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## **Thoughts on the Essence of the worldwide Financial Crisis and the Measures of Anti-crisis in China**

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Through rapid spread, proliferation and development, the "subprime crisis" which broke out in the United States in 2007, has evolved into an overall economic crisis which affected global real economy. Many countries and regions have fallen into the most serious economic recession of these years and China's socialist market economy have not been spared. As to the causes and the essence of the crisis, opinions are widely divided. For China's socialist market economy, involved into the orbit of economic globalization, in-depth analysis of the causes of U.S. financial crisis, accurate grasp of the essence of the crisis and summing up the experiences and lessons learned from the crisis are undoubtedly of important theoretical value and practical significance.

### **. Explanations to the U.S. Financial Crises**

Is Financial crisis caused by external factors or by internal factors? There have been two opposing views in academic community: by conspiracy and by law. Conspiracy theory is that the financial crisis is caused by a premeditated and planned attack, that is to say, it is caused by external factors. This view has been very popular especially after the financial crisis in Southeast Asia broke out. The other opinion is that the financial crisis is caused by internal factors. Three generations of the financial crisis theory is basically the latter. As to the financial crisis of this time, happened in U.S., a political and economic superpower in the world, conspiracy theory obviously doesn't hold water. Thus, the law theory can provide us with explanations to the crisis. Available explanations to the crisis are also from the law theory.

#### **1. School of Financial innovation**

Most scholars (Mr. Chad • Cooper<sup>1</sup> 2008; Guo Jiping<sup>2</sup>, 2008; Zhu Andong, Yin Zhe<sup>3</sup>, 2008; Wang Zili<sup>4</sup>, 2008) believe that the structural innovation of financial products, in particular the introduction of financial derivatives, have raised the financial market risks, making this financial crisis beyond control in the United States after the real estate bubble

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- 1 Summit forum on the global financial turmoil and the trends of economic development in China
  - 2 Guo Jiping. Causes of worldwide financial crisis, People's Daily, Nov.5.2008.
  - 3 Ju Andong, Yin Zhe. U.S. financial crisis in the Perspective of Long-wave theory, Marxism and the reality, 2008.4
  - 4 Wang Zili. moral hazard and Regulatory deficiencies: deep Perspectives of the U.s. financial crisis.

burst.

The Financial innovation school regards the outbreak of financial crisis as a process of mutual connecting and affecting: First, to deal with the burst of internet bubble

and the attacks of "9.11" terrorism on the U.S. economy and in order to stimulate economic growth, Greenspan, the former Chairman of Federal Reserve, cut interest rates for 13 times, which on the one hand promoted the economic development, but on the other hand, laid foreshadowing for the formation of the crisis (Wu Yuzhang, 2008). Secondly, with the prosperity of the real estate market, the subprime mortgage rose gradually. In order to expand market share in fierce competition, many lending institutions carried out loose mortgage policies, which resulted in the flooding of mobility (Chen Hua, Zhao Junyan<sup>1</sup>, 2008). Thirdly, in order to prevent economy from getting overheating, Federal Reserve raised interests for 17 times altogether, which caused the burst of real estate bubble, and in the end, subprime crisis happened. The variety of financial derivatives, just like a double-edged sword, made the subprime crisis spread and expand which in turn caused the entire financial market turbulence (Zou Pingzou, 2008).

This shows that the subprime crisis is essentially excessive prosperity of virtual economy in the United States, while the real economy did not keep pace with the pace of development of the virtual economy, which led to the instinct callback of economy. This is a normal phenomenon. However, the excessive securitization and uncontrolled innovation of financial products, further aggravated the subprime mortgage crisis and finally made it a financial crisis. Many people hold such views, such as Liu Yinlin (2008), Wang Yongli<sup>2</sup> (2008), etc..

## 2. School of Regulatory failure

Chen Hua and Zhao Junyan (2008) believe that it was the U.S. government's inadequate supervision of financial markets and laissez-faire financial policies that increased the financial risks, making the financial markets just like a runaway horses.

The outbreak of the crisis in the United States are closely related to the laissez-faire financial policies of Government since the 20th century. Ju Andong, Yin Zhe (2008) point out in nearly 30 years since the Second World War, due to stringent regulatory policies, serious financial crisis never occurred in the U.S.. While since the 1920's, every 10 years has seen a serious financial crisis. The difference is a result of the laissez-faire financial policy, under the guidance of the new liberalism. Many scholars hold this view, such as Xiao Cailin<sup>3</sup> (2008) and so on.

