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Gamesters should See More Than Standers-by 1

——Financial Storm, Global Economic Crisis and the World to Be

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Abstract: The subprime mortgage crisis in the United States of America is a credit crisis; because the integration of the global economy leads to unprecedented global economic crisis. Therefore, overcoming this overall crisis which result from the way of production and life capital decided can only be built on sustained increase and finally achieving Harmonies économiques of gratuitous utility, which common human provided, whereas and the product supply depends on the universality and consistency of human rationality.

Key words: the subprime mortgage crisis, globalization, global economic crisis, Keynesianism, global public goods

Euclid——keep his eyes on naked beauty alone.
—— E.V.Millay

The influence of the subprime mortgage crisis in the United States of America is increasingly strong due to the globalization at the end of the last century. With the shadow of steadily deterioration of global economy, economics goes back the time of Thomas Caryle ‘Dismal Science’ again. This time global economic crisis was caused by the financial turmoil in the Wall Street.

In Chinese, *crisis* has two implications. One is that ‘What precipitous peaks of over thousands of feet high’, which is written in *Shu Dao Nan* by Li Bai, a famous poet in the Tang dynasty, means *height* or *altitude*. If global economy, according to this meaning, is regarded as an argosy which makes its mast soar up slenderly into the skies, hoisting the sails will point out the way forward; but we cannot help asking ourselves whether we clarify the direction or not, hence I sincerely hope that ‘Gamesters should see more than standers-by.’

I. Learning in doing: Great crisis, grand chance

The Great depression of the 1929-1931 was, above all, a great crisis, which was the first critical point in modern civilization human underwent, which was a hot potato that all economists cannot understand what on earth was going on, and which was the prudent

1 A quiz: what kind of people or what kinds of jobs in our daily life have the character of ‘Gamesters should see more than standers-by’.

reality that almost all the experts asked with one voice to let the god inherit the problem. However, at that time, John Maynard Keynes, the founder of macroeconomics, rose bravely to solve the problem. While the large-scale use of Keynesianism in the world was from post-World War II to the 1970s. Even in the 1970s, the Stagflation did not change countries' policies to Keynesianism radically. The present crisis, I am willing to say: the root is Keynesianism but it is not Keynes himself despite he laid bare the substance of the real economy. Indeed, government went to extreme in consequence of keeping using the Keynesian economic policies for a long time (J. Muth, 1961) ¹ so that Keynes had to claim when he was dying: 'I am not a Keynesian', that is why I employ Keynesianism here. Keynes was good at learning from others. The initial version of what he said above was enlightened from Marx, a very distinguished thinkers in the world, who got the first on the global network survey in the coming new year of 2000: to evaluate the greatest thinkers of this millennium. Marx in his later years told his son-in-law Lafarge: 'I am not a Marxist!' ² Then who is the Marx? Are we really clear? ³

Why do I expect 'Gamesters should see more than standers-by'? For the past year, the countries' initiatives show that, facing this big crisis, the government should be extremely clear what to do; China also take initiative, due in great part to China's actions, the world's attention have paid to her. Central government economic stimulus proposal of 4 trillion Yuan, in addition to local government expenditure, will be more than 10 trillion Yuan, in the sharp contrast, for five consecutive years after 1998 positive fiscal policy has just invested 3 trillion Yuan, while Yunnan province in the next 5 years will plan to invest 3 trillion Yuan. Those signify that the Chinese government is determined to pull through.

That reminds me of President Roosevelt's fireside chats. We still can feel the widespread trepidation ⁴. However, can this illuminate that we really clear? The real

1 Keynes's theory and policies began to affect the Roosevelt's 'New Deal' until 1937. The truth is that the World War II saved the declining condition of the capitalization of the production system, rather than Keynesianism. Stern, President Nixon's chief economic advisor, also said: 'demand-deficient school had the appropriate diagnosis and response in the 1930s, but the 1980s did not. The problem is that too much demand, rather than too little. We must give up the idea that we can stimulate notional demand for the purpose of getting the real growth. The Government is neither an effective manager of our affairs, nor an effective user of our currency.' The biggest heritage of the Great Depression just gave the possibility of the government to have a comprehensive intervention in the economy, which is the biggest problem of Keynesianism.

2 Selected Works of Marx and Engels, Volume IV, p.398, the Central Complication & Translation Bureau, (Chinese Version in Beijing, 1995).

3 "We are pleased to give rats the original manuscript and let them gnaw and criticize... .." (Engels, the preamble of Ludwig Feuerbach and the End of German Classical Philosophy). Regretfully, lack of space forbids further treatment of the topic here.

4 'World War (II) shows the achievements of government expense. The psychological hit of the Great Depression to the American is so hard that full employment has become the economic problem which government most concerned.' (HU Lichao, The philosophical Economics, Hsinchu, Taiwan: Maple City Press, 1982, p. 283) So they spent at all costs in order to solve the unemployment: intemperate, unrestraint government expense.

examination is whether or not government initiatives present really appropriate. Only proper actions can be the final salvation.

The second meaning of this title ‘Gamesters should see more than standers-by’ is used to answer and solve today's global crisis——human has never been undergone such a wide range of crisis so far. If there is no theory, we should create the new. Keynes once said, ‘great or qualified economists are the rare creatures!’ ‘He must study the present, based on the past, and aimed at the future. He must take human nature into account, as well as each parts of the human system.’ Therefore, ‘when Israeli Rabbi gave lectures in college....., only can the most intelligent and creative scholars sit the front bench. These scholars were called mountain mover (the man who move the mountain with the spirit of perseverance).’(Michael Szenberg, 1999) Greenspan said that he was wrong (Greenspan, 2008), but what were his flaws? All we can say is that he made profitable use of his limited knowledge of economics.

