn under 80million ton after 2002 and less production was supplied in 2007 which was 70million ton.¹ Meanwhile, ignoring the interest of the people in the developing countries, America had 40%of its corn as the renewable energy which contribute 75%to the price rising.

Ignacio, a Spain expert, said in his writing, "financial crisis, energy crisis and food crisis occurred at the same time has never existed in the world. Furthermore, the three interact with each other and any one of them will affect the other two." He said again, "we are facing an unprecedented earthquake and the 2009 would be like the ominous1929." Finally he concluded, it was the sad results of neo-liberalist---the three crisis tangled up.

With the development of the contradictions, the capitalism economy led by the U.S has been transited to the super state's financial monopoly, which showed the characteristics of the times and the developing trend of the current capitalism. The ratio of U.S GDP to the total world economy is declining year after year. For example, in the middle of the 20th century, the ratio was 1/2, while in the end of the century, it had reduced to approximately 30%.in recent years the ration arrived at about 20%, while the amount of its financial capital came to 40% of the worlds, which showed that it is fiancé that supports its international position. In 2007 trade deficit was 853.8 billion U.S. dollars, which consisted of the international balance of payments surplus of recurrent revenue and expenditure accounting for negative 738.64 billion U.S. dollars, the capital account balance of payments surplus (that is, non-financial and capital transactions) accounting for negative 2.32 billion U.S. dollars and the financial account balance of payments surplus of 679.84 billion U.S. dollars. This indicates that its financial income had made up for probably more than 80% of the trade deficit. However, about the formation of its GDP, the share created by the entity of real economic declined. There was a decrease of 27.79 percentage points between 1950 whose share was 61.78% and2007 whose share was 33.99%, of which the manufacturing sector had a decrease of 15.3% from 27% to 11.7% during the same period, while the GDP proportion created by the virtual economy had an increase from 11.37 percent to 20.67

1 Source: "Choice" magazine in Japan in June 2008, "The giant grain businessmen in America that manipulate the world grain market"

percent, accounting for 1 / 5 (the face value of the false ten times larger). The decline in the real economy and the unlimited expansion of the virtual economy indicate that the U.S. economy is going towards a sharp virtualization. Lenin said: "The characteristics of imperialism are not industrial capital but financial capital," ^{[3] (p.403)} "financial interest or investment interests rule the commercial interests" ^{[1] (p.475)} After the middle of the 20th century, especially since the 1980's, the United States has become an international super financial monopoly capitalism, which is a combination of finance and industry that was known as virtual economy that was out of the real economy and rule the real economy in turn. Combined with the high-tech, it produced further economic bubble and led to a bubble economy, which demonstrated the new features and the new means of modern capitalism. Therefore, it is the contradictions between the high degree of socialization and the high degree of privatization that resulted in the international financial crisis and economic recession, which we must regard as the basic point.

Four Stages of the Monopoly Capitalism of the Post World War Two

Everything will experience different stages during the progress of the development. Today's capitalism is in its typical stage which can be divided into a few detailed periods. The sub-prime mortgage crisis, which led to the world financial crisis, was resulted from the contradiction existing in a long term of development of the real economy instead of the wrong policy in a short term, and reflected the basic contradiction and the stage characteristics in the evolution of the capitalism.

Approximately at the end of 19TH century and the beginning of the 20th century, owing to its unique natural resources and active mechanism, America, who was manipulated and supported by the big group of monopoly capital and owned the highest growth rate and the most advanced technology, became the most powerful country both in economy and military. They two (powerful economy and military) are basic tools for America to exploit the other countries. As we all knew that America benefit from the two world wars without suffering any loss in the domestic except for the pear harbor. After the world war two, its total economic output equaled 50% of the global output. Depending its powerful economy and militaries, America evolved a Financial Empire from an Economic Power, which was signaled by the Bretton Woods Conference in held in July 1944 that confirmed U.S dollars hegemony. In December 1945 agreements were formally signed to set up world currency system, which regarded U.S dollars as the main world currency, and formed two international organizations, IMF and the WORLD BANK, which were controlled by America. Since then, America has manipulated the world through the control over the U.S dollar. The International financial super-monopoly capitalism became more and more virtual and bubbled. The process consisted of four stages with different

characteristics.

