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**Evolvement of Modern Capitalist Economy and the U.S.
Financial Crisis
----- From Globalization and Financialization**

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Abstract: The capitalist economy is credit economy. Credit instruments - lending capital is the most basic form of fictitious capital, and the expansion of credit constitutes material premise for financial derivatives. Development of capitalism exacerbated the conflicts from relative surplus of production, which make the economy of modern capitalist country, represented by the United States, tend to alienation ---- the economic growth rely on excessive expansion of credit to create financial bubble. The economy alienation in turn caused capitalist credit alienation - the credit has deviated from the position of service for real economy, indulging in excessive financial speculation, misleading investment, all this increase imbalance between production and consumption, and finally promote the confrontation between commodity and currency into an absolute contradictions, therefore, crisis is an inevitable result. Economic globalization, that is global expansion of capital, in order to transfer the contradictions of relative surplus, gradually evolve into financialization, that is global expansion of capital credit, and it spreads capitalist crisis around the world.

Key words: credit fictitious capital modern capitalism alienation

financialization

In September 2008, the United States broke out an unprecedented financial crisis, so far, it has evolved into an economic crisis sweeping the world. How this huge mass destructive crisis happened, and where its root? Based on Marxist economics, studying the evolutionary track of capitalism, we can find the answer.

.Capitalist economy is credit economy

1.credit is blood circulatory system during reproduction of social capital.

Owing to the separation of time and space in simple circulation of commodities, the relationship between sellers and buyers is turned into the relationship between creditors and debtors, so the currency will be made to another function - means of payment. ".....Just as these mutual advances of producers and merchants make up the real foundation of credit,..."¹

Capitalist credit enhances capital's social attributes, "Because a large part of the social capital is employed by people who do not own it and who consequently tackle things quite differently than the owner"², and the restrictions as to time, place, and individuals of private capital are overcome in a large extent, thus, the operational efficiency of social capital is improved "Hence, the credit system accelerates the material development of the productive forces and the establishment of the world-market. It is the historical mission of the capitalist system of production to raise these material foundations of the new mode of production to a certain degree of perfection."³ This shows that credit is the circulatory system of the capitalist economy, the capitalist economy is a credit economy.

2. As credit instruments, interest-bearing capital (loan capital) is the basic form of fictitious capital, and it also the material premise of financial derivatives.

In order to study the credit instruments, Marx devoted to inspect the bank's capital. He defined the moneyed capital which be loaned by bank in order to obtain the interest as interest-bearing capital. He pointed that the moneyed capital in the sense of interest-bearing capital is not the same as the money capital in general. In the latter sense, "money-capital is always merely a transient form of capital — in contradistinction to the other forms of capital, namely, commodity-capital and productive capital."⁴, but as the most basic credit instruments, the interest-bearing capital is not the real capital, and it's only bank notes who

1 <http://www.marxists.org/archive/marx/works/1894-c3/ch25.htm>

2 <http://www.marxists.org/archive/marx/works/1894-c3/ch27.htm>

3 <http://www.marxists.org/archive/marx/works/1894-c3/ch27.htm>

4 <http://www.marxists.org/archive/marx/works/1894-c3/ch29.htm>

implements the payment function of money.

It is interest-bearing capital who gave birth to the fictitious capital, because it gives people the right to obtain the fixed income---the interest simply by virtue of title of ownership, and this title of ownership is only the “paper duplicates” of real capital represented by it. The movement of the paper duplicates is totally divorced from the real capital, and the change of its value is also has nothing to do with that of the real capital.

With the development of bank credit and expansion of credit scale, based on the large amount of lending capital (interest-bearing capital), other credit instruments at all levels, such as bonds, stocks, all kinds of commercial paper and even options, have been derived. These instruments are also paper duplicates of real capital, and their value is illusory, with the ups and downs of people's confidence.

The history of credit and credit instruments has proved that serving the real capital's movement is the bounden duty of credit, so, as credit instruments, the soul and value of fictitious capital are based on the real capital represented by it. Therefore, to follow the role: value movement of fictitious capital is based on the value movement of real capital represented by it, is the premise that credit play an active role. As long as the credit scale matches the movement of real capital, the credit will play a good role to enhance investment efficiency, to avoid market risk.