‘Before we comprehend the knowledge of a certain science, we must firstly have it.’ (James. Froude) Keynes’s then problem was unemployment, today’s problem is still unemployment, but the cause is fundamental different.

Greenspan have his eyes on keeping currency prices, while the root of the crisis is that the currency has become the purpose rather than a method, or even the main subject and object of transactions. Keynes denied not only the Say's Law¹ but the neutrality of monetary as well .He was the fisherman who released the devil from the bottle of King Solomon and made it be independent of the world. The Great Depression Keynes confronted was not a real product surplus and it was the fact that national wealth vanished after the collapse of the stock market². People cannot afford to buy products (for this reason Keynes had an idea that put the money into the bottle). Today, the problem of the United States is the American consumption accounts for 72% of GDP, while China's ratio is less than 35%. The stock market make the currency market run independently of product market that the first monetary crisis, as well as the capitalization of the production and exchange system, began in the Netherlands ‘tulips bubble economy’. The essence of the economic crisis is monetary independent crisis so the fundamental way to the eradication of the crisis is still the neutralization of monetary, but there seems to be impossible, according to the origin of Friedman’s theory, ‘a single rule of monetary policy.’

It is the magic power of economic globalization that the integration of global finance disperses and gathers at anytime and anywhere. That is where the energy of George Soros

1 ‘Once a product created, it will provide a market that is fully equal to its own value for other products immediately. ... Thus, merely creating a product will open the way for other products at once.’ (Jean-Baptiste Say, 1803)

2 The subprime mortgage crisis led to the loss of family net assets is 7.06 trillion U.S. dollars, of which three trillion dollars in real estate, two trillion dollars in the financial assets. (Federal Reserve Bank: Flow of Funds, Dec.11, 2008)

relies on: coming and going freely and stirring up trouble and unrest. He ignited the fire, the 1997 East Asian financial crisis, which was an unforgettable memory in our heart. However, how did he achieve this? In my opinion, that is not the failure of market, but the blunder of the government, and the government should pay for them¹. George Soros is not only one; unfortunately, there are a great number of people like him. At least, it reminds us we should cure ourselves at anytime and anywhere, 'Have not thy cloak to make when it begins to rain.'----that is what we need 'The unity of knowledge versus practice'.

II. The nature of currency : gilded stone , gold or stone?

The nature of monetary and finance is the credit rather than the money aggregation, which refer to Marx's *Das Kapital* in the chapter 3.2 As Chinese and believers of Marxism, we haven't shown a fully understanding of Marxism. Recently, there is an extraordinarily unusual phenomenon that three books, *Das Kapital* ³in western bookstores, *The Wealth of Nations* and *the General Theory of Employment, Interest, and Money* in Chinese bookstores, are out of stock. These three books embody two directions and one strict routine of economics (Whether or not criticizing the capitalism and facing the reality). No matter what belief you embrace, it is necessary for economic learners or scholars to read the three, for they are the rudiments we need to master. Supposing that we prefer to add some more it should be Marshall's *Principles of Economy*. I am confident to hold an opinion that the majority of economists nowadays who won the Nobel Prize in economics must have a great comprehending of these three, for instance, the understanding of the nature of monetary and finance.

The nature of monetary and finance is the credit. The crisis Keynes faced was product surplus and almost all the excess products, under his view, made them into the consumer market to achieve the balance between supply and demand, however, the problem, above all, he had to solve is unemployment. As his remark, the settlement of unemployment was followed by the realization of the equilibrium of aggregate demand and supply. The thorny problems we are confronting today are not only the surplus of products in the sense that over-products have flooded the world market, but the explosion of credit goes beyond the sustainability of the real economy as well. The virtual economy is 25 times larger than the

1 Soros claimed that he only aimed at an autocratic government, no matter whether this was the explanation for his controversial behavior, at least, in 1997, the financial system in Kingdom of Thailand was full of loopholes.

2 'The largest part of Bankers' capital is purely virtual,' and credit in transactions is based on the people's confidence. It is a conceptual price or psychological price, the opposite is 'liquidity trap' which Keynes described. Therefore, there is the reverse acceleration, it will be irretrievable once collapses.

3 Karl-dietz-verlag sold more than 1500 sets of *Das Kapital* in 2008, which is 3 times larger than sales in 2007. The *Neue Rheinische Zeitung* reported in October 15, *Das Kapital* would become the best Christmas gift.

real economy in the United States, which can be all but called bubble economy. Since 2006, investment, one of the GDP components, didn't ride out the downturn. The elites, who struggled on Wall Street, as well as their situation, are tantamount to "the emperor's new clothes". How would they judge their own intelligence? 1

Nick Leeson ate up the whole Barings Bank, actually countless Leeson will destroy the world easily (it can be called " Leeson effect": increasingly investment changes into speculative behavior and process).When the expansion of credit lead to the real economy cannot function properly, it will be a comprehensive economic crisis. If this is only a matter of the expansion of credit, it is just 'the financial crisis'. 'Transactions are always an exchange of another cargo of goods' (J.B.Say , 1803),and then 'A businessman can be an oversupply of goods, but not the entire country' (A. Smith , 1776) . Apparently, that 'escaping the production process to make money' is impossible to sustain. In the long run, we must be all dead².

