

Marxist Theory of Economic Crisis and Cycles : Structure and Changes

by Liu Mingyuan

translated by Wang Lingling



CANUT INTERNATIONAL PUBLISHERS

Istanbul - Berlin - London - Santiago

本书受到“中华社会科学基金 (Chinese Fund for the Humanities and Social Sciences) 资助。

The publication is supported by Chinese Fund for the Humanities and Social Sciences.

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Chinese Title: 论马克思主义经济危机和周期理论的结构与变迁,
ISBN: 9787300106854

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Canut International Publishers

Canut Intl. Turkey, Teraziler Cad. No.29. Sancaktepe, Istanbul, Turkey

Canut Intl. Germany, Heerstr. 266, D-47053, Duisburg, Germany

Canut Intl. United Kingdom, 12a Guernsay Road, London E11 4BJ, England

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ISBN: 978-605-9914-68-0

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Printed in UK

Lightning Source Ltd. UK

Chapterhouse, Pitfield Kiln Farm

MK11 3LW

United Kingdom

www.canutbooks.com

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Preface by the Author

I

With the establishment of the capitalist system and the development of the industrial revolution, capitalism ushered in the era of machines. It happened that “the bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together.” However, this momentum was increasingly constrained by capitalist relations of production, and the bourgeoisie was increasingly like the wizard who can no longer control the devil summoned by his magic. As a result, it had to suffer cyclical crises of overproduction. In these crises, a great part of the products as well as a large part of the productive forces has been destroyed. “In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity.”

During more than two hundred years since Britain had the very first economic crisis of overproduction in 1788 till 2008, there were a total of 28 economic crises of overproduction in the capitalist world, of which six occurred before 1825, namely crises in 1788, 1793, 1797, 1810, 1815 and 1819. As the crises in this period only occurred in some industries within Britain, the impact on the entire economy was quite small. The frequency of these crises was irregular, with a maximum interval of up to 13 years and a minimum of 4, so they should be referred to as local economic crisis of overproduction, which was an early form of capitalist economic crisis and cannot be regarded as typical. In some hundred years from 1825 to 1929, 13 economic crises occurred in the capitalist world, namely crises in 1825, 1836, 1847, 1857, 1866, 1873, 1882, 1890, 1900, 1907, 1914, 1921 and 1929. During this period, the crises essentially occurred and developed spontaneously in cycles, and the frequency was not only comparatively regular, but universal and worldwide, showing a trend of gradual intensification. The crises in this period were the typical form of capitalism in the period of free competition. From 1937 to 2008, 9 economic crises occurred in the capitalist world, namely crises in 1937, 1948, 1957,

1969, 1973, 1979, 1990, 1997 and 2008. Compared with those in the previous period, we see some new changes occurring in later crises. From the 1950s to the 1970s, due to the implementation of state's macro-economic control policies, the alternating process of the four-stage cycle of reproduction became more and more blurred; there was a gradually easing trend of the crisis; the synchronization and non-synchronization of the economic crisis in major capitalist countries took place alternately; there was a shortened trend of the cycle; and there was stagflation. However, since the early 1980s, governments adopted a policy of intervening in the economy as little as possible, which not only led to the frequency of crises repeating every decade or so, but also the extent of the crises has gradually increased, epitomized as cyclical financial crises. The crises have gradually moved towards a high degree of synchronization.

