

[CN] Qing LIN**Contact Information**

Address: Room 604, No.8 of East district with Wanshen dwelling district, Cangshan, Fuzhou

Telephone: 059188892195 059183530329

Fax: 0591—83443674

Mobile: 13559109211

Email Address: lqzhdh@163.com

Zip code : 350007

About the author: Qing Lin, Professor, Ph.D. supervisor and vice president of school of economics of Fujian Normal University, Ph.D. of agricultural economy and management of China University of Agriculture and post-doctor with post-doctoral research center for theoretical economics of Fujian Normal University, also discipline leader of Population, Resources and Environmental Economics. The author has long been engaged in the teaching and study of agricultural and ecological economics and in charge of many national and provincial research projects, she also serves as vice dean of China Ecological Economy Education Committee, leader of China Association For Ecological Economy etc.

Main publications:

Rural Land Institution and Agricultural Sustainable Development

Policy Study of Land

Problems in use of Rural Land across the Strait

Factor Integration and Optimal Allocation of Agricultural Resource of Fujian and Taiwan in the Frame of WTO

The Causes of the Present Financial Crisis

[CN] Qing LIN

Abstract: The causes of the financial crisis include both the market and the government failure, the essential underlying reason lies in the increasing lack of effective demand which causes the periodical economic unrests. In the developed capitalist world, the lack of effective demand is shown as: on one hand, there is a short of investing demand causing by the decreasing of the profit margin in production; on the other hand, there is a lack of consumption demand causing by the under privilege of the laborers. Fierce and uncontrolled market competitions which have been managed by Neoliberalism have intensified both of the lack. Economic globalization and dollar standard monetary system contribute very much to the US overdraft consumption and the spreading of the debts and risk worldwide. Therefore, this covers the contradiction between economic development and lack of effective demand in America, and intensified the invisibility of crisis accumulation and its intenseness of the eruption. When periodical economic unrests becomes global, all people should strive to build up a new global economic order which is good for the balance of global economic development, and to form an effective managing system and macro-control mechanism worldwide. In fact, the contradiction between limited natural resources and limitless economic growth lies invisibly in each crisis, the results will be a more serious ecological crisis. Maybe the real cause for this crisis lies in the over-consumption which the earth cannot endure.

Key Words: Financial Crisis Neoliberalism Effective Demand Economic Order

Introduction

An overpowering financial storm, caused by the American subprime mortgage crisis, has been quickly spreading in the world ! Everybody shocked! Horror and despair flood everywhere! And the world economy slides into depression. Confusion, ignorance, together with deep reflections! Various causes are pointed out everywhere in one time. Whether is it because of the natural business cycle which cannot be escaped, or the double-edged sword of the Neoliberalism? Due to the Wall Street's greed, or the failed innovation resulted from

the failure of financial supervision? The robbing of the dollar standard monetary system or the unsustainability of excessive consumption? Or the bankruptcy of the capital entrust responsibility? Everything seems to fail, the market, the government and the economic theory. The Wall Street is the originator of this storm, yet what is the profound cause for this crisis?

I.From the Subprime Mortgage Crisis to Financial Crisis

Although opinions vary upon the causes of this financial crisis, it is undeniable that the American subprime home mortgage (subprime mortgage) is the blasting fuse for the global financial crisis. “Subprime mortgage” refers to the fact that American financial institutions offered loans to those unqualified money borrowers for house purchasing, who didn’t have much credit or enough ability to return the loans. So, subprime mortgage is a kind of highly risky and profitable mortgage loan. How did it cause the financial crisis then?

In the early 21st century, the American government has carried out a loose monetary policy to stimulate their economy and made housing market as a new economic growth engine, in order to counteract the broke of dotcom bubble as well as the negative effect of “9-11” upon American economy. The Federal Reserve keeps lowering the interest rate. In the last two years and a half, the base rate has decreased from 6.5% to 1.0%. In July, 2003, it had reached the lowest in the last half of the century, - 1%, which has lasted for one year. During the continuous 31 months, the short-term base rate has reached below zero after the adjustment for inflation. [1] Meanwhile, American house price keeps soaring, with the rate reaching two-digit number.