3.Credit and fictitious capital have provided the opportunity for excessive speculation, which make a crisis possible.

“On the other hand, credit helps to keep the acts of buying and selling longer apart and serves thereby as a basis for speculation.”¹ First of all, the credit makes it possible that a small number of people have the opportunity to take the risk of social wealth, which makes it possible that credit become a leverage of excessive speculation; In addition, as the credit instruments, fictitious capital have an unique character of "value illusion", which has prepared medium of operation for excessive speculation. Provided lack of social regulation, driven by personal greed, the possibility will become a reality. Once excessive financial speculation happens, it bound to promote the movement of fictitious capital tend to alienation——departing from the real capital it represents. "Extensive fictitious credits have been created by means of accommodation bills, and open credits, great facilities for which have been afforded by the practice of joint-stock country banks discounting such bills, and rediscounting them with the bill-brokers in the London market, upon the credit of the bank alone, without reference to the quality of the bills otherwise' (loc. cit., p. XXI)."² This will inevitably lead to a major departure of fictitious capital's value from the scale of real capital, and also to unlimited expansion. The bubble created by it temporarily bridge the contradiction between production and consumption, meanwhile, it plays a role in

1 <http://www.marxists.org/archive/marx/works/1894-c3/ch27.htm>

2 <http://www.marxists.org/archive/marx/works/1894-c3/ch31.htm>

exactly the opposite —to mislead the production seriously deviate from the actual demand, which speed up the contradiction finally. So, Marx said: “At the same time credit accelerates the violent eruptions of this contradiction — crises — and thereby the elements of disintegration of the old mode of production.”¹

Crisis begins from the source of the credit---means of payment function of currency. the various financial and securities in hot pursuit in boom suddenly become worthless. The bubble of value of fictitious capital bursts, and people are eager to put away these credit instruments in their hands ---- all kinds of fictitious capital, to restore currency. Currency shortage take place, “In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur — a tremendous rush for means of payment — when credit suddenly ceases and only cash payments have validity. At first glance, therefore, the whole crisis seems to be merely a credit and money crisis.”²

When the U.S. financial crisis happened, firstly, the two largest real estate lending institutions in the United states: Freddie Mac and Fannie Mae, and then, the four major investment banks, insurance companies and etc all have to confronted to the shortage of liquidity and payment difficulty which make them fall into collapse of state. Affected by this, all commercial banks were once surrounded the wave of runs , and for a time, the community as a whole are over a credit crisis. Financial institutions in European countries also have been involved in similar situations.

Why the economic crisis usually start in the form of the financial crisis? “And in fact it is only a question of the convertibility of bills of exchange into money. But the majority of these bills represent actual sales and purchases, whose extension far beyond the needs of society is, after all, the basis of the whole crisis.”³ Financial crisis is the process of squeezing the excessive bubble of value of fictitious capital and forced it to follow the role of its movement. Followed by it, the violence correcting procedure of imbalanced real economy will come about, and before, the imbalance is always covered up by the bubble. Merchandise surplus, factory closures and serious unemployment, shrinking consumer spending...Crisis force to compress production through destructive way in order to regain the balance between supply and demand.

Not only that, The crisis is also a process that the collapsed credit system cause the negative impact to real economy reversely, which damage the healthy part of real economy seriously. Because the capitalist economy is credit economy in which the fictitious capital and real capital are intertwined. Once the financial crisis happens, the entire credit system begin to paralyze, and its direct result is that the payment chain in the process of reproduction of social capital will broken. First of all, this occurs in the most unbalanced

1 <http://www.marxists.org/archive/marx/works/1894-c3/ch27.htm>

2 <http://www.marxists.org/archive/marx/works/1894-c3/ch30.htm>

3 <http://www.marxists.org/archive/marx/works/1894-c3/ch30.htm>

link of real economy, but then, with the domino effect, the whole system of social production will be in shock as a result of insufficient blood supply. In this U.S. financial crisis, originally, it caused by oversupply of the real estate market, but now, it has not only eroded the global financial system, also has caused the United States, Western Europe and other developed capitalist countries go to economic recession in a short period of time about a month after its outbreak. Now, economic crisis happened almost around the world.