The first stage existed during the period from 1945 to 1970. Its main characteristic is that the U.S dollars inked with gold controlled the economy of the capitalism and that finance, which didn't account for the dominant position of the economy, continued to be combined with the real economy. For example, from the late 1940s to the early 1950s, America supported European reconstruction through the material assistance, which was known as Marshall Plan. Another instance is that America transited many industries to Japan during the Korean War. Its goal during 1950s was to strengthen the capitalism to strict the development of socialism. Generally, from 1950s to 1960s the capitalism economy experienced a moderate growth with some severe recession from 1957 to 1958 and the so called moderate recession in 1960s. However, U.S dollar crisis occurred frequently. For instance, there was more than 10 times of crisis from 1960s to 1970s. The characteristic of the crisis was that people intend to sell dollars and to buy gold, which caused the out-flowing of the gold and the decreasing of gold reserve.

The second stage existed during the period from 1971 to 1980. Its main characteristic is that the U.S dollars was no longer linked with gold and that oil crisis and economic stagnation occurred. Because of the frequent dollar crisis, the western countries tended to buy gold according to the Bretton Woods Agreements in which one ounce of gold equaled 35 dollars. In 1971 Nixon administration stopped the exchange of dollars for gold and adopted Pegged to the U.S. dollar's floating exchange rate system, which led to the collapse of Bretton woods system. After that, America had the arbitrary power to issue dollars which are used for the international monetary settlement and reserves and the currency issued was like portfolio that can accelerate the explosion of the virtual currency, virtual capital and virtual economy. At this stage, America concentrated on operating financial capital and transited more industries overseas, such as South Korea. In October 1978 the 11th dollar crisis occurred, which was characterized with increasing prices of gold, decreasing prices of dollars and international income deficit. At the same time, economic stagnation happened in the capitalism economy whose core was America. On the one hand, the production kepted stagnated even decline, which resulted in great unemployment. On the other hand, there existed very serious inflation and substantial rise in prices. So there was a dilemma for America, which means a contradiction between austerity policies which would cause less production and greater unemployment, and expansionary policies which would increase inflation.

The third stage existed during the period from 1980 to 2000. Its main characteristic is that Neo-liberalism was popular, especially the Currency liberalization. Because of the expansion of virtual capital, there wee several times of financial crisis which were transferred to other countries. Both Thatcher administration in 1979 and Reagan administration in 1980 implemented Friedman monetary freedom policy, which deduced the government intervention, increased the Privatization of state-owned enterprises,

modified financial regulation and advocated financial innovation. As a result, the virtual capital expanded greatly. For example, the total amount of junk bonds was only \$ 2.8 billion, which was 6% of the total bonds, while in 1985 the amount of junk bonds have come to \$ 15 billion, which was 14% of the total bonds. The revenue rate of these bonds were higher than the state bonds. Although in 1989 the bubble of the junk bonds collapsed, it began to be active in 1992, together with the expansion of the state bonds that was 2.4716 trillion. In order to strengthen its banks competitive capacity, America began to launch the international lending business and got more than \$ 23.43 billion surplus. Because of too much currency issue and the expansion of the virtual economy, America adopted austerity policy which caused an increasing interest rate, for example the highest level was 21.5%, and a large amount of funds flowing into America which led to U.S dollar appreciation and much more trade deficit. In order to deal with the situation, America took different measures that could protect itself and sacrificed other countries' development. At first, America chose Japan to share its burden through the Plaza Conference in 1985 which caused the Japanese Yen appreciation and Speeded up the burst of the real estate bubble that made Japan's recession. Secondly, America implemented Neo-liberalism policy in Latin America according to Washington Consensus in 1990, which resulted in more than 10 countries suffering from serious economic disasters, among which Argentina suffered serious economic crisis and then political crisis during 2001 to 2002. Meanwhile, American stock crisis, pond crisis, Mexico financial crisis and the south-eastern Asia financial crisis, which was the most serious, occurred one after another. As Malaysian Prime Minister, Mahathir Mohamad said that the crisis made countries back several decades, while America kept increasing for nearly ten years because of New Economy and the economic bubbles kept rising as well.