The gilded stone, albeit the surface is covered with gold foil, that is still a stone; therefore, the whole world has to pay for a modicum of superb men of genius. If we get a glimpse of the another bills of governments, we will be aware of that costly price. 3

Three corporations, GE, Ford and Chrysler, that confronted the survival crisis marked that a financial crisis turned into an economic crisis, but the government has to spend a large sum of money to avoid these giant bankrupting, though 30 billion dollars far short of the need. This way is not consistent to President Calvin Coolidge's view 'American

1 Since the subprime mortgage crisis, the U.S. government has expend relief cost nearly one trillion dollars.

2 As Keynes said: In the long run, we are all dead.

3 Followed the collapse of Lehman Brothers, governments spent a large amount of money (<http://news.sohu.com/s2008/meiguoguidian/>):

1 Asset Injection

·USA: U.S. Federal Reserve announced the injection of 200 billion U.S. dollars to the financial market

·British: an emergent asset injection of 20 billion pounds with a view to maintaining market stability

·Japan: the injection of 2 trillion Japanese yen to the financial markets for the 18 consecutive days

·Netherlands: the injection of 10 billion to the largest financial group to resist the crisis

·France: the injection of 10.5 billion euros to the six major domestic private banks

·German: the injection of 50 billion euros to save Hypo, the second-largest home loan institutions

2 Government Acquisition to financial institution

·USA: Government buy 250 billion U.S. dollars debatable bank shares

·British: injection of 370 billion £ to three major banks partial nationalization

·Korea: relief of 1000 billion U.S. dollars, refuse to reproduce a nightmare in 1997

3 Global reduction of interest

[USA]cut interest rates by 50 point [European Central Bank]cut interest rates by 50 point [British]cut interest rates by 50 point

[Canada]cut interest rates by 50 point [UAE] cut interest rates by 150 point [Korea]cut interest rates by 25 point

[Switzerland]cut interest rates by 25 point [Sweden]cut interest rates by 50 point [China]cut interest rates by 25 point HK cut interest rates by 100 point

business is American business'. President Calvin Coolidge never claimed to change American companies into American government's companies¹. At that time we bore Sismondi's warning in mind: 'the national interest is not the interests of factory owners, so the benefits of production could be allocated rationally for all of those who participated in the process of production.'² Keynes never advocated the country to buy factory in crisis, and urged the government to put back on find ways and means. That's why Friedman and his wife wrote in the *Free to Choose* that the U.S. government's too much in control led to the loss of market efficiency with the loss of wealth, as well as the freedom of the individual.

Another special signal is that the price of oil slumped from 147 dollars per barrel to 40 dollars per barrel. Moreover, the mark in China is the bankruptcy of numerous small and medium-sized enterprises, which provide 75% jobs for Chinese people. The reason of the collapse of Chinese stock market is not speculative incentive but investment! Is there any case in the world that a stock market dropped from 6000 points to 1700 points? This cogently shows no one have confidence of the future of Chinese enterprises and no one is willing to do long run investment, hence, that is the root cause that China cannot effectively resolve unemployment. In fact, during 30 years of reform and opening-up, China has not generated a truly world-class international competitive private enterprise, paradoxically, enterprises with Achilles' heel emerge in an endless stream, and often tend to 'big' non-private company (large and medium-sized stated-owned enterprises).³

Adam Smith's spiritual guide, David Hume, laid the foundation of the quantity theory of money. He said the currency 'is a lubricant to make gear move more smoothly', but too much lubricant now produce the opposite effect. He also said: 'Rivers, regardless of flow direction, always maintain the same level'. It is impossible that economic growth merely comes from the growth of currency quantity, and that is the whys and wherefores of the United States being the world's largest borrower.

III. Leeson effect: the manufacture and transmission of the risk

The future of human beings will not be limited to space, resource and cultivated land , the development depends on the evolution of human intelligence(Theodore Schultz ,1964). Apparently, we need to give Schultz's optimism to restrictive conditions.

At least, the owner of 1988 Nobel Prize in economics, Maurice Allais, who apply the

¹ Mr. Li Yang has already regretted. He expressed that China's market-oriented financial system was somewhat earlier on Shanghai New Year's Forum in January 11, 2009.

² J.C.L.Simonde de Sismondi, *Nouveaux Principes d'économie Politique*,1819.

³ Steven N.S. Cheung presented paper *The Economic System of China* to R. Coase held the 30th anniversary of China's economic reform. He summed up the root of China's economic miracle: the effective interaction of the government and enterprises.

strict mathematical method to economics in 1947 and 1960, certify that only the capitalist economic system can lead to ‘maximum’. In that way, is this ‘maximum’ we really need and want?

The essence of globalization is widely recognized as a ‘liberalization’, ‘privatization’ and ‘marketization’, in fact, that is the global capitalization! ‘It is possible to achieve the structure of social interaction comes from imagination. This is the substitution of the existing structure of social interaction, which is observed. It is dominated by the physical and natural conditions, including the human nature. If social scientists could not make a ‘possibility’ of the model of the interactive structure, social scientists are on the dereliction of duty.’ (JMBuchanan, Eminent, 143) 1

Desire, human instinct, is that we never get a solution to put an end. Newton once said I was capable of calculating the orbit of celestial bodies, whereas measuring human insane desire was out of my competence². Whether or not it was also L.Von Mises’s assumption, he considered that most people really can not be capable of thinking about difficult thing. No matter what kind of education, those who cannot have a thorough understanding about the simplest problem obviously cannot understand the complex one. It is no wonder that Buffet was a favorite with a story: the discovery of oil in hell³. In the event the desire of every one are infinite, isn’t it insane? Where represent this most fundamental manifestation of the desire? We have the pursuit of the greatest psychological gratification, reflected the consumers’ maximum utility and producers’ maximum profits.