Before the 19th century, as the British Empire dominated the world economy, the vast majority of crises occurred first in England. When the United States dominated the world economy in the 20th century, of course the center shifted. Before the 1820s, the leading industry in England was the wool textile industry, and the phenomena of overproduction often occurred in this industry. When economic crises occurred, this industry was often hit hardest. After the 1920s, the cotton textile industry flourished and replaced wool textile as the leading industry. In the entire first half of the 19th century, the textile industry (including sectors which have direct contact with it) enjoyed an absolute advantage over all other industrial sectors, therefore the industry was always a major source of overproduction crises in that era, playing a leading role in the alternation between each stage of the economic cycle. It was always the first to face the crisis, and always the first to recover from the crisis. In the late 19th century, the development of the machinery industry and railway construction greatly stimulated the development of mining, metal smelting and machinery manufacturing, gradually raising these industries to become the leading industries that competed for leadership with the textile industry. They eventually replaced the textile industry in the late 19th century, and conquered the summit. Thus, these industries became the major source of the overproduction crisis, and played a dominant role in the development of the various stages of the economic cycle. Since the 20th century, the industries that played a dominant role in the national economy were mainly metallurgy, cement, machinery manufacturing and coal before World War II; the dominance then shifted to automobile manufacturing, shipbuilding, power generation, petroleum, chemicals, electrical appliances, electronics and other industries; since the 1980s, it has mainly shifted to real estate, financial services, IT industry and other newborn industries. With this change, the source of the overproduction crises has shifted to the respective sectors or industries.

Recalling the practice of capitalist economic crises in the past 200 plus years, each crisis has been unique and different from the others, however, their nature and characteristics were essentially the same. That is: The cyclical economic crises of overproduction were the inevitable companions of the capitalist mode

of production. It is the chronic disease that capitalism cannot cure. Within its own scope, capitalism can only alleviate the crises, but is not able to eliminate them fundamentally; the foundation of economic crisis is overproduction; the financial crisis is often the precursor of the industrial crisis, and it is often accompanied by the economic activities of rampant speculation; mostly or generally the crises always break out first in those countries that have a dominant position in the world economy, specifically, in the sectors or industries that have absolute influence in its national economy.

II

Marx had experienced seven typical capitalist economic crises in his lifetime. In the crises of 1825 and 1836, Marx did not do a follow-up study, either because he was young or because his research had not yet shifted to the economic sphere. Later Marx experienced the crises of 1847, 1857, 1866, 1873 and the early phase of the 1882 crisis. Since Engels' studies on economic issues and capitalism had started earlier than Marx's, when Karl Marx began to study the capitalist economic crisis, Engels had already discovered, in a general sense, the nature and some of the laws of capitalist economic crisis, and accurately predicted that the 1847 crisis would be more violent, and longer than any previous crisis. It is because of his study that Marx and Engels were able to describe a series of conclusions on the roots, nature, consequence and orientation of the capitalist economic crises in the *Communist Manifesto* published in 1848. From 1849 on, as Marx turned his research largely to the economic sphere, they began to study the history of economic crises in details, and absorbed all economic literature on crises of their contemporaries. In the meantime, they took a lot of excerpts and notes on issues related to economic crises, and carefully reviewed the details of the previous crises since 1825, trying to grasp all the details of the process of a crisis in the industrial cycle. They made a careful distinction between the symptom and the cause, and various other components of a crisis (These components include excess speculation and stock market crisis, credit crisis and currency market crisis, the commercial crisis itself and financial crisis, foreign trade crisis and gold outflow, general commercial crisis and banking crisis), trying to grasp the links between currency, credit and crisis. Meanwhile, in order to examine the results of previous studies, so as to continue to develop and improve their theories, Marx and Engels not only paid great attention exploring theoretical aspects of the capitalist economic crisis, but also closely observed the actual development of the capitalist economy. They paid great attention to the fermenting economic crisis of 1857, and conducted a study for many years before it broke out. As a result, not only did they foresee its explosion a year before the great crisis, but they also achieved a series of important theoretical results. These results are reflected in the *Economic Manuscripts of 1857-1858*. Marx also asserted that there was a crisis potential in the simple commodity production, and such a potential could turn into a reality. This is because in the capitalist production, the contradiction between use value and the value of a commodity is the contradiction between

