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Marxist Economic Analysis on the Causes of Crisis and Reflection on the Reform of China's Harmonious Development

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Abstract: Various economists and models of the financial crisis gave a different explanation for the financial crisis. But most of them analyzed the problem on the financial level, not from the inherent nature of the market system and the social and economic systems to seek for the nature of the financial crisis. The Marxist economics is known for its Institutional Analysis. Based on the analytical framework and logical thinking of Marxist economics, combined with the characteristics of the financial and economic crisis, in this paper I analyzed the operations of market and system causes of the financial crisis from three aspects: the social background, the direct-induced causes and basic system causes, and focused on the system analysis. And take it as a warning, I analyzed and discussed some significant theoretical and practical issues which should be paid great attention to in the process of china's harmonious reform and development.

Key words: financial crisis Cause Analysis Marxist economics Reform and development

I.General analysis on the causes of the economic and financial crisis from Marxist economics' view

Dating from the collapse of the Bretton Woods system and the establishment of the Jamaica System in the 1970s, financial crisis happened frequently and their consequences became more and more serious. Since February 2007, the Wall Street financial crisis that triggered by American loan crisis is even more serious. Because of its increasing depth and extent of harm, the crisis was vividly called "financial tsunami" by Medias. What's worse, it gradually transformed to the economic crisis and is likely to transform into a historic economic crisis. So it is necessary to explore the causes of the financial crisis. After the crisis happened, a variety of media and scholars had a different explanation on the causes from different aspects. Some explained it from the perspective of incomplete and asymmetry information; some from the US-led global expansion of the monetary and

financial policy; some from accumulated risks caused by credit expansion and product innovation ;others from the lack of government regulation of the free market; and so on. From the theory and model of modern financial crisis, based on the first generation (Krugman, 1979) and second-generation model of financial crisis (Obstfeld, 1994,1996, Sachs, Tornell and Velasco, 1996), the western financial theory explained the economic phenomena accompanied by the Asian financial crisis in 1997, such as financial liberalization, financial intermediaries excessive credit expansion and large-scale inflow of foreign capital and volatility, over venture capital and asset bubbles, and inadequate capital ratio of the financial intermediation and lack of government regulation, etc, and therefore formed the third generation model of financial crisis (see Bo Zhu, Jinhui Zhao, 2005),which marked by the financial panic-driven model of the financial crisis, the economic base of the variable-driven model of the financial crisis, the financial crisis of the model stressed the instability of financial system . These models explained the roots of the financial crisis from the perspectives of withdrawing funds as a result of panic in the condition of incomplete information, huge non-performing assets resulting from government security stealth, bank run resulting from the "failure of coordination" between bank deposits, etc.

Although the explanations of the causes of the crisis by the above-mentioned medias, academics and financial crisis of the model have a certain degree of rationality, they only analyzed the problem on the financial level, not from the inherent nature of the market system and the social and economic systems to seek for the nature of the financial crisis. The Marxist economics is known for its Institutional Analysis. It questioned the nature of the relationships between levels of economy to analyze economic issues, mainly critically, combined the private ownership of the market economy mechanism and economic systems to analyze the production, circulation of the residual value and the contradictions of social reproduction, and stressed that this process will inevitably produce cyclical economic fluctuations and economic crisis. From this perspective, analysis of the crisis on the Marxist economics is more profound.

In the period of the birth of Marxist economics, economic crisis took place mainly in the industrial field of the real economy (mainly the textile industry), and mainly characterized as "the relative surplus of production". Therefore, in the 19th century there were a large number of industrial economic crisis as a result of mechanization and industrialization in Britain. In such background, with conflict analysis and focused on a system perspective, in "Das Kapital", Marx mainly conducted a comprehensive analysis of the system for the causes of the crisis in the real economy which characterized as overproduction, from the exchange, Production and consumption to the socio-economic system.