4.Capitalist credit economy nurtures the fictitious capital fetishism.

After 400 years' development of capitalist economy, in which real economy and credit have been promoting mutually, today, capitalist credit expand unprecedented with large-scale financial derivatives, which is the real basis that the currency fetishism upgraded to a fictitious capital fetishism.

People's competition for wealth has turned into the competition for fictitious capital, and the pursuit of wealth has changed into the chase for profits by speculation. This is alienation--- It is increasingly keen to financial speculation rather than productive investment, and it is convinced that fictitious capital can make people getting rich faster. Under such conviction, speculators who specializing in financial speculation become an enviable career in the eyes of the world, and the social status of speculators constantly are improved with more and more social wealth in their hands. Speculators' true faces of plundering the wealth of others also have been covered up by the beautiful bubble created by speculators themselves. This point is illustrated by the fact that after Wall Street crisis, the executives' unusually high salaries in financial institutions became the focus of attention from all walks of life.

.The contradictions of relative surplus led the economy of capitalist country tend to alienation, and then the capitalist credit tend to alienation.

1. The alienation of capitalist countries' economy is an inevitable trend of capitalist economy. Dependence of capitalist economy on credit, together with the difficulty of overcome the overproduction in the framework of capitalist system, ultimately lead to alienation of capitalist country's economy ---- credit bubble-driven growth model replace traditional production and investment-driven growth model, and this trend has been fully manifested in the world's most developed capitalist country: the United States.

Capitalist economy has been further developed owing to 20 years' prosperity of postwar, so the law of capitalist accumulation fully emerged: "One end is accumulation of wealth, and one end is the accumulation of poverty." Polarization in country caused by

uneven distribution inhibited domestic consumer demand of capitalist country, which led to relative surplus of product and capacity of manufacturing in long-term, and therefore the general trend of decline in profit margins could not be avoid. This is also the underlying cause of global economic recession. Compared with the capitalist industrial countries developed later, such as Japan/Germany, the United States gradually lost its competitive edge for some reasons, which further exacerbated the contradiction, and economic growth of the United states so severely inhibited. In the late 60s of 20th century, weakening economy started to push up unemployment, the average unemployment rate was above 7 percent in the 80's. (See Figure 1) In order to overcome the downward trend in profitability , the ruling clique began to suppress the labor movement by U.S. government's direct support, which is reflected by that the trade union members in the manufacturing sector dropped from 32.3% to 17.6% during the time from late 1970s to 1995. The average annual growth rate of real hourly wages in U.S. manufacturing sector was substantially compressed, which was from 2% in 1960-1973 down to 1% of 1973-1979, even in the years 1979-1995, it was only 0.65%.¹ In the past 40 years, the income gap of the United states residents continues to become larger, the Gini coefficient has been increased from less than 0.4 to 0.46 since the beginning of 1970s to in 2005.²