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1 Chen Hua, Zhao Junyan. the causes of the U.S. financial crisis, Introduction to Property Rights, 2008.11

2 Wang Yongli. the Fundamental Causes of the Current Global Financial Crisis, China Economic Times, Dec. 2. 2008. the 12th edition

3 Xiao CaiLin, The Causes and Revelation of U.S. Financial Crisis, Market Modernization, Nov. 2008 (the first ten-day's issue) total No. 556

### 3. School of Economic imbalances

School of Economic imbalances (Yang Gongqi<sup>1</sup>, 2008) thinks that in the wake of the trend toward economic globalization, modern financial crisis is basically a Phenomenon that under the conditions of international economic imbalance, international capital will flow under interests driving.

As a result, some countries' capital flow out and when the outflow gets to a certain extent, the liquidity shortage will occur, thus financial crisis will be possible. When a large number of international capital flows into a country, and the country's absorption reaches saturation, the international capital will be integrated with the country's virtual economy and finally, economic bubble will occur. When the virtual economy departs from the real, the international capital will retreat soon, which changes the excess liquidity of the "inflow country" into the liquidity crunch and makes financial crisis occur.

In addition, there are some scholars (Huang Xiaolong, 2007) who explains the crisis from the view of imbalance of international payment. He thinks that the imbalance of international payments leads to the imbalance of international monetary system and the virtual economy leads to excess liquidity, which leads to global economic imbalances and financial crises. Fundamentally speaking, however, the imbalance of real economy should be the root of global economic imbalances. The imbalance of international payments imbalance is only the appearance of the imbalance of real economy. The imbalance of real economy results in international capital movements, which leads to virtual economic expansion, recession and a shortage of liquidity, and ultimately leads to financial crisis. Thus the imbalance of international payments, that is actually an imbalance in the global real economy, leads to a financial crisis.

During the forum in Davos, some experts (Zou Pingzou, 2008; Xiao Geng, 2008, etc.) also pointed out that the crisis in fact has long been hidden in the world economy and the economic imbalance among nations. For example, the rate of U.S. savings is zero and its consumption was supported by Asian savings, which is actually running at a deficit. This serious macroeconomic imbalances should be corrected early.

### 4. School of Over-Indebtedness

In the "Annual Meeting of Competitiveness of Chinese Enterprises 2008", Li Yang, director of the Financial Research Institute of Chinese Academy of Social Sciences, pointed out that the U.S. financial crisis was not because of excessive investment, nor excessive speculation, but over-indebtedness. Mr. Song Hongbing<sup>2</sup> (2008), general manager of Department of structured finance of Hong Yuan Securities, also believed that before the

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1 Yang Gongqi. Interpretation on Causes of Financial Crisis from the Perspective of Economic Globalization, Modern Finance, Vol.28, Aug.2008. (total No.223).

2 First Financial Daily, Sep. 22, 2008

financial crisis broke out in U.S.,the credit expansion mainly occurred in consumption fields, and especially the excessive consumption in real estate triggered the subprime mortgage crisis.

It can be seen, both over-indebtedness and excessive consumption are due to advance overdraft of spending power of the real economy. U.S.can absorb savings from other regions of the world due to globalization, which makes it possible for U.S. to consume more products than the country could reduce.However, once the virtual bubble bursts, it will bring widespread financial turmoil. Buffett also pointed out that the United States is "pawning" its own future.

### **5. school of systematic flaws**

This is an interpretation of Marxist economics. Marxist scholars (Sun Xiangli, 2008, etc.) believed that the causes of the crisis lies in the capitalist system from the Marxist point of view of economics , namely: basic contradictions of capitalism - contradictions between social production and private ownership of outcome. Its Specific performances are the followings: contradictions between organized production of individual enterprises and anarchy as a whole; contradictions between development of productive forces and relative reduction of working people's capacity to pay the demand. When Conflicts gets to a certain extent, economic crisis will break out. So the financial crisis is the performance of capitalist economic crisis, a unique capitalist economic phenomenon. The capitalist system must be eliminated in order to get rid of economic crisis.