From the perspective of market exchange, in Marx's opinion, money-mediated exchange of commodities made goods isolation and confrontation in time and space because of currency liquidity. While the monetary means of payment functions formed

currency crisis in the debt chain. Therefore, on the one hand the currency made the goods "inherent contradiction gains the forms of movement of development in the contradiction of changes in commodity confrontation," on the other hand, made "these forms contain the possibility of a crisis". (Marx: "Das Kapital" Vol 1 p. 133) The capitalist monetary system, banking system, exchange rate system, credit system which was produced, developed and will serve in the commodity and currency market exchange provided convenience to the exchange fields, brought system conditions inducing the intensification of contradictions and the potential reality of the crisis to it. To some extent, lacking of co-ordination between the structure and collide with each other played a role of adding fuel to the flames.

From the perspective of producing, Marx believed that large-scale industrial production had an expansion of capacity by leaps and bounds. This expansion of capacity had a common role to promote the expansion of our production growth of capital with accumulation of capital and expansion of reproduction, thus intensifying the market imbalance between supply and demand, making the possibility of the crisis become reality. Therefore, the rapid expansion of the huge industrial capacity is a material premise for the formation of the economic cycle fluctuations. And the rule of surplus value, capital possession law, and the law of market competition which based on the capitalist system of commodity economy, provided a powerful stimulate interest and external pressure for the leap expansion of the capitalist large-scale industrial production capacity. The anarchy in production field provided a "relaxed" external environment or macro structure of the system for the blind expansion of social production.

From the perspective of consumption, Marx believed that the advancement of technology and the development of social productive forces will definitely lead to the improvement of organic composition of capital and absolute and relative reduction in income of workers, while the capitalist ownership system and wage-labor system determined the conditions of production and distribution of social products which result from production to be a kind of confrontational distribution. The existence of this confrontational distribution determined the consumption of workers and demand can only be confined within narrow boundaries, thus would inevitably produce a mismatch between production and consumption and a relative surplus of production.

Finally, Marx emphasizes: contradictions of producing, exchange and consumption, as well as contradictions of a series of specific social economic systems which determine the former contradictions, all of them are caused by capitalist private ownership which is regarded as the fundamental social and economic systems and the movement of capitalism basic contradictions determined by capitalist private ownership. Therefore, Marx conclude: capitalist private ownership and the movement of capitalism basic contradictions is the fundamental cause of the outbreak of the overproduction economic crisis.

It should also be noted : Marx focus on analysis of the overproduction crisis in Das

capital, but at the same time he also analyzes the "currency crisis" and "credit crisis" closely related to the overproduction crisis. With regard to currency crisis, Marx classifies it into two species: for one thing, it is regarded as a special phase of universal production crisis and commercial crisis, for another, it is a special crisis which is usually called currency crisis. The former, in essence "financial crisis as a special stage of the economic crisis", can be basically explained by the causes of the crisis of excessive supply of production. The latter may occur separately, but can feed back the industry and commerce. The center movement of this crisis is the currency capital, thus its direct scope is bank, exchange and finance. "Therefore, it can be regarded as an independent monetary and financial crisis. Marx used to think that the currency crisis is only a special stage accompanied by the capitalist economic crisis. However, Marx recognized the possibility of self-generated crisis in the financial market later. In "Das Capital" Volume 3, No. 5, through historical analysis in interest-bearing capital, credit, the virtual capital, component of banking capital, the essential character, function mechanism and the value-added law of the monetary capital and the real capital, he recognized that there is a relatively unique cause of "The independent monetary and financial crisis". He believes that market competition accelerates the accumulation of capital. The virtual capital's excessive expansion of Bonds, stocks, bills of exchange, certificates of land and the excessive growth of bank credit are the foundation and conditions for the independent monetary and financial crisis. Marx pointed out: "Once the social nature of labor represents as currency existence of the goods and furthermore as one thing separated from the reality production, an independent monetary crisis or a currency crisis which is as result of real crisis's quickness will be inevitable." Marx had clearly pointed out that the development of the virtual capital that represented by stock issue, not only created a monopoly of production and the separation of ownership and management rights, but also changed the status of the financial system - speculation, fraud, nervous and financial aristocracy. Marx said that the credit system develops the power of the capitalist production——become rich in the way of exploiting others labor——into the most pure and huge gambling fraud system. Marx: "Das Capital" Volume 3, No. 499