Suppose most people are bereft of reason, it is impossible that problems come out one after another in the economic life. Each of us is the creator of every crisis. Consequently, how to save the crisis? In fact, it is simple because everyone is rational being in the economy, however, at this time lost his reason. The realization of maximization is on the premise of the rationalism: ‘God wants you to perish and will make you crazy.’ In 2009, human beings will feel the most severe pain for their own out-of-mind, and the suffering will be lasting longer. Unfortunately, human memory can not be transmitted between generation, and even intertemporal transmission. in the framework of classical economics, the crisis is the punishment of human error. Why do you want to open the bottle in the sea cast by King Solomon?

I call this collapse ‘financial resonance’ which was affected ‘Leeson effect’. It also

1 Michael Szenberg, Preface in Eminent Economists, Cambridge university press, 1992.

2 A senior security ‘Billion Group’ sighed with emotion: ‘It was a crazy time, even my 14-year-old son can easily make house purchasing in Detroit through his pocket money.’

3 Buffet was a favorite with a story: an oilman went to the paradise after he died.

——St. Peter: I know that you acted decently and had a lot of charity when you were alive. But I’m afraid that the paradise has been saturated and there’s no room for anyone.

——Oilman: It’s doesn’t matter, I know how to solve the problem.

Then he shouted to the paradise’s door: We have discovered the oil in the hell.

Immediately, a lot of people ran out of the paradise and rushed to the hell.

——St. Peter was extremely surprised: now you can go to the paradise.

——Oilman: I’m afraid not. I am willing to go to the hell. Perhaps this news is real.

beyond F.Bastiat's imagination. He believed that 'there are all for the laws of nature which is no doubt the tone and logo in capital - harmony.' Indeed, all of the crisis can be expressed as monetary phenomenon. When the currencies are far beyond the limit, which can not correspond with the real treasure, the crisis get an outbreak due to it has stretched to the limit.

The so-called financial innovation, only manifested by the derivatives derived continuously, and their products are complicated like supermarkets, its mechanism would be similar to money creation, or a purely monetary phenomenon. However, the essence is 'the emperor's new clothes', now we understand precisely what is 'excessive financial innovation'. Why would the United States lead to 'excessive financial innovation'? We have seen the results of the five major U.S. investment bank annihilated. The first unlucky one is Lehman Brothers.

After the 1980s, the United States government relaxes the restrictions to the commercial bank sub-industry and strict supervision to the investment banks. The investment banks start the innovation just for preventing the invasion to the blending operation by the commercial banks. This is what we are seeing now 25 times in the real economy of the United States virtual economy. Banks are not concerned about business almost entirely, but only concerned about the 'money to money' games. What is horrible is that hundreds of Leeson make this game into crazy, the utmost limits of people's confidence.

We will never know the baseline until the crisis comes to us and make us have nowhere to turn. According to Fisher Equation, Milton Friedman derives from the baseline that an annual incremental currency is 4% -5%. No one can really operate the market, except very short period. Robert Lucas principal is that the Government is the organization of people so as to be embodied through people. In fact, there is little difference between what you know and government knows. What we are in urgent need is the rational return. Adherence to rationality is of significance in economic life .Where is the rationality, there is the baseline.

Government should not have any purpose except serving the main body of this country. (J.M.Buchanan,1949) This is the principal of Lucas's rational expectancy theory school. The decision maker of the government is also the economic man. Whether you can hold your own is the key, as Lucas doesn't consider the abnormal state of economic man. If you are out of control, the government driven to mad is normal condition. Every government is willing to be crazy just like someone is willing to go bungee jumping.¹

¹ Chinese government is the craziest one that turns a University to a university city. How can you control the government if you can not control yourself? Don't you believe? How many young people want to pass the civil service examination? Keynes once said that how to judge a country good or bad is to examine the first outstanding people of the most outstanding group should be businessmen, the second could become scholars and the worst may be officials. In China, the problem is the most outstanding

Though we still don't know what kind of the baseline is the most proper, like the Laffer Curve. On the other hand, government is constrained by the different pressure groups which are another deep-seated reason that we can't determine the baseline, and in China this phenomena is increasingly prominent.

However, surprisingly, global reduction of interest, I have reason to regard it as a return of human rationality: 'Economics is the calculus of happiness and suffering' (WSJavons, 1871). While pains and gains are often at the same time, we find that solution have already com up with, and even the measure we have never seen before, but really effectively.

Definitely, when we have a fever, we need to have the antipyretics. The more we eat, more quickly we will recover and vice versa. Having antipyretics is certainly effective.

At least Obama's election has broken the U.S. political record, and realized the Martin Luther King's dream, as well as the best commemoration of President Lincoln.