the private labour and social labour components of productive labour, and furthermore it is the contradiction between large-scale socialized production and private ownership of the means of production in capitalism. This contradiction is concretely expressed through a number of limitations created by capitalist relations of production—which is based on private ownership of the means of production—to the development of socialization in large-scale production—the necessary labour is the limit of the exchange value of the capacity of the living labour or the limit of the wages of the industrial workers; surplus value is the limit of the surplus labour and development of labor’s productive forces (productivity); money becomes the limit of production; the production of use value is restricted by the production of exchange value and causes contradictions and conflicts. As these contradictions and conflicts escalate, the potential possibility of crises gradually develops into reality of cyclical economic crises. Therefore, the root of the capitalist economic crisis is the capitalist system itself, not some artificial casual factors. On this basis, Marx creatively revealed that the renewal of the fixed capital is the material basis of the periodicity of capitalist economic crisis, and thus pointed to the root cause of the periodic cycle of capitalist economic crises.

III

iv — In *Economic Manuscript of 1861-1863*, Marx’s theory of economic crisis achieved further development. Marx thoroughly criticized people like Say and Ricardo once again, who erroneously denied the existence of widespread repeated capitalist economic crises, and he also pointed out that Sismondi and some other petty bourgeois economists had serious flaws in their arguments on the inevitability of capitalist economic crises. Through his criticism on the crisis theories of bourgeois political economy, he further elaborated and developed his theory of crisis, and thus drew a series of important conclusions, that is, that the capitalist economic crisis is the manifestation of all the contradictions of bourgeois economy, it is the result of the full expansion of various contradictions of capitalism, it is the really comprehensive and compulsory equilibrium of all the contradictions of the bourgeois economic relations. The capitalist economic crisis is a movement of the unity of opposites of an economic relation. The normal operation of an economy means that its inner elements are in a unified state, and once these elements become separate and independent of each other, this development trend forces these elements to evolve towards reunification. This process of unification is called crisis. This contradictory movement process of the unity of opposites appears as the movement of the one and same process passing through two opposite phases, and thus it is essentially the unity of the two phases. This movement is essentially the separation of these two phases and their becoming independent of each other. Since, however, they belong together, “the independence of the two correlated aspects can only show itself forcibly, as a destructive process. It is just the crisis in which they assert their unity, the unity of the different aspects. The independence which these two linked and complementary phases assume in

relation to each other is forcibly destroyed. Thus the crisis manifests the unity of the two phases that have become independent of each other. There would be no crisis without this inner unity of factors that are apparently indifferent to each other.” “Crisis is the forcible establishment of unity between elements that have become independent and is the enforced separation from one another of elements which are essentially one.”

The cyclical capitalist economic crisis is cyclical and forcible recovery ensuing the cyclical disequilibrium of the proportional relation of the reproduction of social capital, because “all equalizations are accidental and although the proportion of capital employed in individual spheres is equalized by a continuous process, the continuity of this process itself equally presupposes the constant disproportion which it has continuously and often violently, to even out” (TSV2, 492).

Though Marx had not fully expounded on his research and conclusions, he was able to form the core of the Marxist theory of economic crisis.

After 1863, in his three-volume manuscripts of *Capital*, according to the principles of his original methodology, Marx discussed the process of economic crisis gradually transforming from potential possibility to reality. In *Capital* Volume I, in his analysis of means of circulation, of money and means of payment, Marx discusses the potential possibility of the crisis. In *Capital* Volume II, in his analysis of circulation of capital, turnover of capital and reproduction of social capital, Marx revealed a series of contradictions between production and consumption, between supply and demand and between the production and the realization of surplus value in the movement of the capitalist economy, and proved the intrinsic link between these contradictions and the economic crisis. Finally, in *Capital* Volume III, on the basis of revealing the law of accumulation and the law of the tendency of the rate of profit to fall in the capitalist economic movement, Marx thoroughly elaborated on the root cause of the capitalist economic crises and its impacts on the historical trend of the capitalist economic movement. Marx argued that the root cause of the capitalist economic crisis lay in the conflict between the development of the material production capacity and its social form in the capitalist economy movement: “The moment of arrival of such a crisis is disclosed by the depth and breadth attained by the contradictions and antagonisms between the distribution relations, and thus the specific historical form of their corresponding production relations, on the one hand, and the productive forces, the production powers and the development of their agencies, on the other hand. A conflict then ensues between the material development of production and its social form.” No matter what form the emergence of the economic crisis assumes, it forcibly alleviates some of the contradictions inherent in the capitalist economic development through great damages on productive forces. However, “The crises are always but momentary and forcible solutions of the existing contradictions. They are violent eruptions which for a time restore the disturbed equilibrium.” (C III, 244). When the development of the productive forces of a society can only continue relying