If people predict that the increasing of house value exceeds the cost of the loan, they will acquire benefits on condition that they can own several apartments. Just because that the money is got without any cost, rational borrowers will keep borrowing until they can find no one to borrow money. Therefore, in order to make the poor buy a house, the financial talents in Wall Street designed the “subprime mortgage” together with a series of various financial derivatives, and deliberately loosen the credit standard, so as to expand the scale of loan and get a lot of commission charge. That is to say, the larger the scale, the more the bonus. The businessmen long much for this charge without bearing any risk. And this phenomenon has caused management slack as well as prevalent cheatings. The word “seductive profit” discloses the fact1. People who cannot get prime mortgage and only have lower income, or those house buyers with little credit, can still purchase a house with a lot of subprime mortgage. And part of those who have moderate income or more credit can

1 Longqi Cao the United States subprime mortgage crisis causing the world financial crisis: the path analysis and countermeasures selection.(seminar thesis 2008)

also collect money and speculate on housings.

On predicting the increasing of house price, house buyers are more eager to borrow money to buy houses. And the increase of this demand in real estate accelerates the American house price, which makes the housing market in America prosperous. Statistics show that in the year 2006, 45% of American subprime mortgage was lent to those borrowers without income certificate¹. From 1994 to 2006, over 9 million American families purchased new houses, about 20% of which made use of subprime mortgage and speculated on the price increase. Long-time low interest rate and the fluidity of low-risk premium price have resulted in the capital pursuing of high benefits in real estate. And housing bubble has therefore appeared from this and keeps growing. Till 2007, American mortgage loan has already reached the same as its GDP.

After the subprime housing mortgage loans are issued, the banks transform them into bonds and sell to the investment institutions, which will divide them into small ones and again sell to ordinary investors. The insurance companies also guarantee for these bonds and the insurance policies can be sold on market. So, the financial institutions in Wall Street create financial derivatives through developing new technologies, separately transferring credit risk to the pension funds, mutual funds, to those people who desire to obtain benefits, as well as foreign investors. After such several layers of packing, the intrinsic value and risks of the financial derivatives whose structure is complex, invisible and difficult to analyze. And its risks increase when the mortgage loan are transferred from the banks which are well aware of the situation of borrowers into the investors who don't understand them at all. Just the financial innovation with risk-structured design and leverage ratio as the main characteristics that makes the enormous trading volume possible from less assets, thereby creates more liquidity². The constant expansion of credit and the encouraged confidence, the accumulated crisis, and value-added chain generates a false prosperity. Bubbles have been blown, and systemic risk of economic entities has been magnified in the process.

However, the wars incited by the United States, the deficit, as well as the worry about inflation, have made the Federal Reserve raise the interest rates 17 times continuously from June 2004 to July 2007, when the interest rate had already reached 5.25 percent. What's more, the real estate market has been declining since 2006, and from 2007 to 2008, the prices fell sharply.

Finally the day comes that the poor can not afford high interest and have no way out, only to sell their houses to banks. Default rate keeps rising, house speculators cannot sell their devalued houses, the system can not bear any more risk, the liquidity steps into a stagnation with broken capital-chain, and in the end, the crisis broke out.

1 Shiyi Pan through the center of the economic crisis, <http://www.chinaccm.com>

2 Xianping Lang, non-escaping financial crisis[M] Beijing : Oriental Press 2008

In the complex process of all kinds of risk accumulations, the main subjects of interest are connected by the chain of credit which is closely linked. The "subprime mortgage" crisis not only represents the break in the capital chain, but also indicates a more horrible break in the credit chain. The essential trust among traders on Financial market suddenly disappeared, and the banks stopped lending to each other. The funds on monetary market were run on a bank too, with the commercial paper market frozen, and the enormous financial system suddenly stopped rotating in no time¹.

"Subprime mortgage" crisis had caused a credit crisis, which also led to the liquidity crisis, and ultimately developing into a terrible crisis of confidence. Confidence serves essentially as the key to the maintaining and growing up of the financial system². Panic will stem from the lack of confidence, and banks will go bankruptcy because of the run-on. The stock market will crash and therefore, the subprime mortgage crisis, with typical cases of the sudden collapses of the New Century and Bear Stearns, grows into a financial crisis with the collapses of Lehman Brothers.