IV. Human intellectual maturity: global cooperation

This crisis is quite different from the past at any time—it is a global crisis. The former were in Western countries, which led to the World War, but this time is impossible to lead to World War III. Even if Greenspan stresses 'rare', which is not likely to happen once in a century, human beings is really true rational and clearly know to settle these problems. It is no need to wage war. Globalization makes the world a close link just like in the same boat and every door is open in order to meet each other's needs. What's more, China's attitude is much more positive: she needs to have a new behavior, a new image of the era of globalization that is the energy to promote the world ship with peace and friendship. When the storm struck with a crash of thunder and violent winds, should we and can we become the new helmsman? This is a new topic we must seriously consider and overcome: China's contribution to the future of the world.¹

To recall the road of the global economy: Adam Smith's classical economics, the study of the theories of value, produced in the 18th century; Marshall's neo-classical economics of price theory at the end of the 19th century; Keynesian economic paid attention to income due to the Great Depression of the 1930s. Correspondingly, what kind of progress about the economic theory with the background of economic globalization? Alai asked 'which system of the economic framework is the most conducive to social progress and enhancement of human nature? It is not only beneficial to the development of

people want to be officials. This is not in accord with Confucius's wish said 'he who excels in study can follow an official career', which is a Confucian slogan for education, which encouraged us to Learn to have specialty and make contribution to the society, and which take the display of talent and ambitions as aim?

1 GU Xuening, Supply of Global Public Goods and Reshaping of Global Economy Order in the Era of Globalization, Southeast Academic Research, No.4,2008.

all countries, but also advantageous to the international peace and the achievement of international economic order?' (Maurice Allais , 1992)¹ Karl Brunner and Allan Meltzer made great efforts for the purpose of founding the 'the Open Market Committee with a view to the shadow of monetary, finance and international economic policy trend.' Faced the problem, we must have a thorough grasp of them academically after that all the problems in practice are readily resolve.

All the problems resolved in practice are a breakthrough in academic as well as the scientific progress. For instance, a doctor can not diagnose the illness of his patient and prescribe correctly due to he did not find out the connection between your disease and his textbooks at medical school. Whatever policy or countermeasures are the results of the theory; therefore, 'the economist in urgent need is who has the quality of history, sociology and political science knowledge with a broad vision.'² Schumpeter often said that in Adam's garden the economic cycle started in the surplus of apples or the shortage of apples?

He who never made a mistake never made anything.³ Unfortunately, mistakes always take place in our cognitive and perceptual of the blind zone. Arbitrary Allison can make mistakes, but cooperation of the world brain should be extraordinarily clear. The mistake of the United States is that they forget its national economy is built on the division of labor on globalization; moreover, they have the responsibility to ensure that the world brain, Wall Street, will not be mental sub normality. The United States transfer more than 80% of material production out of the country⁴, and material products rely on the trade globalization; therefore, the purchasing power of U.S. dollars depend on the influence of the United States to the division of labor on globalization. The main problem is not appreciated or depreciated of U.S. dollars. Why is depreciated? Americans, the U.S. government included, liability on the global debt by the inhabitants from 1.3 trillion U.S. dollars in 1980 to 13.8 trillion U.S. dollars in 2007.⁵

V. How can I save you, our world? 6

Go back to the 20s and 30s at the financial crisis of the last century when Keynes gave the explanation, the achievements of economic theory was that the main body of

1 Michael Szenberg, Preface in Eminent Economists, Cambridge university press, 1992.

2 Ditto .

3 Joseph Conrad, An Outcast of the Island.

4 2008 The president of USA 's economic report.

5 Federal Reserve Bank: Flow of Funds

6 'Idiot! The key problem is the economy!' Clinton used the phrase so that he won the White House in 1992 of running for president. Obama used famous words again, which intended to lead the United States out of economic difficulties.

microeconomic in economic life was able to solve all problems , that is to say , economy would not have long-lasting, fundamental problems (economic cancer) . Competitive markets are the reason for the order, rather than the result of confusion. However, after all, some problems indeed happened. Keynes's contribution is not only explained the problem crystal-clearly in theory, but also gave a viable solution and succeeded in practice. We witnessed the emergence of three worldwide organizations——World Bank, World Trade Organization and International Monetary Fund. This is the consequence of Keynes's the explanation and efforts. Moreover, it becomes the historic heritage for the world to re-save the new crisis. Although Buchanan ruled out the public good to repair the market and he considered that what undermine market efficiency as well as interpersonal equality are externalities, monopoly, public goods and public bads, today we cannot leave it.

Adam Smith said in the opening chapter of *The Wealth of Nations* , land is the mother of fortune, labor is the father of fortune. What Adam Smith researched was fortune, the real fortune, all the fortune comes from these two factors of production. What Adam Smith faced at that time was just one country and all the problems he solved were merely in a country, so we call it national fortune. Moreover, that is what James McGill Buchanan underline such creation of wealth is built upon individuals can make choices based on personal freedom. To put it briefly, the interpretability of Classical Economics is just in terms of a country, if and only if to closed economy. Keynesian's theory need international trade to achieve the balance between supply and demand of the surplus products under the domestic non-balanced conditions , what is just like the exchanges between friends ,why not nations? When the crisis comes up , the surplus products are soon transferred to another country through some trade channels, and the problem is solved. The problem is when the crisis approaches , every country's money supply is very tight, even if they used the tax-free method for each other. Meanwhile, they need funds to purchase import cargoes. Where is the money? Keynes's method is every country provides some funds as much as they can offer; therefore, 44 finance ministers attend the unprecedented international conference in Bretton Woods of the United States in 1944 (H. H. Kung was on behalf of China). This theoretical analysis of the national economy from one country really extended to the international economy. Hence , we have seen a typical phenomenon after that: International trade is to a degree frequently and prosperous(the world is trading) . That is the effect of the worldwide organizations, which perform the duties of international government. Keynes's point of view is that the government solves the problem which the market can not resolve, more importantly, Keynes never violated the freedom of the individual. 'Country don't have the purpose of being different from the others' (Buchanan,1949 Eminent,11) Keynes

said: ‘I am a classical liberal.’ The problem is the government went to extreme in consequence of excessive adherence to the Keynesian economic policies for a long time