### **6. other opinions**

There are some scholars explaining the reasons for the financial crisis in terms of changes of national strategies and economic recession, just as Wu Zhipeng<sup>1</sup> (2008)said that: The U.S. launched Yugoslavia, Afghanistan and the Iraq war in order to achieve its world hegemony which consumed a great deal of financial resources,made U.S. budget deficit keep growing and its economy continue to decline. Facing the recession, the U.S. continued to lower interest rates, resulting in a financial crisis.

## **. essence of the crisis: expansion of accompaniment of market economy**

### **1. Functional defects of Market economy makes economic crisis hidden in its own body**

Scarcity is a core concept of economics and a starting point for economic research. The scarcity of resources means that compared with the boundless human desires, items to

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<sup>1</sup> Wu Zhipeng. Three Basic Judgments on the Worldwide Financial Crisis, Zhejiang's economy, 2008.22.

meet the needs and resources used in the production of economic goods are always limited. western economics believes that the reason why economics is born lies fundamentally in the scarcity of resources. Without scarcity, there would be no economics<sup>1</sup>. Therefore we say the starting point of Economic Research is how we can solve the problem of scarce resources<sup>2</sup>.

From classical economics, neo-classical economics to neo-liberalism, all Western mainstream economics believed that market economy is the best way to allocate resources. In accordance with economics, resources are scarce and they need to be rationally allocated. “Plan” and “market” are both means to do the work, but compared with “plan”, “market” is able to put resources to where they are most needed with the lowest cost and highest efficiency. Thus, not only capitalist countries develop market economy, but socialist countries need it too.

However, due to its own defects, market economy makes economic crisis itself. Under market economy conditions, producers keep on producing to meet the needs of society to pursue interests, meanwhile, various consumers in society will consume these products, which makes it possible for producers to go on working and the economy to run smoothly. However, in the operation of the market economy, because of the inherent role of market economy, the market economy brings a series of negative effects when solving the problems of scarcity of resources, which aggravates the scarcity of resources.

We know that the role of the market is to guide producers to make use of scarce resources in order to minimize the cost of manufacturing products to meet the needs of consumers. Producers, in order to pursue more interests, always want to produce more products, so on the one hand, they strive to increase productivity and as a result, production efficiency is greatly improved, On the other hand, they often continue to boost consumer spending, create consumption and consume in advance etc. in order to obtain greater benefits. This will eventually lead to two serious consequences: The first is unlimited expansion of production and possession of natural resources. Second, market economy advocates unlimited personal consumption which results in increased per capita consumption of resources and increased total consumption of resources. The stock of the earth's resources are limited, so resources crisis will occur. Moreover, market economy advocated high-grade consumption, fashion consumption and overconsumption, which not only enables enterprises to speed up the rate of replacement of goods at the cost of consumption of a large quantity of natural resources, but also makes consumers abandon a large number of goods still useful, which leads to enormous waste of resources and aggravates resource crisis.