To sum up, Marx's theory of the crisis is in the context of industrialization in the 19th century, bases on the economic crisis of the production of relative surplus of industrial economic entities for the study target and focus on the operation and the essential character of private ownership market economy laws to analyze its cause. At the same time, it also combines the essential attributes and running characteristics of the primary forms of credit and the virtual capital to analyze the characteristics and causes of this relative independent monetary and financial crisis. This financial crisis, mainly manifesting as relative independent monetary and financial crisis, broke out as a result of the extreme instability of the financial system caused by various types of over-expansion virtual capital from an outward look. But fundamentally, it broke out because of the cumulation of the inherent

flaws and contradictions movement in the capitalist free market economic system. Consequently, logically speaking, Marx's crisis theory can explain the underlying causes of this financial crisis from its nature perspective, but we have to expand and profound the analysis of the new features to the crisis.

II. Three-dimension analysis of the causes of this crisis

From the perspective of Marxist economics, We believe that the causes of this crisis could be summarized in theory as follows: two separations, which are separations between virtual and reality, the production and consumption; two laws, which are law of surplus value and law of market competition; one background, which is the campaign of globalization, privatization and market-oriented under the guidance of neo-liberal economics. Specifically, we suggest the following three major aspects to analyze the causes.

1 . The direct cause is the departure of the virtual capital from the Real capital under the financial course of the US economy and expansion of the credit currency.

The fifth technological revolution since 1971 is called the information revolution. Its Characteristic is the application of information. Its corresponding mode of production is different from technological revolution in the past which is characterized by heavy mechanization and heavy and chemical industries. Because the new industries brought by the information revolution are basically information-intensive industries, which mainly rely on the development of knowledge and human capital rather than the need for large-scale operation and a large number of financial capital investment . Particularly, since the mid and late 1980s, with the extension of the spread of the information technology revolution, the new technological revolution expands into the frenzy phase and leads to the result of marginal return degression of the new industrial capital. It would inevitably give birth to separation and division between the financial capital and the actual production capital, which leads to "Internet bubble" economy. The form of internet bubble makes a lot of financial capital separate from the real economy and derives a large number of virtual capitals by financial innovation. The development of virtual economy and the virtualization of profit source force the U.S. economy to show obvious financial character. That is the U.S. economy and the profits of U.S. companies increasingly and mainly come from financial channel rather than goods manufacturing.

In the expansion of the American virtual capital and in the financial course of the United States' economy, the virtual economy gradually evolves into a speculative economy on the one hand; the Federal Reserve implements monetary policy of cutting interest rates

successively to deal with the economic recession caused by the breakdown of the "Internet bubble" on the other hand, may lead. Under stimulation of the low interest rates, the money supply of the United States sharply increases and promotes the rapid development of the secondary mortgage market and makes the housing prices rise and housing credit bubble expand. As a result, it not only forces financial markets expansion but also further stimulates virtual and financial course of the U.S. economy. The reason why the U.S. economy emerges virtual and financial trends since the 1980s, from a viewpoint of macro policy, is closely related to the intention of the United States through expansionary monetary and financial policies to shift the financial risk. The U.S. fiscal deficit over the years and many foreign wars led to the huge government deficits. In order to pass on debt to make up for government deficits, the United State carries out loose monetary policy and constantly issue dollar. This leads to dollar crisis and a floating exchange rate system, and brings frequent financial and economic crisis to the world.

2. The basic system cause is the accumulation of capitalist free market economic system's inherent flaws and contradictions movement.