The fourth stage existed during the period from 2001 to date. Its main characteristic is that the virtual economy expanded so rapidly that economic bubble expanded at a higher speed and ended in burst, which resulted in the greatest financial crisis in the latest 80 years and spread to other countries. From the end of 2000 to 2001, the New Economy in America became IT Bubble, facing which the Federal Reserve encouraged the bubble instead of restriction through lowering interest rate 13 times that transferred the financial property to the real estate and resulted in property bubbles. In 2007 July the bubbles in the real estate busted finally and the sub-prime mortgage crisis occurred which caused financial crisis in 2008. Because of Domino effect, many large banks collapsed and involved the other countries in the world. At the same time, oil crisis and Food Crisis occurred. Great losses were made according to the western estimation, for example, American estimated that there were \$7.3 trillion losses for America because of the stock depreciation, the British claimed that global losses in the stock market were nearly \$14 trillion and the Japanese had a higher

estimation about the losses in the global stock market which was \$27trillion. The crisis is continuing and the final global losses may be more than three years' GDP in America.

More than sixties years' history in America above showed that America experienced an evolution progress that began from economic power, and followed by financial empire and virtual economy, that began from the combination of the real economy and the virtual economy, and followed by an economy dominated by finance and an economy dominated by virtual economy which is the yeast of economic bubbles and can make bubble economy. So it is an experience to control the world by the use of finance –virtual capital and economic bubbles to get large amount of property and end in collapse. As Marx said, “it is as if by magic that create a large means of production and exchange of modern bourgeois society, and now the same as a magician can no longer dispose of their own magic with the devil called by their magic.”^{[7] (p.278)} It can be foreseen that although the capitalism economy still has several or many stages, the ultimate demise is inevitable.

The Inspiration of the Bankruptcy of Neo-Liberalism

The international financial crisis announced the failure of Neo-liberalism according to the analysis above, so we should have scientific attitude to understand the Neo-liberalism and should implement the scientific concept of development consciously.

Essentially neo-liberal represents a bourgeois ideology on behalf of the interests of the Western monopolies, whose central idea is financial liberalization that can be used for the financial capital to control the market. Capitalist market economy is the power's economy, which means the more capital you have and the more rights to make rules, and the economy of chasing the most profit. The Neo-Liberalist claimed that property should be realized in the free market. However, in essence, only large capital owners, in particular the financial monopolies can make money freely, and the big capitalists in Wall Street are earning money around the world freely. When opposed to the feudal system, capitalism just arose and classical liberalism did have progress. However, when the social wealth concentrated in the big monopolies, the neo-liberalism, who advocate the free of people in appearance in the market, only represent the interests of a small number of financial large group essentially.

Since the 1970s or 1980s, Neoliberalism came into fashion and Keynesianism fell into disfavor, which was relevant to the “Stagflation” illness of capitalist state. The power of capital in western countries became stronger, financial capital and fictitious capital with tremendous degree of liberty needed this libertarian system and consciousness, and their rich capital powerful nations such as United States, etc. provided “convenience” for the free trade of developing countries; therefore, Margaret Thatcher took her office in the U.K., and Reagan came into power in the U.S., which cleared the way for the dominant position of Neo-liberalism as the mainstream economics in the past 30 years. This great financial crisis

declares the failure of Neo-liberalism, and Keynes state interference becomes necessary again. Nevertheless, this is not the end of Neo-liberalism; once the economic situation gets better for the future, it will bob up again. Ordinarily, provided that large-scale monopoly capitalist group, particularly large-scale financial capital exists, Neo-liberalism or something will overrun in the social economic field.

All the fashion of Neo-liberalism in China generally contributed to the following three causes: First of all, internationally, western capitalist market economy developed in a high degree, with powerful economic strength, and predominated in the world market, and Neo-liberalism became the mainstream economics of capitalist market economy. Our country had not the experience of developing market economy and used some successful experiences of other countries for reference, but someone believed that something or anything of western countries may be swallowed uncritically and absorbed indiscriminately. Alternately, the western powers made propaganda and penetration by means of all kinds of mass media. Just as Deng Xiaoping said if the window was opened, fresh air blew in, and fly and mosquito also came in. Additionally, due to the violent change of Soviet Union and Eastern Europe, the first socialist state disintegrated and socialism in the world was at a low ebb, which also made someone shake their socialist faith and turn their steps to accept Neo-liberalism. Secondly, the social foundation of Neo-liberalism existed in China. China would stay in the primary stage of socialism for a long period of time and continue to follow the basic economic system to keep public ownership in a dominant position and have diverse forms of ownership develop side by side. In recent years, non-public economy, especially private economy developed rapidly, which gave birth to an upstart stratum. They hoped to possess the discourse right and strived for benefit maximization. In academic form, Neo-liberalism was much more favorable for their requirements. Thirdly, cognitional one-sidedness. People's cognition easily goes from one extreme to the other. In the course of reforming system of planned economy, the basic function of market economy in resources allocation and its superiority were strengthened, but some people might aggrandize the spontaneity of market unilaterally and believe in the self-regulation of market and blindly embrace market fundamentalism and omnipotence of market, but negate the function of macroscopic readjustment and control. Epistemologically, this was linearity and one-sidedness, a kind of deficient derivation. This kind of one-sidedness made some people deny the necessity for combination of "Invisible Hand" and "Visible Hand", negate the social property of market economy, and confuse the relation between capitalist market economy and socialist market economy. Just because of this, Neo-liberalism has deluded many people. Now, it is time that Neo-liberalism incompatible with socialism with Chinese characteristics is to be reckoned (Of course, criticize it analytically and absorb its rational factors aggressively).