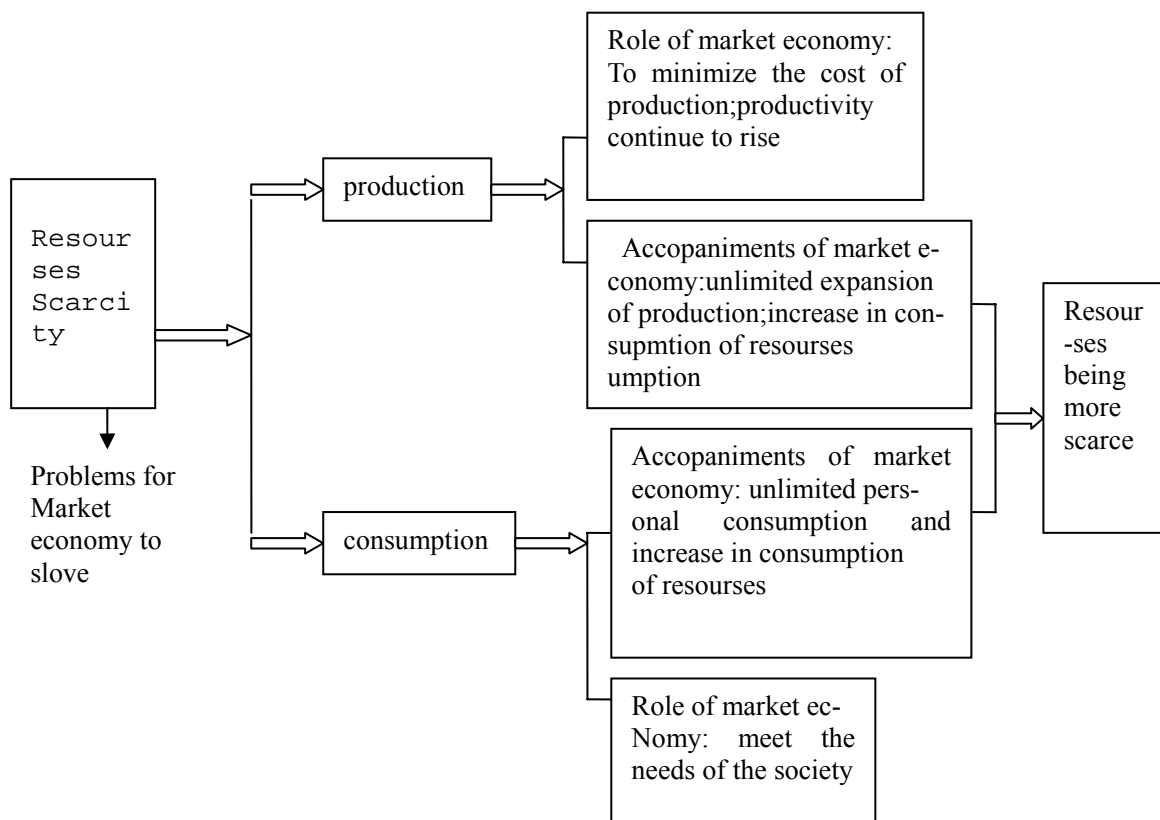
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1 Paul • A • Samuelson, William • D • Nordhaus. Economics (12th edition) [M] 1 Beijing: China Development Press, 1992

2 Fan Baoping. Resource Scarcity is a Universal Law – discussing with Comrade Zhou Zhaoguang, economic issues, 2004.7

In a word, we can see that the original intention of market economy is to solve the problem of resources scarcity which makes continuous productivity improvements, and social needs are met. But two serious consequences are derived from its process of allocating resources: unlimited expansion of production and unlimited individuals consumption, which ultimately make resources even more scarce. We call it functional defects of market economy and this is its internal conflicts.

#### internal conflicts of Market economy



## 2. Market economy's combination with capitalist system makes economic crisis a normal "physiological phenomenon."

Market economy works as the best way to allocate resources, but due to the inherent law of economic development, it brings a series of accopaniments: unlimited expansion and unlimited personal consumption. In capitalist system the accompaniments are further expanded which makes economic crisis a normal "physiological phenomenon."

First of all, pursuit of profits further accelerates the unlimited expanding of production capacity. Marx believed that the accumulation of capital is an original driving force of economic growth, and as personalized representatives of capital, capitalists' only purpose is to frantically pursue proliferation of capital value. They will never be satisfied with original

scale of production. To achieve the greatest possible share of unpaid labor of workers, they must keep on translating residual value into new additional capital which makes capital accumulation rise spirally and production scale expand cumulatively. This supply capacity based on the motives of capital accumulation naturally leads to over-production, which constitutes the economic contradictions inside the capitalist mode of production. Just as Marx pointed out: "The real limitations of capitalist production is capital itself, that is to say, capital and its self-proliferation turn out to be the start, finish, motive and purpose of production; production is only for capital, not for the contrary." <sup>1</sup>

Secondly, intense market competition speeds up the expansion of production. In fierce market competition, enterprises, in order to maximize the benefits, often make use of advanced producing technology so as to raise labor productivity. When competition happens in the whole society, namely, among different production sectors, "The amount of goods produced in capitalist production depends on the scale of the needs of expanding the scale of production, not on the needs and supply and scheduled scope of the needs to meet." <sup>2</sup> We can see not only the products surplus, but also the excess capital and labor overpopulation accompanied with overproduction, which further indicates that once having the material and technical conditions to develop itself in the direction of large-scale and standardization, production is possible to go away from demand, to expand itself and ultimately fail to fully utilize resources and bring waste and idleness of elements. <sup>3</sup>