The excessive expansion of Virtual capital and over-investment will break a variety of ratio balance in the social reproduction, as well as cause the accumulation and intensification of a series of contradictions of production and consumption, supply and demand in the operation of social capital. The reason why there is such a logical relationship to the capitalist free market economic system is its own inherent flaws and contradictions. Marxist economics said the free market system defects mainly manifested the imbalance and exception of the proportion of various economic relations in the free market as a result of the inherent contradiction campaign. So the operation of market economy meets cyclical fluctuations. Marx believed that goods are the most basic and simple element and material form in free market economy. The law of value and competition are the two most basic laws of free market economy. In the course of exchange in the free market and with the development of money as the medium of exchange, the inherent basic contradictions of goods change into contradiction between goods and currency. The liquidity and payment means of the currency make the selling and buying separation and confrontation in the temporal and spatial, so to derive the debt chain of financial and currency crisis. Particularly in the credit-based commodity exchange, "the contradictory movements in commodities and currency can deviate the value of commodity from prices not only in the quantity but also in the quality, that is to say the valueless things can have price. (Marx: "Das Kapital" I p. 117) Therefore, we can infer from the logic: goods inherent contradictory movement, as the free market's starting point and the outset of logic, will inevitably make the chain of debt fracture and deviate price from value, thus trigger a serious departure from the virtual capital and the real capital and further be bound to have a monetary and financial crisis.

In addition, Marx emphasized that in order to make industrial capital and social capital has a virtuous circle movement; the industrial capital movement must co-exist in space and connect in time. The premise is the revolution of value to be overcome and offset. However, in contradiction movement of the free market, the law of value and competition is bound to make the goods and factor markets suffer intense price changes, which is called the "value revolution." The intense price changes would undermine a variety of objective and proportional relationship required by normal reproduction and the virtuous cycle of movement of the capital cycle, working capital and total social capital. As a result, sharp changes in prices caused by intense contradictions in free market under the effect of the law of value and competition is bound to cause social production shown signs of cyclical characteristics of the operation in the free market economy. And if the conflicts is abnormal violent, the socio-economic phenomenon such as the breakdown of credit, the backlog of goods, the production recession, companies bankruptcy and so on will take place. That is the phenomenon of economic crisis.

Besides, Marx's analysis of the economic crisis did not stay at the economic situation and the general sense of the contradictions in the operation of the market, but explore the fundamental causes of the market failure and economic crisis deep into the basic law and the basic economic system which dominate the capitalist mode of production. In Marx's view, the essence of the process of capitalist production and reproduction is the process of surplus value production and reproduction. As a result, "the production of surplus value, or making money is the absolute law of this production mode" (Marx: "Das Kapital" the first volume 714). At present, despite the capitalist mode of production has been changed historically, the inherent nature of the production of surplus value or making money did not change. And in the contemporary capitalist mode of production under the lead of financial capital, the capital is even greedier than before. But the history form of the production of surplus value or making money just becomes more "capital gather" and "illusory bubble."

In order to achieve value-added capital of greed, the United States and other capitalist countries on the one hand stimulate the development of social productive forces through structure innovation such as technological revolution, restructuring of mergers and acquisitions, scale operations and industries centralization; on the other hand improve the organic composition of capital and the rate of capital accumulation through the relative reduction in wages and social welfare payments. The increasing of organic composition of capital and the rate of capital accumulation leads to the profit decline in real economy and relative surplus of capital, which will enhance competition in the market. The result is the overproduction of goods and even cyclical economic fluctuations and crises, which led to the instability of employment state for the industrial workers and a decline in the employment rate. As a result, the United States and other capitalist countries took on economic growth of a "golden age", but at the same time, the distribution of social wealth gap also continued to expand.

The rising of distribution gap of social wealth and the Gini coefficient means the consumption-based growth of the majority of the working class lack the support of revenue growth in the United States, which is bound to affect the "effective demand" and have a relative surplus of production. In order not to bring the crisis of relative surplus production by insufficient "effective demand" in the process of production expansion and profit pursuit of capital, the United States adopted "overdraft consumption"- the expansion of the "effective demand "Approach-which is a common identity for both employers and employees and get the government's affirmation. As a result, major financial institutions, investment banks focus on financial innovation in order to stimulate "overdraft consumption" for the broad masses of residents, especially those in low-income residents. However, in essence, "overdraft consumption" is nothing but an overdraft on the "future" to support "today". It only created condition of "virtual consumer" for the production of relative surplus, which can only delay the economic crisis, but can't eliminate the economic crisis determined by basic economic system of capitalism and the basic contradictions movement.

3.The social background condition is globalization, private and market-orientation movement under the neo-liberal economic theory guidance.