The most direct impact of the collapse of the 158-year-old Lehman Brothers upon American economy was, the overall credit freezing from the monetary fund market to the commercial paper market. Lehman Brothers had extended into various levels of monetary market, by issuing commercial papers and short-term stocks. And its bankruptcy has made its commercial papers become a pile of waste papers. On the same day, another company, securities giant Merrill Lynch also faced incoming bankruptcy and liquidation. And it was bought by the American Bank, on the clearance price of about 50 billion dollars (equivalent to half of the value of Merrill Lynch on early 2007). At the same time, American International Group (AIG), the world's largest insurer, suffered from a liquidity crisis, only maintained by the Government's help. There was a great surging to the Wall Street. Till the end of November 2008, the United States suffered from a total of 22 bank failures. From early 2008 to October, the total market value of 850 billion dollars in the U.S. stock market evaporated, and this is almost equivalent to the total GDP of China throughout the three years from 2005 to 2007³.

In today's world, with increasingly economic globalization, the international financial market has been undergoing unprecedented turmoil, which has begun to do harm to the economic entities. At the same time, U.S. has spread the crisis onto the world by

1 Qiaoli Xin.Xiujiang Xu: Big chaos: financial crisis, the top five issues[M] Bei jing, China Economic Publishing House, 2008

2 Xiaoqiu Wu , Financial crisis on major theoretical issues re-recognizing--An Interview with president of Renmin University of China Assistant , Tiegang Lin Reporter, 2 December, 2008, <China Finance>,www.sina.com.cn

3 Xiaoqiu Wu , Financial crisis on major theoretical issues re-recognizing--An Interview with president of Renmin University of China Assistant , Tiegang Lin Reporter, 2 December, 2008, <China Finance>,www.sina.com.cn

devaluation of dollars, also through its hegemonism of monetary system. Although its GDP has only taken up less than 25% in the global share, but the U.S. dollars have seized 64 percent of global foreign exchange reserves, with 48% in the foreign trade settlements and 83% in foreign exchange transactions. By virtue of the special status of U.S. dollars, the American domestic crisis can be spread into the world which have aggravated worldwide market turmoil and polarization¹. Financial crisis has caused a series of bad influences, including the economic depression, increased unemployment rate, confidence loss, substantial reduction in consumption, restrictions in production, as well as further increase in unemployment rate and decline in consumption, thus the economy gets into depression, and the global financial crisis is turning into a global economic crisis.

II. The Origin of this Financial Crisis

About the diverse causes of financial crisis people said, there exists the micro-level analysis as well as macro-level consideration. It can be said that, the roots of this crisis are still the market failure and government failure. Essentially, it is still the irresistible economic cycles. Neo-liberalism just brings the smartness and the greed of mankind to an extreme extent, which has exacerbated the intensity of the crisis, and expanded the scope of the crisis.

Neo-liberalism came into being during the 1970s when the capitalist world was in the trouble of stagflation .At the end of 1930s, the economic crisis of the United States broke out and spread to many capitalist countries, which led the world economy into depression. After the World War □, the Keynesian theory which advocating government intervention was adopted to stimulate the economy and the regulated capitalism had occupied the dominating position. But as the re-emergence of the global economic crisis at the mid-1970s, the mainstream Keynesian economists could find no way to deal with the stagflation of the crisis, and the liberalism advocating laissez-faire market renerved. So the former capitalism controlled by the states was replaced by neo-liberalism after 1980s. One of its important features is to raise the opposing view of the state intervention to a new highly systematic and theoretical position. Neoliberalism adopts part of the capitalists' economic theories of classic liberalism such as free management, free trade etc., denies public ownership, socialism and national intervention, and advocates almighty market and privatization. Neo-liberalism affirmed that the market mechanisms "invisible hand" would enable the allocation of resources to achieve optimal status. Compared with the classical liberalism, neo-liberalism strongly advocates a supreme control over globalization, that is,

1 Xiaoqiu Wu , Financial crisis on major theoretical issues re-recognizing--An Interview with president of Renmin University of China Assistant , Tiegang Lin Reporter, 2 December, 2008, <China Finance>,www.sina.com.cn

global capitalization. The main characteristic of the neo-liberalism capitalism is deregulating the control over economy and finance, advocates full play to the role of the free market and government is no longer active to the macroeconomic regulation and control, pursues low inflation rate rather than low unemployment rate, leads to a sharp reduction in social welfare ; large companies and country are combating and weakening the power of the trade union, the labors are completely controlled by investors; the restraint competition are replaced by the free, cruel one; merchandise, services and capital are in relatively free movement among different countries¹.