We adhere to the criterion that practice tests truth; therefore, we may deepen the recognition for the truth by comparing the western economic crisis with China's successful

reform and opening-up and further settle the affects of Neo-liberalism. Experiences in 30 years' reform and opening-up tell us that it is rather difficult to rein the socialist market economy due to the diversity, variability, periodicity and internationalism of market economy, abundant handicaps of economic structure, lack of experiences in developing socialist market economy and impact of westernization. Under the socialist system (particularly in primary state of socialism), it is hard to completely avoid the defects of market economy. The primary contradiction is whether continues to uphold the combination of socialist system and market economy and highlight "people oriented", or develop capitalist market economy, highlight "people first", and cause and sharpen the polarization. The experiences of our country indicate that the property of basic system of socialism is weakened, and the function of "Visible Hand" is reduced, the enormous social problems will occur, for example, "Sanlu Milk Powder" incident and real estate bubble. If not regulated seriously, there is the danger that socialist market economy disintegrates into capitalist market economy. At present, a good many economic and social problems has appeared, which asks us to be mindful of the potential perils. Theoretically, two kinds of tendencies generally exist alternatively, either restrict and choke the function of market or cry up the indulgent, spontaneous market. As the matter stands, the influences of westernization should be considered seriously; a trend of thought pops out increasingly, which sets market economy against macroscopic readjustment and control, dissociates the market economy from basic system of the socialism and impacts the in-going order of socialist market economy (lots of contradictions emerge thereby). Many people view this thorough spontaneity as the superiority of market economy, which falls into a trap, and we must clarify this misinterpretation theoretically. Except for the reflection of some interest groups, from the standpoint of way of thinking, it is blind fetishism of the Western, following the head of western "mainstream economics". For their technique, they play a fraudulent trick, repack the socialist market economy system, throw off the essence of "socialism" and throw on the speciosity of "liberty", and they magically change the nature of a matter. Their formula is as follows: Socialist market economy = market economy = free market system, which completes a transmutation that acts the means for market economy as the foundation of basic social system and changes the form into the content following the western system, so that the distinctions between socialist market economy and capitalist market economy are obliterated and the way for privatization and liberalization is cleared. Consequently, in the course of deepening reform and opening-up, we must stick to the correct orientation of socialist market economy and clarify the misguiding viewpoint of "free market economy system".

Relation between scientific development and utilization of financial tools and virtual economy will be specially discussed here. Comrade Hu's Calls on 30th Anniversary of China's Reform and Opening-up referred to the interrelated "Three Formations", and one of them is the formation of economic management system that market serves as the basic

means of regulating the allocation of resources under national macro-control, which offers us a significant guideline for holding the tenor of socialist market economy system. Finance is the core of modern economy and the powerful lever for macroeconomic control. Financial economy lags behind in our country and needs rapid development, but American mode cannot be imitated. We should proceed from our national conditions, base upon socialism, and explore socialist way, management system and operating mode of financial development with Chinese characteristics. For example, how to make good use of virtual economy, make clear its share in social economy, clarify its influential range, and how to carry on financial innovation properly, including the research on the marginal utility of stock market that people zeal for. Actually, we should encourage to increase people's "property income", and to give them a proper guide. That everybody ventures and speculates in stock market is extremely passive and may cause great social problems. Therefore, we should execute socialist market economy system, refrain from over speculation and money fraud by using every means, prevent all sorts of economic bubbles swelling into bubble economy, and preserve the sound developments of economy and society.

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