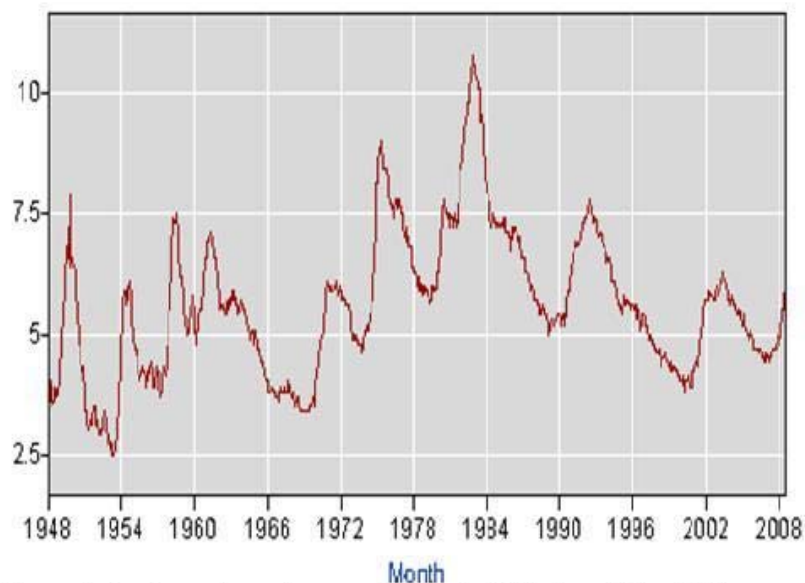


figure 1: the change of unemployment rate of the U.S.A from 1948 to 2008.
 burea of labor statistics Data extrated on: october 31, 2008 (10:30:17pm)
 source:U.S. Department of labor www.bls.gov

Impoverishment of the proletariat along with the relative surplus formed a vicious circle, which cannot be resolved but has to be faced by the United States. In order to keep

1 Robert Brenner: The Boom and The Bubble—The US in The World Economy, Verso (2002) (Chinese translation by wangshengsheng, Economic Science Press)

2 Business statistics of the U.S, January, 2005, by Bernan Associates, Page 52.

out this recession consequences and costs from the Mainland, in 1971 August .the United States government stopped the convertible business of US Dollar to gold, and then in 1973 February, it is also forcing the capitalist world gave up the Bretton wood marked by fixed exchange rate, replaced it by floating exchange rate. At the same time, expansionary monetary policy was carried out and it promoted devaluation of the US dollar, which resulted in dollar overhang objectively, and also made the US dollar reserves held by foreign governments and private devalued. Through these monetary policy, the United States not only increased the competitiveness of manufacturing sector, but also successfully decreased sharply its Overseas deficit.(Robert • blenner, 2003) Obviously, the United States achieved dual purpose with one stone by excessive issue of bank reserve certificates (US currency) and expansion of credit , this is also the start of alienation of the U.S. economy. During decades later, economy of the United States experienced ups and downs more than once, almost every time, it fought for foreign demand for itself by means of devaluating the US dollar, and also implemented the policy of deficit budget. At the same time, large scale credit expansion create the conditions for the so-called “Asset-backed securitization”, which stimulated the financial derivative, so wealth effect happened and the domestic demand was created. This is the way that the United states gained the economic recovery. It showed that following national monopoly capitalism, capitalism has gone into a new stage –stage of financial monopolistic capitalism.

This demand is not supported by real domestic income, but by credit bubble, so it is only a demand borrowed either from other countries’ hands (make their competitors into recession), or from future time , so it strongly dependent on the credit and pay means, which make the United states inevitably hard to avoid from debt crisis; and the mode of economy pushed by financial speculation restrained investment, which was not conducive to improvements of efficiency. According to Robert Brenner’s description, there are filled with an atmosphere of financial speculation in the manufacturing sector, and it is very popular to use all available financial resources to carry out the practice of financial manipulation. As most of the funds are used for such speculative activities, the number of fixed capital investment is very few.(Robert Brenner,2003) Under such circumstances, development of the U.S. economy further depends on blood transfusion from the outside world, and in 1980s,the United states borrowed huge amounts of loans from its trading partners (mainly Japan) to maintain growth by debts, and meanwhile, these trading partner and creditor countries even global economy tending to integrated are increasingly dependent on the U.S. economy that can not be separated from the external debt.

2.The alienation of the U.S. economy nurtured the Wall Street financial model - an alienation of the capitalist credit system.

Growth pattern driven by credit bubble of the U.S. was strengthened from 1980s, and it gradually trained up a financial system which is represented by Wall streets. The basic

characteristic of this financial system is excessive speculation.