The Bretton Woods system and Yalta system is isomorphic. The root cause of 1997 East Asian financial crisis is the sudden end of the Cold War which is based on the Yalta system. The Southeast Asia country which is act as the foremost position of the balance of the two opposing camps has fallen apart with the evacuation of foreign investment ; however , people have never watched this crisis that is why it become inevitable. Human has just opened up the road of globalization and many people are unclear about the direction , Political, economic and cultural conflict is aggravating the complexity. Under all circumstances, at least, the end of the Cold War means the beginning of the cooperation of the universal mankind. So how to solve the problem between nation and nation, even the global problem ? The United States that has not signed the ‘Kyoto Protocol’ shows that this route does not proceed smoothly without a hitch.

At this juncture, we are weighing anchor as soon as the storm is coming: what should we do when the global economic crisis comes up in the global economic times? According to the Keynes’s train of thought, my idea began in the 1997 crisis and spent 10 whole years thinking explicitly, and then it finally published¹. Theoretically, the title is: as the global crisis is coming , the global economic order is imbalanced , as a result, it is necessary to set up a global government to overcome such crisis. What is that? The global public products! Global coordination are quite possible in technical area , but who is the supplier? Keynes named his economics the disequilibrium economics. Ilya Prigogine (Ilya Prigogine, 1977) addressed in the Award-winning speech of 1977 Nobel Prize:” the instability, mutation and variety, and one of the nonreversible process always make effect, and the imbalance itself is the source of the dynamic order”². They regard the imbalance as the premise of new progress.

VI . RMB : Be lasting or be a Savior?

‘China must have done something perfectly right so that we witness the economic

¹ GU Xuening, Supply of Global Public Goods and Reshaping of Global Economy Order in the Era of Globalization, Southeast Academic Research, No.4,2008.; there is a same topic discussed before: GU Xuening, Ending of the National Capitalism, Economic Forecast, the centre of the research of economic policy for The Government of Shanghai, No.19;1997. Review on the Economic Model of the Eastern Aisa, China National Conditions and Strength, No.2,1999.; Forming a New Order to the Global Economy and to Innovate in the Financial Institution for China, Journal of Nanjing University of Finance and Economics, No.4,2006

² Michael Szenberg, Preface in Eminent Economists, Cambridge university press,1992.

miracle. However, what is that?' Although, 'he hobbled along and had poor posture, but he can jump eight feet high, the world record.'¹

Jiaozi, the first paper currency of China, appearing in the early years of the North Song Dynasty. Why now in the hands of government? This became the basis of the market under government control; then who has the right of the distribution of monetary? If proprietary weapons in the United States had legal power, the private issuance of currency is reasonable. Actually, today's U.S. Federal Reserve itself is the original private bank.

Definitely, as a Chinese, I hope that the RMB can save the world, so I put forward the 'China RMB' idea.² If the RMB could become the main component of the Asia, even the Asia itself, what is the qualification of the RMB? It is my question that where does the RMB come from or who comes up the RMB idea rather than the concerning about the real level of the economy entity of the china. As long as the country implements the system of the market economy, the currency is provided by the private rather than the government essentially. The Federal Reserve, Central Bank of the United States, half of its assets are private at least. Who have the assets of the china's central bank? The banks are all controlled by the government or even founded by this government.

The government was always carrying out the severe strike and ruthless clampdown to the underground bank. Imagine, can Wenzhou be called 'Wenzhou' without the underground bank? No, it cannot. Wenzhou is famous for its underground bank in China. Imagine if the rest of China all lie the underground bank like Wenzhou, what will happen? China will be the strongest economy entity in the world. The Wenzhou people said, you always can find someone come from Wenzhou at anyplace just like you can find the commodity made in Wenzhou everywhere³. My opinion is that our economy can dominate the world economy only if the bank in china is possessed by the private. If not, we just add another dream.

In the surface, turmoil is set off in another hemisphere. Yet, even in the Amazon forest, a butterfly flapping its wings may cause a turmoil sweeping through the world. Which butterfly causes this financial crisis? Do you think it is have probability of China?

The tragedy of human is often caused by overlooking the details nearby.

China's foreign exchange reserve is nearly two trillion U.S. dollars, but the money is not idle due to we bought more than 5500 billion dollars U.S. government bonds and then China has become the biggest creditor nation of the U. S.. This gives Americans a signal that if I lack of money, I will borrow from you continuously. If things continue in this way that American people can borrow or lend money without striking a blow in domestic and

1 Steven N.S. Cheung, *The Economic System of China* , p.1 , 2008.

2 GU Xuening, *Supply of Global Public Goods and Reshaping of Global Economy Order in the Era of Globalization*, Southeast Academic Research, No.4,2008.