Thirdly, development of credit system and excessive commercial speculation accelerates the process of the crisis' emergence. Marx pointed out: if there were no credit system, production expansion would be continuously restricted by workers' wages and consumer' demand and then turn out to be an extendable reproduction process. However, credit relations keep on breaking the shackles and restrictions to production expansion. "The maximum credit means the fullest utilization of industrial capital, which is equivalent to the extreme tension caused by re-production capacity regardless of spending limits" <sup>4</sup>, The result is the false demand created by credit can not really solve the acute conflicts between production and consumption. "In the production systems, where reproduction process linked all by credit, as long as credit suddenly stops, only cash payment valid, a crisis will occur obviously." <sup>5</sup> Therefore crisis of overcapacity of production often turns to be a crisis of currency circulation and a crisis of credit.

1 Marx. *Das Kapital*, Volume 3, People's Publishing House, Edition 1972

2 Marx. *Das Kapital*, Volume 2, People's Publishing House, Edition 1972

3 Wang Guosheng. Marx's Theory of Economic Crisis and the Emergence of Surplus Economy in Transition Period. *Journal of Nanjing University (Philosophy • Humanities • Social Science)*, 1999.4

4 Marx. "Das Kapital" Volume 3, People's Publishing House, edition 1972, P 546

5 1972 年版 P 555 Marx. "Das Kapital" Volume 3, People's Publishing House. Edition 1972. P 555

### 3. Analysis of the Causes of the Crisis

Since 1970s, neo-liberal economics replaced Keynesian economics in the West and rose from the status of non-mainstream to the mainstream. Especially since the early eighties when Reagan took office in the White House, neo-liberalism has been the dominant economic policy, which opposes both micro and macro government regulation, advocates market mechanisms, the "invisible hand", is the only and best way to allocate resources. All the above results in the following six aspects of the economic defects lied in the body of economy in the U.S.:

(1) Bubbles of subprime mortgage loans of real estate. According to international practice, purchase mortgage loans means you pay 20% -30% of down payment and pay the rest monthly. But in order to stimulate the consumption of real estate, the United States, in the past 10 years, carried out a policy of "0 down payment", that buyers didn't need to pay debt service within six months, interests only without principal payments within 5 years, and buyers were allowed to mortgage once again to the bank by value-added part of housing prices. By advocating excessive consumption and ultra-capacity consumption, this system created a glorious decade of the U.S. economy on the surface, but behind the glory were a huge potential real estate bubble and the associated risks of bad debts.

(2) Securitization of mortgage. Considering liquidity and diversification of risks, banks and financial institutions of the U.S. made purchase mortgage loans including subprime mortgage securities and sold to social investors through investment banks. Thus, huge real estate bubble was transferred to capital markets, and further passed on to the whole society investors - investors, businesses, banks and institutional investors all over the world.

(3) Alienation of investment banks. Investment banks are basically financial intermediaries, but investment banks in the U.S. were at a loss when facing huge profits from mortgage securitization and as a result the role of the banks changed. The banks earned the intermediary fees by selling bonds and at the same time, got profits by buying and selling large-scale of subordinated bonds. The role of alienation not only made an intermediary organization lose its justice, but also made itself dragged into the quagmire.

(4) High ratio of financial leverage. To stabilize financial markets, financial leverage ratio must be reasonable. Financial institutions of U.S. pursued blindly overexpansion of profit, by using a very small proportion of its own funds and a large number of debts, which made the leverage ratio as high as 1:20-30 even 1:40-50. In the past 5 years, financial institutions in U.S. produced a huge market and a false prosperity by the too-high and too-large leverage ratio. For instance, Lehman brothers got about 200 billion U.S. dollars of bond investments with four billion U.S. dollars of their own funds.

(5) Credit default swaps (CDS). The reason why U.S. financial leverage ratio of

investment could reach 1:40-50 lied in the existence of CDS system that credit insurance agencies provided security for these financing activities having enormous risks. If the financing side runs out of order, the institutions providing insurance will pay the lost. However, when there's no breach, the insurance institutions could get the compensation for risks and CDS can also be sold in the open market. Thus a huge scale of more than 33 trillion U.S. dollars of the CDS market came into being. CDS reduced local risks while increasing overall financial risks which made the scattered controlled default risks move to agencies of credit insurance and become highly concentrated uncontrollable risks.