Firstly, the alienation of U.S. national economy has provided a breeding ground for the extreme financial system and its development. Up to four to five decades, the United States implemented policy of expansionary monetary and massive debt from other countries to make wealth effect. First of all, these polices, which injected into the arm for economic growth by creating a bubble provided a basis material for financial speculation - excessive credit scale: too much currency has been supplied. From the available data, since 1985, the United States' credit scale accounting for the GDP continued to increase. In 2001, after the burst of bubble of new economy, the Fed has once again implemented the expansionary monetary policy, till the year 2002-2003, the ratio that credit scale accounting for the GDP increased suddenly by 15%, and in 2004, this ratio continued to increased drastically to 215.48%.By then, the excessive credit scale of U.S. supplied by banking system is similar to that of Japan from the late 1980s to early 1990s during which Japan experienced the bubble economy.(figure 2)¹

Credit scale beyond over the economic growth made the supply of loan capital far exceeding its real demand, as well as laid the material foundation for financial frenzied speculation, and its direct consequence is that large inflow of funds into the real estate market, which involved in the speculation and propelled the bubble in the real estate market continue to expand. "In the summer of 2007, after deducting inflation, the United States and its real estate prices levels rose 70% compared to 1995. It is estimated that at that time, among the total value of U.S. real estate (21 trillion U.S. dollars), about 8 trillion belong to bubbles (equivalent to the total value of 38 percent)."²

1 Data from State information Center, CEInet Data Co., Ltd., August 21, 2006.

2 Zhu Andong/Yin Zhe : perspective of the U.S. financial crisis from the long wave theory , Marxism & Reality , 2008,4.

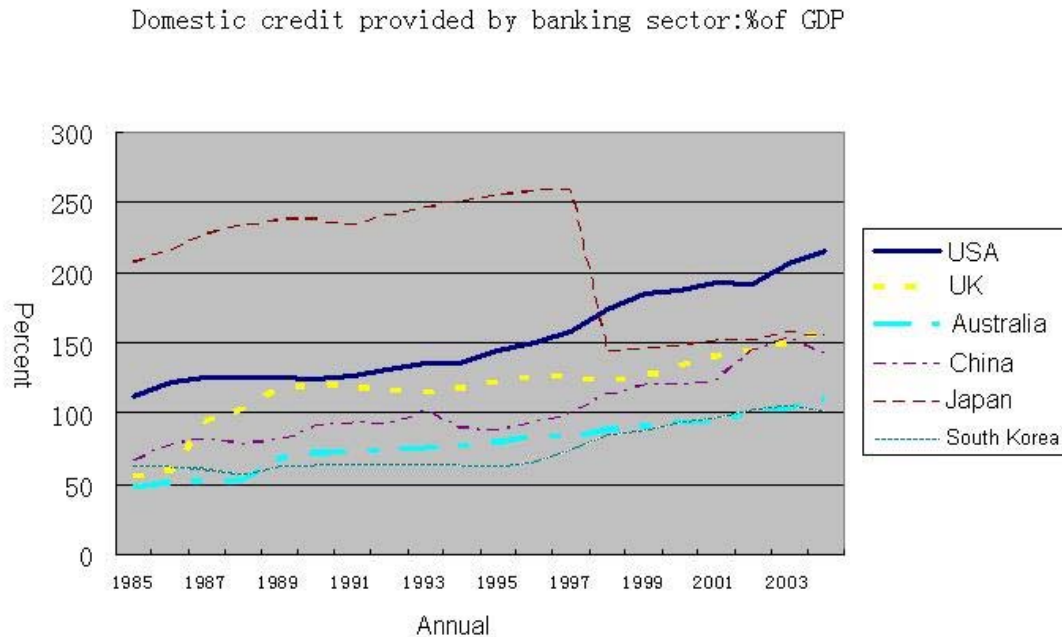


Figure 2: Mapping according to the data from State Information Center, CEInet Data Co., Ltd., August 21, 2006.