3 This sentence is evolved from the origin of a Japan folk in 1980s say that you can find Japanese everywhere just like you can find the commodity made in Japan everywhere.

foreign, the problems raise: the overwhelming majority of Chinese people generally thrifty with China's stability increase in economics so as to foster American continued high consumption on the psychological foundation for the Keynesianism and the promotion of Government policies. American consumption of GDP accounted for more than 70%, the Chinese less than 40%. At the same time, American continued to decrease in savings as they increase in government welfare. What's more, since the stagflation, from the civil to the government, the growth rate of the debt almost exceeds the growth rate of income; and transfer payments would increase consumption demand, but not the production capacity, for American does not mainly rely on producing its own needs, economic entity itself, Balancing Mechanism. That is the first point. Secondly, China has a balance of exports over imports to the U. S. and almost all Chinese products are cheapest. Which Signal gives to the American? Owing to China, the living cost is very low .That let me remind a book published by an American housewife .She wrote that she can't enjoy the life without cheap Chinese products. Where will the housewife put the remaining money? If she has, she may invest in the stock market, if she has not, she maybe a sub-borrower. This development of the relation between China and the United States today is not Chinese responsibility to be a stimulus to the US economy. Meanwhile, the U.S. government releases the financial supervision, allowing investment banks and commercial banks to have the financial products with fissile effects. The subprime mortgage evolves through the continuous inter-bank development, and ultimately became the devil escaped from King Solomon's bottle! The meaning of 'subprime' from the so-called 'subprime lending' is bad credit and poor repayment capability. People can not pay money before and they still can't pay now. Therefore, the United States not only has its own problems, but outside as well. What kind of impact on it by China? That can completely make an accurate economic model to test and verify.

It can be seen that credit is the essence of finance. And the credit is relies not only on the confidence, but also on the strength .If there is not the real currency purchasing power, there will not have any information. Cash is the king. That is right! Why today's investment is still based on the final capability that whether you can realize it. All human history has proved that the most intelligent people tend to become the biggest liar and Innovation is just the creation of the opportunities and promises by human which can never be realized.

Purchasing power always determines what you demands and demand always has the desire of purchasing power. However, today's problem is: American consumption is based on the desire regardless of whether they have money or not; furthermore, what is terrible is that Americans promote such consumption patterns to the world, which influent on Chinese new generation.¹This is the crux of the problem.

When the American continued growth of high consumption relies mainly on blood

¹ Young people born after the year of 1978 share the same character of spending all their monthly salaries, called 'Moonlight Tribe.'

transfusion in the world, the sustainability of the world must be out of control.

In that case, will we rewrite economics or change our own?

‘If resources of government departments transferred to the private sector, that will increase the growth of overall productivity, for the productivity growth rate of government is low or even fall into zero.’¹ Adam Smith argued, ‘the private sector can be managed by civil society.’ (A. Smith, 1776) Described by biologist Pujin Jerzy’s words: this is the ‘plasma’ in economic life. Moreover, Friedman, who adhered to liberalism all his life, gave an advice to China: ‘Freedom, privatization and market, these three words are closely related. Freedom here means unrestricted and open market. Solely using the market is not enough. Any country, whether affluent or poor, are taking advantage of it. Only private market is not sufficient. For example, although India has a large private market, people’s living standard, compared to four decades ago, did not have much improvement. Similarly, the general African and Latin-American countries also use the private market, but they are also backward and living in penury.’²

VII . The real scarcity: The Thought of Economics

We have repeatedly known that economists in most cases can not solve the problem of economics, which is the reason here. ‘Economic theory does not provide a complete conclusion that can be put into practice immediately. It is not a dogma, but a way, a kind of spiritual organ, and a skill of thinking, that help people who own it draw the correct conclusions.’ (JM Keynes, 1936) The greatest economists in the last century, besides Keynes, I think there are another two, Hayek and Friedman, living in both sides of the Atlantic. They both died at the end of the century. People say that they are the economists who truly laugh last. They earnestly practiced liberalism, and advocated around the world. Globalization is their lifetime achievement. Hayek criticized his colleagues: ‘If you are only a physicist’s physicist, you can become a first-class physicist and the most valuable members of society, but if you are just an economist’s economist, even though not harmful, an annoying guy as well.’ Supposing one have only an understanding of his profession, he must be undesirable. Conversely, a good economist, he should know more than what is in economics, but what should he know?

Possibly, as McLuhan’s saying goes: only a tiny minority of people can be serious in mental enough to develop their own sense capacities to face a variety of new situation. So-called experts will not be such kind. These experts are full of uneasiness: precisely because of this, he will be specializing in one aspect, in order to obtain a little bit of

¹ M.K.Evens, The bankruptcy of Keynesian Econometric Models, Challenge, January-February, 1980, 13-19.

² Milton Friedman stressed that ‘freedom, privatization and market’ is the three key elements of economic prosperity at Science Hall in Beijing in September 19, 1988.

self-confidence. For example, we are in the path of economics, yet economics nowadays has become a paradise for mathematics, which is the biggest mistake of mainstream economics, so it turns to be impossible to face this global crisis. The essence of economics can not be mathematics, for it is life, real life, but what is life? Life is the history of human beings. Economics is essentially a historical subject, if not, it will be gray without vitality, and forever.¹ That is why Marshall was willing to characterize economics as biology profoundly.

More importantly, economists should be loyal to their own beliefs, just like Hayek and Friedman, the scholars on the firm belief is his personal freedom of choice. Social progress lies in whether or not the scholars can make such a choice. Hayek and Friedman have done, so they made extraordinary contribution to the world.

When Rostow described his own philosophy of life, he quoted Whitman's line in the poem (Walt Whitman, 1897), 'Leaves of Grass': 2

ONE thought over at the fore ...

That in the Divine Ship, the world breasty Time and Space,

All Peoples of the globe together sail, sail the same voyage, are bound to the same destination.