In the 1980s, the Western neo-liberal economic ideas began to rise gradually replaced the Keynesian in decision-making. In practice, neo-liberal capitalism replaced the original controlled capitalism. Market fundamentalism dominates the economy of the capitalist countries, which resulted in the features of market, privatization and globalization in government decision-making. That is to relax control of the economic and financial and allow the existence and expansion of the free market; weaken the government's macroeconomic regulation and control, strengthen free competition and control of the labor by capital, reduce social welfare payments; set the proposition of the efficiency of state-owned property rights lower than that of the total property rights, and the total property rights lower than private property rights, implement the privatization of public goods and services, advocate Market-oriented government regulation; promote economic globalization and world economic integration and promote free flow of goods and capital between different countries . These neo-liberalism and market fundamentalism policies not only created conditions to shift financial and economic crisis for the United States, but also created social conditions for the more profound financial and economic crisis for the United States and all over the world.

In the name of globalization and in the process of economic globalization, since the 1980s, developed countries accelerated the pace of globalization in the financial capital and industrial capital and gradually formed a new model and order of international division -- "resource - producer - consumer". In the new model of international division of labor, on the one hand, the overall international balance is kept by the countries' extremely uneven

development, as well as the number of international credit expansion and the extension of the deadline; On the other hand, the steady growth of consumer countries becomes the key to the international smooth running. This decides the status and role of the US-led consumer countries crucial. Since 2001, the core of world's "innovation" model of economic growth is over-consumption driven by over-credit in the United States in order to spur export in other countries, particularly East Asia and Central and Eastern European economies and impel world economic growth. At the same time, the international division of labor model also contains a great financial and economic crisis. This is because once the economic growth of US-led consumer countries becomes slow and consumption is weak, the global economic crisis and transition will be inevitable with the first falling piece of dominoes.

Since the 80's, the world not only set off economic globalization, but also set off the so-called "Washington Consensus" wave of reform by a new economic liberalism and market fundamentalism at the same time. They vigorously promote the privatization and market-oriented economic reform policies. In this background, the United States and other capitalist countries ease capital regulation for the investment banks and other financial sectors and make the over-leveraged escape from supervision. Therefore, the Wall Street investment bank is not only applying to highly leveraged business model, but also producing financial derivatives that make the number of second loan exponentially magnified and unable to set price through financial innovation. In the process of securitization, many financial derivatives products are away from the initial customers and the initial credit relations because of the excessive derivation. As a result, the credit chain continued to extend, the information asymmetry degree rise suddenly, moral hazard gather. This will definitely make the Wall Street investment banks entail highly leveraged business model with enormous financial risks.

The reasons why Wall Street investment banks can adopt the high-risk mode of commercial operation are not only the loss of government regulation but also the unreasonable design of systems, such as the incentive mechanism. One of the characteristics of the incentive mechanism implemented by Wall Street investment banks is the over tilt to executives, but executives' remuneration and incentive mechanisms did not link to the risk management of institutions and long-term performance. The second characteristic is that the salary of the executives takes on a clear rigidity, which is showed in such a condition that even if the performance is in a loss in investment banking, executives still earn a very high level. This system endows the executives with rights but no obligation. So the result is executives' high-risk behavior of frenzied pursuit of high profits due to huge short-term returns, which is bound to make financial risks into a high degree and magnified infinitely for investment banks. When the core of finance and economy in the core capitalist countries- Wall Street investment bank's financial risks accumulate and enlarge enough to broke down the proportion of various economic relations objectively

needed in global capital reproduction, the "financial tsunami" will first take place in the United States and other core capitalist states, and then extended to global, which will further trigger the global economic crisis.

III. turning crises into opportunities to promote China's harmonious reform and development

In conclusion, the reasons for this crisis can be summed up as the result of serious imbalance of various ratios in the heart of the United States and other capitalist countries as well as global market economy countries, under the effect of basic operation law of the market economy in the private ownership and its inherent contradictions movement. In the past 30 years of reform and development, China has achieved the great historical achievements of sustained and rapid economic growth. However, the economic growth also suffered from a more serious overproduction, inflation and ups and downs. Especially the problem of adjusting to the economic structural has been restricting the sustainable development of China's economy. In this financial and economic crisis, China's capital markets experienced dramatically dropping and faster inflation, which seriously affected the development of real economy. This has seriously exposed the problems of structural imbalances due to the historical path dependence of the Chinese economic growth model and imbalanced market-oriented reforms, as well as participating in international division system. Thus, in a new development stage, whatever from a development perspective or from reform perspective, there is a problem about how to enhance coordination and harmony.