Secondly, the process of country-driven alienation of economy, also have had a similar guide on social beliefs and moral orientation, which made the community tended to agree with the values of speculation. On one hand, this is manifested in that the government relaxes its regulation about the increasingly large financial system. On the other hand, in that the financial enterprise and institutions are more and more "freedom" and "arbitrary", and they are lack of sense of responsibility for real economy that should be serviced originally by them. Credit institutions are increasingly inclined to obtain profits through financial speculation, and they ignore the traditional source of profits from helping real economy to improve investment efficiency by dispersing risk and transferring surplus and deficiency. So today, only 30 percent of the business of the U.S. investment bank is engaged in traditional investment business, and most of the resources and wealth is departed from normal track for the so-called "self-employed business", that is, they manufacture and package the financial derivatives by themselves in order to do pure financial speculation. The business of sub-mortgage loan in the U.S. real estate were emerging and developing against such a background: "According to National Association of Realtors study, 42% of the first-time buyers and 25% of all buyers in 2004, the purchase of housing did not pay down, or even there was the strange phenomenon that the buyers can get loans of 1.05 times of housing prices. In 2006, total Sub-mortgage loans reached 625 billion U.S. dollars, and in January 2008, according to an estimate, the size was more than 1

trillion U.S. dollars.”¹ These non-performing assets ultimately led to a very complex form of fictitious capital through the process of asset-backed securitization of layers of packaging by commercial banks, investment banks, credit rating agencies, insurance companies and other U.S. credit institutions at all levels. Under the credit leverage, more and more players participated in the speculation, and the market value of Subordinated Debt was unprecedented amplified, all the speculators have been deluded by the unreal demand and bubble which manufactured by themselves, meanwhile, all this also plays the role of create greater bubble ...

Before the outbreak of the loan crisis, the real estate market had been uplifting by the false demand created by the bubble, and the high price of the real estate no longer reflect the actual situation of supply and demand. By the summer of 2007, this time bomb buried in the real estate market finally exploded. Housing prices began to fall, Sub-loan default rates rose sharply, and this in turn exacerbated the drop of the price and the burst of the bubble, the chain reaction rapidly turned into a financial crisis along the line of credit.

. Financilization is global expansion of capitalist credit, and the global monetary system centered with the U.S. dollar leads the contradictions of capitalism into the world.

1. In order to shift the contradictions of relative surplus, the economic globalization centered with capital, further evolved into the globalization of the capitalist credit. In order to change the situation that the profit margins being restrained by the contradiction in developed capitalist countries, the capital start to expand in global, structure of the world division around capital gradually completed,

Globalization, "gave it a unique strength, and this strength increasingly get rid of control of the State, so that all the space of the material and society gradually to obey the laws of the capital."² In the system of the world division of labor which led by the capital, the developed capitalist countries occupy a central place. With the global expansion of capitalist economy, the capitalist credit has begun to across national boundaries. Faced with the unprecedented scope of the international market, only financial capital can come across the limitation of time and space during the international circulation of commodities by virtue of its own superior of freedom and flexibility, and thereupon to speed up the process of reproduction of social capital on a global campaign so as to seize the opportunity of profit anywhere in the world. Using its turned surgery, the capital made the nature of pursuit for value proliferation in the world market on its head. Financial capital gradually

1 Zhu Andong Yin Zhe : perspective of the U.S. financial crisis from the long wave theory , Marxism & Reality , 2008,4.

2 Jacques • Ada: "Economic Globalization", the Central Bureau Press, 2000 edition,p.3-4.

replaced the industrial capital and lived in a dominant position of capital expansion, and this is the financialization. The developing financial derivatives shake off the fetters of all material, and any restraint of time and space is meaningless to the financial capital. So the financialization is not only the new model of capital expansion, it is also the inevitable result of capitalist development.

After development for several hundred years, the United States accumulated a huge amount of capital depending on its tremendous achievements on productivity, and thus the U.S. occupied a central position in the global division of labor, which helped the construction of the international credit system centered with the U.S. dollar. Capitalist credit is a double-edged sword, it promoted the relationship of collaboration in the world, so the development of human productivity; however, it led the harm of excessive financial speculation to the whole world.

2. The alienation of the capitalist national economy has placed the global economy maintained by the global monetary system at risk of crater.