"Who manage the great ship?" 3

It is the time we raised the mast. When the world is in the same boat, we are close to the ideal of Confucius, as well as Schiller and Beethoven's 'Ode to Joy'⁴: 'We legislate for

1 'Liberal art is the skill used to provide observation yardstick.' (Mcluhan)

2 ONE thought over at the fore ...

That in the Divine Ship, the world breasty Time and Space,

All Peoples of the globe together sail, sail the same voyage, are bound to the same destination. (Eminent 327)

3 Walt Whitman

4 In 2008, Chinese economic rate slipped to 9%, while contributed to the global economic growth by more than 20%. (National Statistical Bulletin 2009, as well as MA Jiantang press releases in January 22, 2009). The day before, President Obama, the first colored president after Lincoln, expressed the aspirations of all the people in his inauguration speech: "the economic growth is not just the figure...the most important thing is to provide opportunities." When China rises and brings more opportunities to the world, President Obama is aware of the responsibility to the U.S and even the world, that whether the United States still plays the role of 'world leader'. We can be pleased that 'the new broom' Obama sweeps in the White House is to federal employees 'salary freeze'. I wish President Obama really knows that it is the American high consumption that drag the whole world. Thirty years ago, Alvin Toffler had warned that American consumption patterns are the threat of the world (The Third Wave). The China's GDP ranked the 3rd in the world in 2007 while economic growth rate is more than 10% before 2008. But the consumption of GDP is 3 times larger than American, 5 times than Germany and 6 times than Japanese.

Apparently, the economist Logan who grew up in the United States had a better understanding of the disadvantages. He gave a new way of thinking about how to get rid of the predicament and to improve the living condition of all human beings: global sharing of economic resource. While the idea of Chairman Mao is much earlier: 'our destiny is untied', present the greatest mountain in Chinese heart, K'un-Lun Shan, as a gift to the world: 'one part to Europe, the other to'. I think, Chairman Mao who was

nature, not in order to explain the phenomenon, but to save them.’¹

Although ‘history does not make commitment to each event of the successful outcome’ (Greenspim, 2008), we have a responsibility to prevent the emergence of imperfect things, or even of the catastrophe, after all, Keynes’s efforts has opened a genuine international cooperation. The guide who enshrined in the current philosophy has the responsibility to promote global cooperation in the era of globalization. This is the duty of this generation, and human hearts are always longing for a happy ending.

‘Public policy, like the market, also has the risk of breaking down. For the sake of making a well-functioning democratic society, both of them need to run a cooperative manner appropriately in their respective areas. In this regard, making a contribution is a challenge, and for me, a social scientist, this is the most exciting work.’ (R. Musgrave, 1992).² Market and policy are a symbol of human maturity; the end conclusion aims at the search for a road that scarce products will not scarce any more. Therefore, we can not become the conjoined twins, described by Mark Twain! The fitted maximum desire of human emotion and rationality determines the possibility and realize of human common steps, otherwise why do we come up with ‘Common Program’? In addition, ‘Our Common Future’ is on the basis of human nature here. I believe that humanity share the same culture in essence, if not, the Marx can not become a great man over a millennium. Logan (N.Georgescu-Roegen) proved that: ‘contrary to the most unfortunate fallacy of economic mainstream, most people need to be comparable in human relation.’³ Now, we understand, the assumption and facts are not the same thing! As a result, he believed, ‘everyone should be under an international organization’, ‘which arranges the use of resources worldwide.’⁴ Logan is one of the few economists who have a real understanding of Adam Smith, ‘the national objective is to limit the excessive use of resources’ (JKGalbraith, 1972).

Economic globalization means the resources all around the world have achieve effective allocation, while the global economic crisis is the loss of that advantage. Therefore, we require a power to repair and maintain the efficiency and to realize equality. This is in need of universal economic resources, as well as the corresponding global supply of public goods: a ‘watchdog’ with the ability beyond the WB, IMF, WTO and even UN.

The discovery of the truth is always accompanied by error, ‘the raw material of creating science is based on not only scientific observation, experiment and calculation, but

with the whole world’s vision would regret as well. On the other hand, Chinese economic contributions to the world in 2008 has manifested that the world would be disastrous if Chinese economic didn’t keep growing. According to the forecast of Japanese economist Professor Yamada Bowen in Gunma University, China will have overtaken the United States in 2050 to become the world’s largest economic entity.

1 Michael Szenberg, *Eminent Economists*, Cambridge university press, 1992.

2 Ditto.

3 Ditto.

4 Ditto.

also their strong desire, dreams and folly.’¹ ‘Although we are not the trustees of civilization, it is the possible to be the fiduciary of civilization.’(JMKeynes, 1936)

Good times will cultivate bad habits. Chinese people understand habit is second nature and a bad habit once formed is difficult to get rid of, moreover, the good time will not last long; now the bad times has come in which we should foster a good habit! This was the Adam Smith’s expectation, so he spent much more time to write *Theory of Moral Sentiments* than *The Wealth of Nation*. This was also Claude Frédéric Bastiat’s greatest desire in his short lifetime: the elimination of the economic crisis which results from the way of production and life capital decided can only be built on sustained increase and finally achieving Harmonies économiques of gratuitous utility, which common human provided (Harmonies économiques, Claude F. Bastiat, 1850): Liberal economic theory is on the basis of broad consensus on a human nature, can we really understand? Bastiat, therefore, said: Cequ'on voit et ce qu'on ne voit pas (‘What has seen and what has not seen’, Claude F. Bastiat, 1846).

Direction can not be changed; however, we can change the silages.

——epilogue

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¹ Michael Szenberg, *Perface in Eminent Economists*, Cambridge university press,1992.