If China wants to reduce the impact of the financial and economic crisis, it must embark on a path of reform and harmonious development with Chinese characteristics. Thus, in theory, from the perspective of response to the crisis in short-term, we must under the guidance of Marxist Economics, consolidate and perfect the basic socialist economic system, and strive to lay a solid foundation for the broad masses of income and labor productivity and GDP growth in the institutional basis of synchronization, at the same time, focus on prevention the financial and economic crisis caused by the widening income gap from the system. Meanwhile, we should learn from Western neo-classical economics and Keynesian economics to strengthen government macroeconomic management under the basic of perfecting market system and market mechanism. From the perspective of long-term harmony reform and development, we should explore the law of economic and social development model of socialism in the structuralism theory with reference to the harmonious economic thinking based on Marxism's social structure system and the theory of labor value, and further study socialist market economy and the essential feature of the reform in order to innovate and improve the economic theory of socialism with Chinese

characteristics.

In practice, we need to have a comprehensive and profound analysis of the impact and challenges brought about by the current financial and economic crisis on China's economic development. But we should establish confidence and see the coexistence of "crisis", "opportunity" and the "opportunity within the crisis". Therefore, we must seriously study some of the major structural imbalances of China's reform and development; seize the historic opportunity of the restructuring of industry M & A after the crisis to promote China's harmonious reform and development through the perfect of the socialist market economic system and improvement of macro-control ability and level. With the combination of the deep analysis of the causes about the financial and economic crisis, from strategic view of pushing forward the reform and development of China, we believe that there are seven co-ordination problems of harmonious solution for us to study carefully in the future.

1. The problems of mutual coordination between perfecting market economic system and consolidating & developing the socialist system.

Therefore, it is necessary to seriously study the intrinsic link between the general operational mechanism of the market economic system and its special natural disposition systems, as well as how to achieve mutual complementarities and integration between the basic role of the market mechanism in the allocation of resources and the improvement of the basic system of socialism, especially further analyze what kind of conflicts will appear and how to solve them in the process of mutual reunification of the socialist system with the market economic system in order to further understand the essence and features of the socialist market economy. Besides, we should realize the self-improvement of socialist system through a comprehensive reform and innovation in social, economic and political system.

2. The problems of mutual coordination about reform and opening-up.

That is, under the guidance of the concept of scientific development, how to achieve the positive interaction among openness, reform and development, as well as how to achieve mutual coordination and mutual advance between participation in the international division system and the independent development. Therefore, we must focus on analysis of the interdependent and mutually coordinated relationship between structural reform and economic opening to the outside world. That is to say, we have to study not only the change and demands in different stages and history on the opening to the outside world, form and the field of regulation caused by the nature, objectives, stage of the task, and promote progress of economic reform, but also research the specific requirements of synergy change in domestic economic structure and system in the process of participating in economic globalization and international division. At the same time, from a strategic perspective, we

should study how to share the benefits of economic globalization and to prevent and resolve international financial and economic risks in the opening to the outside world.

3. The problems of mutual coordination about operation of the market orderly and improving the coordination of macro-control.

First of all, Economic fluctuations and economic crises is the result of intensified contradictions of market operation and market structure imbalance. So if we want to achieve the operation of the national economy in order, we have to improve the market system. The market is not just a pricing mechanism, but also an institutional system. To this end, on the one hand, we must analyze coordinate relations among different levels of the micro, meso and macro system in the market economic system and different systems within the various levels, at the same time develop and improve all kinds of elements market, strengthen the pricing mechanism and coordination functions for elements and resource. On the other hand, through analysis on the characteristics and law on China's economic cyclical fluctuations, especially in light of the causes of the current financial and economic crisis, we should explore the internal logic relationship between the macro-control and efficient and orderly market's operation, and then focus on the problem of effective integration between the market mechanism's basic role of resource allocation and the government's macroeconomic regulation and control.