on the violent destruction of these productive forces themselves, this society will certainly not be able to escape the historical destiny of final collapse.

In the process of writing *Economic Manuscript* of 1861-1863 and *Economic Manuscript* of 1863-1865, Marx also conducted follow-up studies on the crises of 1866, 1873, 1882. But he did not spend so much time and effort compared to the 1857 crisis. He probably believed that he had recognized the basic elements of the capitalist economic crisis, such as its essence, cause, characteristics and transmission process, and grasped the general law of the periodical emergence and movement of the capitalist economic crises. His follow-up study and observation of the crises were, on the one hand, to test his theory that was created, and, were to discover new facts and new problems in order to further improve his theory on the other hand. In fact, as he created the scientific theory of the economic crisis, revealed the law of the emergence and the development of the capitalist economic crisis, Marx became the prophet of the capitalist economic crises, and he has accurately predicted several crises of his era. Even before the crises emerged, he has made correct predictions on the sphere and the extent, depth of the approaching crisis.

Nearly one century after Marx died, the capitalist economic system was accompanied by partial adjustments, such as the gradual advancement from shareholder system to monopoly capitalism, state monopoly capitalism, state intervention economy, the welfare state economy, and recently the international regulation of economic relations. The economic crises of capitalism also experienced certain changes: the transition from gradual intensification to gradual alleviation, the appearance of the cyclical and non-cyclical intersection of economic cycles, the appearance of indistinctness in the alternating process of each stage of reproduction, the simultaneous coexistence of excessive productive forces and massive unemployment, as well as the appearance of the interwoven coexistence of economic crisis and inflation. Faced with these changes, the mainstream Marxist economics in general has achieved to keep up with the times. In carrying forward the Marxist theory of the economic cycle, Marxists have achieved theoretical innovations to a certain extent and in a certain range, during their in-depth studies of the realities of economic crisis, especially on The Great Depression of the 1930s. They have explored and offered several new interpretations complying with the tenets of Marxist economics. Moreover, some Marxist scholars have made systematic studies on the cyclical economic crises having occurred since the establishment of capitalism, summarized and reviewed the Marxist theory of the economic crisis, proposing the disequilibrium theory, the theory of contradiction between production and consumption, collapse theory, under-consumption theory, over-investment theory, and the long wave theory. I should also mention orthodox textbook crisis analysis framework which was developed in socialist countries. Scholars also conducted deeper studies in the spheres such as the reason of crises, their transmission mechanism, their durations, the characteristics of each phase in the cycle, intermediate crises, structural crises and the phenomenon

of stagflation, and have put forward many valuable theoretical viewpoints. Of course, now and then some voices rebutting the Marxist economic cycle theory have also arisen among Marxist economists, triggering heated debates.

IV

Within the ranks of Marxist theorists since Marx, Rudolf Hilferding has recognized the inevitability of the economic crises, but he also argued that the advance of scientific and technological developments and the strengthening of the important role of monopolies, namely the emergence of organized capitalism would enable capitalism to be temporarily prolonged, crises to be alleviated, or at least the negative impacts of the crises on workers to be inhibited. Inheriting Marx's theory of economic crisis, Lenin criticized the non-Marxist thoughts related to economic crises, by pointing out that the very root of the capitalist economic crisis is the contradiction between the socialization of production and private ownership of capitalism. Since the basic contradiction is manifested as the contradiction between the organized production in individual enterprises and the anarchy of production in the whole industry, as well as the contradiction between the infinite expansion trend of production and the ever-diminishing purchasing power of the working class, the analysis of the capitalist economic crises was actually the analysis of these two contradictions, and many Marxist scholars, including Lenin, E. Varga, L.A. Mendelson, Jürgen Kuczynski and others have analyzed capitalist economic crises with this model, promoting the formation of a model with relatively sound structure, appropriate for the analysis of capitalist economic crises in their relations with war and revolution.