Business cycle refers to the periodic cycle that the national gross output, input and employment expand to the climax, then drop down to a recession, after that, they return gradually to the summit again. It is always accompanied by the process of economic development. Economists believe that the factors influencing business cycle fluctuations could be divided into external and internal ones, especially influenced by the external ones, such as technology, elections, wars, changes in foreign exchange rates or oil price impact, according to the theory of external origin. On the other hand, the theory of the internal origin regards that any expansion breeds new recession and contraction, and any contraction also contains a possible recovery and expansion. An important cause of business cycle fluctuation is the impact of the gross demand whose changes would lead to dramatic changes in the output, employment and price. Most economic theories consider both external and internal factors affecting the periodic economic movements².

Many factors have led to this economic crisis: monetary factors including the “subprime” as the financial innovations; American wars have caused financial deficit and inflation, so in order to curb inflation, they raise interest rate; unsustainable pre-mature consumption , etc .All of these are main reasons, however, the most fundamental root causing the crisis to outbreak severely is that neo-liberalism makes social contradictions of the effective shortage demand more prominent as well as the acceleration of the contradictions.

The household consumption, business investment, government spending and the net exports make up the effective demand, that is: $GDP = C + I + G + X$. Any reduction of each one will result in the lack of effective demand. Human rationality, market failures and the Government's failure will make effective demand shorter and shorter.

Economic theory has made it clear that the average profit rate of production has the downward trend .Western Economics consider that the long-term equilibrium conditions of

1 David Kotz, Neo-liberal capitalism is the root cause of the financial crisis in the United States [J],Flag Presentation , 2008 (13) P32-34

2 Paul Samuelson、 William Nordhaus ,translated by Yi Xiao,et al Economics (16th)[M]Beijing: Huaxia Publishing Co., Ltd.,2003

perfectly competitive opponents are: $MR=LMC=SMC=LAC=SAC$. (MR represents marginal income, LMC represents long-term marginal cost, SMC is short-term marginal cost and LAC is long-term average cost, with SAC as the short-term average cost.) At this point, a single firm's profit is zero, that is to say, the profit is declining although economic efficiency is constantly improving and tending to zero with the competitions continuing to rise¹. Thus, in order to keep acquiring profits in the fierce competitions on the market, they must reduce production costs and constantly develop new industries. In general, in the global economic competitions, the comparative advantage difference between developed and developing countries is mainly expressed in capital, technology, resources and the different labor cost. Today, the resource and labor-intensive industries have no competitive advantage in developed countries; therefore, the decreasing profits of production will cause the lack of developed countries' investment in production.

Marxian Economics believes that the desire for profit stimulates the capitalists' activity. It is this desire which makes the capitalists struggling with the workers in production to achieve more surplus value, and struggle against the other capitalists in circulation to achieve profit in the form of surplus value.

No matter what kinds of struggle, it finally forces the capitalists to adopt advanced productive technology and to make the organic composition of capital decreasing and the profit margins declining. These can be indicated by the following formulas:

$$r = \frac{s}{c+v} = \frac{s/v}{1+c/v} = \frac{s'}{1+c'}$$

R represents profit margin, s expresses surplus value; s' is rate of surplus value(s/v); v indicates variable capital while c is invariable capital(c/v); c' indicates the organic composition of capital. It is supposed that if s' remains unchanged, the increase of c' will cause the decrease in r.

The rising of organic composition of capital, on the one hand, will cause a relative surplus of labor, unemployment and poverty will accumulate among workers²; on the other hand, it will make the proportion of capital gains (profits) in the total income keeping increasing. At the same time, as the market can't solve the problem of equity and efficiency (market failure), laissez-faire capitalism will aggravate market failures, cause the deeper relative poverty of workers, which will reduce the consumption demand in the whole society. The United States is a typical example in high wealth concentration that causing insufficient effective demand. The majority of its GDP is in a small number of rich stratum. In 2005, the number of the richest population in United States is only 0.3 million and the poorest population has 150 million members, while the former's income is as almost the

1 Hongye Gao, *Western Economics* [M]Beijing: China Renmin University Press,1999

2 Zheng Chen,Jian ping Li,Tie min Guo, *Political Economics*[M]Beijing: Economic Science Press,2001

same as that of the latter one¹. Data has it that the pattern of strong capital strength and weak labor is increasing apparently in the United States with the rise of neo-liberalism, and the balance of the income distribution is tilting to the capital side . According to the United States' statistics in 2009, the average wage of the U.S. blue-collar workers was only equal to that in 1979, which means that there was hardly any growth². The key cause for the lack of consumption demand is the increase of relative poverty.