4. The interests of the co-ordination in the reform of Property rights and income distribution.

The basic argument of the cause of crisis in Marxist economics is: because of the relationship between ownership and property, the income gap is so large that triggered the crisis of excessive supply of products. Therefore, if we want to avoid the economic crisis and achieve sustained and stable economic growth, we must strengthen institutional basis of wealth growth based on compatible interests. For this purpose, we should: firstly, make different economic entities compete on an equal footing, promote mutually and have a coordinated development in the reform of property rights and the adjustment of the ownership structure; secondly, analyze multi-level expression and the basic law of corporation's conflict and symbiosis of interest between employers and employees in the socialist market economy and research incentively compatible system conditions between employers and employees, further seek for forms of enterprise ownership structure that is conducive to improve labor relations and achieve incentive compatibility in the company, which based on dynamic changes of corporation's ownership structure; thirdly, should study how to handle the interests of co-ordination in distribution of income through the micro distribution system changes and the balance, symmetry and complementarities of market-oriented system innovates from the point of paying more attention to people's livelihood and fairness.

5. Mutual co-ordination of deepening capital and absorbing labor forces in the process of technological innovation and industrial structure adjustment.

Marxist Economic theory of crisis and the crisis in the history of the world show that every time after financial and economic crisis, there will be a new technological revolution and industrial revolution which make the world economy up to a new level. So if we Chinese want to achieve the continued harmonious development, we should place importance on knowledge and science and technology. We must try our best efforts to focus on technological innovation, industrial restructuring and the industrial revolution, change the mode of economic growth. In the technological innovation and industrial structure adjustment, we should give profound analysis of the characteristics of our resource constraints, through upgrading skills, deepening capital to improve the micro-enterprise and industry's technology and capital-intensive. At the same time, on thinking about the basic national conditions that there are abundant labor forces and excessive supply, we should give priority to employment issues, and actively expand the industry investment that closely related to consumption and employment, and strive to improve the factor of absorbing the labor force per capital.

6. Coordination problems in regional economic harmonious development.

The issue of regional economic imbalance and uncoordinated development accumulated in a long history is not only an important manifestation of China's economic structural imbalance but also an important inducing factor of the imbalance. How to solve the imbalance of China's regional economic development is a central proposition that should be settled gradually in our country's harmony reform and development. From the request of harmonious reform and development, we must deeply analyze the redundant construction, markets and places protected of contesting for the industrial interests in the regional economic reform and development as well as regional economic systems' differences in the allocation of resources, regional differences in human capital and the issue of imbalance interests after broadening the scope of the regional gap. On this basis, we should explore the forms and means of the regional economics' and system mechanisms' coordinated development and change, explore the inherent law of resolving conflict of interest and realizing the coordinated development in region, so as to continuously deepen our understanding and grasping the law of regional harmonious economic reform and development. In practice, we should conscientiously implement the overall regional development strategy, gradually enrich and improve it with new experience accumulated practically.

7. Mutual co-ordination in the expansion of investment demand and stimulating consumption demand in the goal of ensuring economic growth.

Insufficient effective demand is the fundamental reason of the financial and economic crisis. So if we want to control financial and economic crisis, we must stimulate effective demand in order to ensure economic growth. If we want to ensure economic growth under the conditions of dropping out the foreign needs, the focus must be on expanding domestic demand. The major China's domestic demand constraint is insufficient consumer demand. So the top priority of expanding domestic demand in China is how to expand the effective consumer demand in the security of people's livelihood. For that, we should make full use of various economic levers to make efforts to solve the problems about the general public employment growth and income growth mechanism. On this basis, we should expand the consumer tendency. At the same time, in the process of ensuring economic growth, we should coordinate the relationship between the expansion of investment demand and consumer demand. Under the condition that the investment ratio has been high and people prefer to investment, we should avoid over-reliance on investment to solve the economic crisis, which may leave potential danger for China's long-term harmonious reform and development.

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