The alienation of the U.S. economy was from the 70s of late century. The growth is maintained by the bubble-driven investment and liability-driven consumption, which is very different from the traditional mode of growth in nature. From an international perspective, such an economic model driven by credit bubble is essentially a model of robbing other countries. Firstly, depending on the hegemony of the U.S. dollar in the world financial system, the United States is shipping back large number of industrial products, raw materials and energy endlessly from other countries, especially from developing countries. At the same time, the United States is making the dollar depreciated and increasing the risk of holding dollar of its trade-exporting countries, by this way, the United States is implementing international plunder; Secondly, the U.S. government had a large-scale foreign borrowing, and it has become the world's largest creditor. According to the cover story in "China Economy Weekly", issued on November 9, 2008, "the debt for the name of the state accepted by the United States Congress is 11.2 trillion, meanwhile, the GDP of the U.S.A is 13.8 trillion." More alarming is that "In 2007, the actual total debt of the United States is up to 53 trillion U.S. dollars"¹

Through this means, the United States has obtained the right of consuming the wealth of other countries in advance of several years, also this national credit piled up in the bubble has made the creditor countries holding the U.S bonds facing an unprecedented risk. "But in all these cases, the capital, as whose offshoot (interest) state payments are considered, is illusory, fictitious capital...and, as soon as the promissory notes become unsaleable, the illusion of this capital disappears. Nevertheless, this fictitious capital has its

¹ NIU Wenxin: "The United States may go bankrupt", containing "China Economic Weekly" section 3 (Total No. 474), issued on November 9, 2008.

own laws of motion, as we shall presently see”¹ There is no doubt that issuing treasury bonds to foreign countries is also a effective means of the United States to pass on its crisis to other countries. It can be seen that the capitalist monetary and financial system centered with the U.S. dollars tied firmly the U.S. economy together with that of its trading partners and creditors, even the world economy, so that the global economy are placed in a dangerous volcano.

From the role of credit for real economy, chain of time and place between production and consumption was infinitely stretched from the capitalist countries to all corners of the globe by capitalist credit, which made it more difficult to achieve balance between supply and demand in the process of reproduction.

It is worth noting that, faced with the surplus of global production that can not be solved within capitalist economy, which result in the trend of increasing lower profit margins that hard to be reversed, the tentacles of excessive financial speculation are stretched from the center of United States out into the global scope. So, the alienated capitalist credit accelerated the expansion of the global financial bubble, which also seed potential problems for the global economy.

This point was testified by the fact: after the outbreak of the financial crisis in the United States, there were almost no spared in the world, whether those developed capitalist countries such as European countries, Japan, or those emerging market economies such as China, India and etc. The whole world falls into crisis or the brink of crisis.

IV. The conclusions – crisis is the chronic disease of capitalism

Capitalist economy is credit economy, but credit will have a negative impact when the whole credit system is alienation-- fictitious capital trap in the game of excessive speculation, departing from the position of service for real capital. The contradiction between the relative surplus and the economic growth of capitalist economy are hard to be overcome, which ultimately make the capitalist economy tend to alienation—supporting economic growth relying on credit expansion to create a credit bubble. This is bound to lead to alienation of the capitalist credit, and cause the intense occur of crisis. Therefore, the financial crisis even the economic crisis is chronic disease that can not be overcome in the framework of the capitalism.

The crisis characterized by a severe shortage of liquidity makes it an unavoidable "magic weapon" for each country to expand the scale of credit. However, such over-expansion of loan capital in short period of time, can not solve the root cause of the relative surplus of production, on the other hand, it also planted the “seed” for the future recurrence of similar crises...

1 <http://www.marxists.org/archive/marx/works/1894-c3/ch29.htm>

Today, the world's monetary system centered with the U.S. dollar is still leading the financialization, even the globalization, which means that the world is facing the enormous risk of the growth mode of modern American capitalism. Therefore, in order to avoid or ease the global impact caused by the crisis, it needs to nurture a new world monetary system countering with the old system. There should have the voice of the emerging nation-state in the new world monetary system, rather than one voice of capitalist. Naturally, this can not be achieved without long-term effort: First of all, various nation-states should pay close attention to revive the economy on time, which is laying the foundation for fighting for multi-voice and the world's monetary system. At the same time, the rapid economic rise of the socialist country with public ownership as the mainstay and the development of productivity as the fundamental task can also fundamentally avoid the relative surplus ----the root causes of crisis, and this is the hope road to make the world out of the disturbance of the crisis finally.

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