Above all, lack of effective demand in economically advanced capitalist world is shown by: on the one hand, profit margin decline in production areas causes the lack of the desire to invest (investment demand is insufficient); on the other hand, the workers' relative poverty makes the consumption demands insufficient too. At the same time, the unrestricted market competitions under the guidance of neo-liberalism exacerbated the lack of demand in these two areas.

In order to solve the problem of insufficient effective demand of the capitalist society, Keynesian economic theory prescribes that encouraging capitalists and residents to spend their savings through active monetary and fiscal policies, meanwhile driving the total demand through government investment. Although these measures did make great effecting in a short term, yet the economic crisis still broke out ultimately, together with the "stagflation". And this has caused the Keynesian alternative to be replaced by neo-liberalism. The prescription of the neo-liberalism economic theory is innovating the consumption and profit patterns on time, space and industry in order to promote consumption and investment.

Focus on the lack of consumer expenditure, the neo-liberal capitalism encourages consumers to pay for today's consumption using the predicted income and make the consumption of the future or the generations' advanced to today through the time expansion. It is clearly that the traditional savings-consumption pattern based on income was no longer suitable for this consumption, therefore, a new one based on the predicted gains and assets had been created .Firstly, it was mortgaged by stock in the latter half of the 20th century and then by the real estate since this century.

Focus on the lack of investment of productive capital, the capitalism led by the neo-liberalism take efforts to expand onto a new space and industry, seek new growth points of profits. That is, on the one hand, it actively promotes the globalization and hunts for the profits and spreads crisis to the worldwide by making use of the unequal international economic order with hegemonic position; on the other hand, it encourages the government to release its economic and financial controls, allows free competition and various innovations.

Well, how did the United States, as the birth place of this global crisis, practice the

1 Chris. Harman, translated by Fei Ji, subprime mortgage crisis and the world crisis of capitalis,[J]Shang hai: Foreign Theoretical Trends, 2008 (7) P17-23.

2 Yifan Ding, Daily observation

prescriptive policy of neoliberalism? In fact, investment and consumption play different roles in promoting economic growth at different stages or in different periods of economic development. But in general, consumption is more decisive. In America, the consumers' expenditure takes up about two-thirds of overall economic activities.¹ Thus, the consumption demand is the most noticeable factor in promoting the growth of the American economy. It is known that consumption is a function of income. However, the above analysis has already shown that the market competition and distribution mechanisms led by the neo-liberalism will induce the relative poverty and lead to insufficiency of consumption demand. In reality, increasing of the American consumption lacks of income supporting, pre-mature consumption was encouraged in order to boost effective demand, and not only the residents but also the government of the United States is implementing "overdraft consumption". It is well know that the United States is the world's biggest debtor. At present, the debt of the American population is up to more than 13 trillion dollars, while the government's is more than 10 trillions, it means that the average 300 million people are bearing a debt of more than 70 thousand². It is exactly that this kind of "overdraft consumption" fills the gap between income and expenditure, thus overshadows the contradiction between economic growth and insufficient effective demand of the United States, and postpones the outbreak of the crisis but aggravates its severity.

At different stages of economic development or with different periods of world economic patterns, the reason and the methods of forming the insufficient effective are different; therefore the ways and methods of stimulating economic growth are different, too. Generally speaking, compared with those emerging developing countries, developed ones don't have the comparative advantages in labor and natural resources, thus lack the comparative advantage in manufacturing and other production areas. This is especially obvious today when the liquidity of the global economic products and elements keeps increasing continuously. However, the real estate industry generally doesn't flow or vary within one country or one region, and the income elasticity of demand of its products is very large. Therefore, it had become the main supporting industry in the U.S economy since the end of last century, and its large-scale association between the former and the latter can stimulate economic growth effectively.