(6) Lack of regulations for hedge funds. The interaction of the above five aspects were the source of the financial crisis in the United States, and the "Zhui-Zhang-Sha-Die" (buying in bull market while selling in bear market) of hedge funds has also accelerated the outbreak of the crisis. The United States has a large sum of hedge funds lack of government supervision and when its economy develops rapidly, the hedge funds make more bulk commodity markets, for example, the oil price was raised to 147 U.S. dollars; after the subprime crisis broke out, hedge funds made madly the U.S. stock market empty, accelerating the collapse of the entire system.

## **.Thoughts on anti-crisis measures in China**

### **1. Threshold of consumer credit must be lowered to boost the real estate industry?**

Due to the U.S. subprime crisis coupled with a series of austerity measures for high housing prices, both prices and quantity of real estate in front-line cities of China became to fall. According to the National Bureau of Statistics, the "national housing climate index" ran all the way down after reaching a high point in November 2007, and fell to 99.68 in October 2008 which meant the real estate industry has been in recession. The sales price index in 70 medium-sized cities grew into negative growth for the first time in August 2008 and price inflection point occurred. This situation and the general depression in the manufacturing industry turn out to be the main performance of China's new round of weak economic growth.

As we all know, the culprit of the economic crisis around the world is the subprime crisis in the U.S. and the first ring of the crisis chain is that the U.S. loaned, without down payment, to buyers with no credit or bad credit. This means that the threshold of housing consumer credit is too low in U.S.. In view of this, China should draw lessons from the subprime crisis of the U.S. and raise the threshold of credit, strengthen supervision to guard against risks.

Some of China's policies to stimulate real estate are clearly contrary to what we mentioned above. Facing the crisis, China's central government has adopted a series of

effective policies and measures to boost real estate with great efforts. The government set aside 900 billion out of four trillion used to stimulate the economy, for construction of necessary houses and the General Office of the State Council promulgated *a number of opinions on promoting healthy development of the real estate market*, which encouraged consumption of Ordinary commodity housing and also abolished the real estate tax of city housing. Many local governments have taken some appropriate measures to stimulate the market, such as buyer' obtaining a registered permanent residence by purchasing a house, getting purchase subsidies; government's buying back the commercial housing as guarantee of necessary houses and especially adopting a liberal lending policies of housing consumption. Take provident funds as example, the liberal policy allows provident fund loans are provided in different places; the loan ceiling is raised; proportion of payments, especially the down payment for the second set of housing is reduced, and even zero down payment is permitted in some places. Such measures which will weaken risk awareness are extremely undesirable, it is bound to increase the consumer credit risk in real estate and it is possible for China to repeat the failure of the subprime crisis in the U.S..

## **2. " Supremacy of state intervention" must be adopted to achieve steady economic growth?**

“Market” or “government” are the questions must be answered by different schools of economics and they are the choices regulators of economic activities must make. Over the past 20 years, with the impact of neo-liberalism popular in the U.S., market, the "invisible hand", seems to be always omnipotent, which made the government greatly deregulate the market and corporates. The deep-seated causes of the financial crisis from the subprime mortgage was a failure of free market competition and serious deficiencies of supervision on financial innovative products. Nobel Laureate in Economics, Professor Eric Maskin said in high-level economic forum in Shanghai that the primary responsibility for U.S. subprime crisis is the failure of government's supervision.

When market fails to take effects, especially when the collective becomes irrational, government must intervene in the affairs. It is a consensus that market alone can't work properly. However, too much government intervention is not needed, at least, government intervention should not be “paramount” and the "degree" must be considered. Just as Charles. Wolf of the U. S. said in his *market or Government* (China Development Press ,Feb.1994): "Market or non-market choices is not a 'pure' choice, but a degree of choice. "Since the financial crisis in the United States, Obama's Government raised a total of 825 billion U.S. dollars to stimulate the economy and inter-governmental regional organizations have been devoted to work out a program to rescue the market. It is an inevitable trend that governments of the major countries around the world will join hands to save the market. Government intervention exists everywhere and people are talking about "the return of state intervention." everywhere. For governments at all levels in China,

accustomed to “big government and small market”, it seems that they will have more reasons to intervene flagrantly in the economy through administrative means. Thus, “Pao-Bu-Qian-Jin”(trying to get in with authorities for special favor) has become the best way to have development opportunities at all levels of government beside the central government; games upgrade among local governments as well as between local and central government; “costs of influence” increased; many investment projects lack of scientific proof got approvals. These phenomena are very worrying. The rules of administrative competition, by which rights to allocate resources are defined by grades, are bound to impact the market rules of competition, which disorders the market and thus, corruption is inevitable. At the same time, frequent administrative intervention will make the market signals seriously distorted. All these will pave the way of overproduction. for the next round of structural imbalances.