Under the domination of neo-liberalism, the United States has adopted a loose monetary policy to promote the prosperity of the real estate market, encourage financial innovation, and indulge market in free competitions. But, market failure also follows the free competitions because of lack of effective regulation, for example, the external risk costs such as financial innovation and the real estate bubble, which cannot be effectively

1 Heng ming Qiu, To explore the truth about the financial crisis in the United States[J],Shang hai, China Reading Newspaper, October 27, 2008

2 Yifu Qin, Disparity between the rich and the poor is the root causes of financial crisis in United States [J] Beijing: China Economic Weekly, December 8, 2008

internalized, should be borne by the global economy. And it also causes the illusive prosperity of housing and financial markets, while the financial innovation of the assets' savings - consumption pattern also supports it. It is the illusive prosperity that postpones the outbreak of volatile cycle of economic crisis, which was due to the accumulating insufficient effective demand. Therefore, insufficient effective demand is a fundamental cause for this crisis. The prescription of the neo-liberalism theory creates a strategic environment for American financial innovation and the blowing up of the real estate bubble which is based on the "subprime mortgage" crisis, while economic globalization, the rapid economic growth of the emerging developing countries and substantial accumulation of foreign exchange reserves, as well as dollar-dominated monetary system, support the American pre-mature consumption pattern and the Wall Street's credit expansion, with the support also for the real economy.

Take China and the United States for example: China, as the representative of the emerging developing countries, becomes the world's manufacturer with its advantage of labor resources. In China, consumption should have increased in proportion as the increasing of economy and savings. But consumers, who have taken up 80% of the Chinese population, are rural people of relative poverty. The increase in income is mainly used for saving, because of the lost of the public goods, such as children's education, pension insurance, etc. Therefore, China is still having the problem of insufficient effective demand caused by lack of consumption, and this makes exporting serve as a quite important factor for economic growth. Now, for China, the United States is the main exporting nation, the second largest trading partner and also the largest exporting market. By the end of 2007 China-US trade volume had reached 302 billion dollars, with the trade surplus volume reached to 163.286 billion dollars.¹ Inexpensive and nice Chinese goods provide the basis for pre-mature consumption of the United States, while the substantial foreign exchange reserves of dollars formed by China's trade surplus also contribute to the liquidity of Wall Street financial market.

III. Conclusion and Consideration

Any tiny thruster will cause the system a sudden collapse when the continued accumulation of risk pushes the economic system to a critical state which is away from equilibrium. At Wall Street, the crisis breaks out when the last poor man, who has made the whole population reach "the law of large numbers", can't pay for the interest of mortgage. And this will also cause the collapse of financial system with over-expanded credit. But just as the saying goes, "It takes more than one cold day for the river to freeze three feet deep"! Among the various opinions about the causes of this financial crisis, the most fundamental

1 Yearbook of Chinese statistics 2008

reason lies in the periodic business fluctuations resulted from insufficient effective demand. Laissez-faire capitalism exacerbates the market failure and government failure, thus aggravates the accumulation of periodic business cycle. The development of economic globalization and the dollar-based monetary system provide the United States with pre-mature consumption based on the assets-saving, and spread the debt and risk worldwide, while aggravate the invisibility of accumulation as well as its fierceness when breaking out. In today's world, the crisis of one economic power will soon spread to the global. Economic globalization expands the factors leading to periodic business cycle in one country into a global scale, and makes the accumulation of the risk and the outbreak of the crisis more complex and severe.

In any case, periodic economic fluctuations are the result of human economic behaviors, so rational human behavior will be beneficial to the reduction of harm and loss. In fact, whether in free capitalism or planned market economy, there are rules of business cycle fluctuations in both. Realization and manipulation of them are good for rational actions. But the multi-level interactions among the market participants as well as between the market information and market participants will make the expected situation complex and difficult to predict. In order to reduce the cost of the market failure and government failure, we should reduce the cost of achieving the expected returns (transaction cost) by following the effective agreement (or system) based on the accumulation of human knowledge, and make the periodic business fluctuations moderate and the price lower. Therefore, during this time of global economy, the periodic business fluctuations has been global, it is the most urgent task and the goal of all mankind to set up the global economic order quickly, in order to form an effective global management system and macro-control mechanism.

It can be seen dimly that each crisis appears to be the accumulation and outbreak of the human desire of the creative and destructive power. Whether the greed of Wall Street, the loss of the capital conscience, the looting of dollar's hegemonic control, or the bad influence of pre-matured consumption, all of them have proved the motive of desire. The desires make ineffective supervision, expanded credit, overdraft of the future wealth, the mustered foam, and the fluctuated confidence. Maybe, if there were no moving, accumulating or promoting of the desire, there would be no turmoil of the business cycle. The hints from the periodic crisis are: human beings have been pursuing economic growth following their own desire since a long time ago. It is exactly this desire that made the humans ignore the restriction of the speed of the economic growth which is supported by natures (ecosystems) through the resource provision and pollution purification ability, Then a series of ecological crises broke out, Mankind has finally recognized that economic growth can't be separated from the ecological basis after numerous times of punishment by nature. And the sustainable development issue has been placed on agenda. In fact, excessive consumption and huge waste of the natural resources and ecological environment is hidden

behind economic crisis every time. Whether the reason is overproduction, the war caused by struggles for resources, or the energy's prices, there always hides the contradiction between the limited resources of nature and unlimited desire for economic growth. In the past decades, developed countries support their highly increased economic growth and consumption relying on global plundering of resources. Today, with the economic globalization and knowledge globalization, developed countries still rely on the hegemony of their world economic order, by ways of using the deficit, to plunder the world's resources and realize their pre-mature consumption.

However, no matter how technology renews by day or by month, how rapidly the economy leaps or how colorful life is, the nature is always the foundation for human survival and development. After times of crises and reflections, can't we realize a more deadly ecological crisis lurking behind the economic crisis? Therefore ,the most fundamental way to reduce the outbreaks and harm of crisis lies in the changed way of production and lifestyle of mankind, makes harmony and tolerance overcome selfishness and greed, economic growth should be based on the supplying capacity of the ecology, and the gap between the rich and poor should be narrowed by human intelligence and morality . Or else, the economic growth driven by the desire of consumption-earning- repeated consumption, will run out the limited resources some day in future, and undoubtedly, the outbreak of ecological crisis would be devastating. Now, can we conclude that perhaps the real cause of the crisis lies in the excessive consumption, which the earth cannot burden?

Reference

- [1] George Soros Lina Liu, Qin Xiang, The New Paradigm for Financial Markets: The Credit Crash of 2008 and What It Means [M] Beijing: China Machine Press ,2009
- [2] Zhenyu Yang, Vernacular of Wall Street [J] China Youth Daily, No. 22 2008
- [3] Xin He, discussion on the financial crisis and China's economic [M] Bei jing: Hualing Press , 2009
- [4] Qiaoli Xin, Xiujiang Xu: Big chaos: financial crisis, the top five issues[M] Bei jing, China Economic Publishing House, 2008
- [5] Xianping Lang, non-escaping financial crisis[M] Beijing : Oriental Press 2008
- [6] Xiaoqiu Wu, Financial crisis on major theoretical issues re-recognizing--An Interview with president of Renmin University of China Assistant ,Tiegang Lin Reporter, 2 December, 2008, <China Finance>,www.sina.com.cn
- [7] David Kotz, Neo-liberal capitalism is the root cause of the financial crisis in the United States [J],Flag Presentation , 2008 (13) P32-34

- [8] Paul Samuelson, William Nordhaus, translated by Yi Xiao, et al Economics (16th)[M]Beijing: Huaxia Publishing Co., Ltd., 2003
- [9] Hongye Gao, Western Economics [M]Beijing: China Renmin University Press, 1999
- [10] Zheng Chen, Jian ping Li, Tie min Guo, Political Economics[M]Beijing: Economic Science Press,2001
- [11] Chris. Harman, translated by Fei Ji, subprime mortgage crisis and the world crisis of capitalis,[J]Shang hai: Foreign Theoretical Trends, 2008 (7) P17-23.
- [12] Heng ming Qiu, To explore the truth about the financial crisis in the United States[J],Shang hai, China Reading Newspaper, October 27, 2008

[CN] Yueqin LIN

Contact Information

Address: No.2 Fuwaiyuetan Beixiao Street, Beijing City, China

Telephone: 010 - 81929638

Fax:

Mobile: 13910635103

Email Address: terlin@126.com

Zip code : 100836

Yueqin LIN, Associate Research Fellow of Institute of Economics, Chinese Academy of Social Sciences(CASS)