To sum up, proper government intervention is very necessary to stimulate the economy when market fails to work properly and economy declines. However, the point of “supremacy of government intervention” is not appropriate at all, not to mention reverting to the planned economic system.

### **3. Is Marxist economics " Salvation economics "or development opportunities in the context of anti-crisis?**

In accordance with the constitution of the PRC, Marxism-Leninism is still the guide for China's socialist construction. However, since the reform and opening up, especially since the early 90's, the fate of Marx and Marxism in China could be described as Huang Kejian said( *Rhyme of People – an interpretation on Marx*, Oriental Press) : "Marx is lucky in China. His name has become swiftly a sacred symbol for a long time, but the fortune was in fact “misfortune” .As China has used the name of 'Marxist' for all what happened in the past years, , when people look back to check the extraordinary mistakes in this period , they would possibly transfer blames to him in secular way . How unfamiliar are We Chinese people to this figure who has long been admired in China! After giving him a warm hug with passion of first love, we suddenly keep him away for a surprising distance”. Marx's economics are often questioned in China and some people even deny it completely.

The situation seems to have been reversed since the outbreak of U.S. subprime crisis and more attention is paid to Marx's thoughts and works in whole society. In foreign countries, "Worldwide researches on Marxism are quite hot like a rising wind and scudding clouds. " (Fu Dan University ,Zou Shipeng ); Marx's *Das Kapital* is popular again and becomes the best Christmas gifts in Germany and even the current Minister of Finance of Germany is reading the book. In China, *Das Kapital* is now " a top-selling book " (Ma Huibing, Manager of publishing department of *People's Daily*) and some scholars begin to re-explain the cause for the economic crisis by Marxist economics. Someone believes that “Marx's prophecy comes true, and the capitalist economic crisis has arrived," and someone

even said that crisis is the result of "peaceful evolution" from communism to capitalism (Wang Changyou). This situation is indeed gratifying, but it is still too early to assert that Marxist economics is "Salvation economics" of anti-crisis. In China, compared with researches on Marxist economics in the 1980's during "reform and opening-up" period, the research is far from being out of the bottom: the guidance of Marxism exists in the ideological field merely; the trend of "getting rid of Marxism" has not been changed in education and academic research; the research team of Marxist Economics are still quite weak; evaluation criteria for academic achievements and platform of publishing the works of Marxist Economics are not settled. We still have a lot to do before realizing the revitalization and prosperity of Marxist economics.

The outbreak and spread of the world financial crisis in 2008 have made masses of people unemployed and suffer from bad living standards. The criticism on thoughts of the Neo-liberalism and the reflection on the wrong policies from the rulers have really brought rare opportunities for development of Marxist economics. However, we should not be optimistic. We should try to get a clear understanding of the true status and situation of Marxist Economics, try to seize the rare opportunities for development and make efforts to achieve the prosperity of Marxist Economics. On the one hand, we are opposed to making Marxism dogmatic. Marxism is evolving. New situation demands that we use new approaches to solve problems while dogmatism will only cause unnecessary huge losses of revolution. On the other hand, we should strengthen research and innovation. For Marxist economics, the only way to get out of the embarrassing situation in China is to be developed and innovated.

Of course, we firmly believe that Marxist Economics will have chance of using its might to deal with the worldwide economic crisis. As Marx said: "Any social formation, before all of its potential productive forces are released, will never perish; and the new and superior relations of production will not appear before the material conditions for its existence mature in the old society, (*Selected Works of Marx and Engels*, volume 2, p. 33). Here we quote a Marxist economist's words: "As long as capital movement exists, the scientific analysis and the value of Marx's thoughts will appear in people's mind and soul from time to time."

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