vii

In China during the 1950s, this model above was absorbed by our textbooks and became the standard model for analyzing capitalist economic crisis. But in the following decades, countermeasures to the economic crisis have emerged, and correspondingly, the reformed textbook model or “the basic contradictions” model as we call it in Chinese academy has been gradually formed. Gradually, the focus of studies has shifted from the analysis of the basic contradiction to the analysis of the contradictions between the basic contradiction and the arising countermeasures to the economic crisis. The analysis method became also more diversified, which has greatly expanded the scope of analysis of capitalist economic crisis, enabled its application not only for the analysis of its essence, but also for the analysis of its economic operations.

Western scholars following the tenets of Marx's crisis theory introduced further factors to analyze capitalist economic crises. In addition to the promotion of the academic contention, these works have also expanded the scope of Marxist economic analysis and understanding of the capitalist economic crisis, offering a valuable contribution. But some of them have criticized Marx's theory of crisis by employing the erroneous methodology of non-Marxist economics. One can ask, what will be worth discussing if the methodology of bourgeois vulgar economics—a theory which generally ignored the bare fact:

cyclical capitalist economic crises—are employed to refute the methodology of Marxist political economy. If we review the existing research literature on the studies of the long-wave phenomenon, the differences are difficult to bridge, but they offer two advantages worthy of recognition: First, the existence of long waves has been proved by using empirical analyses: statistical data, statistical methods, and IT technologies; second, the reasons for the existence of the long-wave phenomenon have been revealed from the perspective of political economy. Though not mature enough, the long-wave theory has become an effective tool for many scholars to explain the historical development of the world economy and a tool to predict global economic trends, and it also influences the strategic decision-making and macroeconomic policy choices and decisions in many countries.

V

Chinese Marxist scholars have first started to explore the issue of economic crisis and its cyclic character in the 1930s after the Great Depression. Initial studies were deeply affected by the economic theories of the Soviet Union, which to some extent restricted creative theoretical exploration. Nevertheless they have made extensive research and held academic debates on major theories and practical issues related to economic crises, and have published abundant books and articles, among which many have achieved breakthroughs.

viii

The fruits of their studies indicate that they have been successful in analyzing and understanding the capitalist economic crisis using the basic principles of the Marxist theory of economic crisis. They have kept pace with the times, actively observed new changes in the capitalist economic crisis, and interpreted the new phenomena and new features employing Marxist economics and basic methods of the Marxist economics. They have actively promoted and participated in academic debates on major new issues. They have also made positive innovations, and adopted new scientific methods to enhance theoretical analysis.

Innovatively employing the Marxist theory of economic cycle, Chinese scholars have established an entirely new field of study – the research of China’s socialist economic cycles. Since China’s socialist economic construction required the study of the fluctuations in the socialist economy initially the motive and purpose of the research contained strong practical features, namely to control the cycle. Accordingly when the research started, the scholars strived to prove the objectivity of cyclical fluctuations in the socialist economy with the basic principles of Marxism. Along with the deepening of the research, the scholars combined methodological innovations with theoretical innovations, introduced modern statistics, metrical, quantitative and other methods, while maintaining the traditional analysis of contradictions, which has greatly improved the analytical capacity and ability to explain the economic cycles. In the process of forming the socialist economic cycle theory, Deng Xiaoping’s idea of “development in steps” has played an important supporting role. Today, I can say that the design of China’s economic cycle study has already grown

quite mature, that is: study of methodology → description of fluctuation → explanation of fluctuation → construction of theory → examination of reality → revision of methodology → revision of the explanation of the fluctuation and of the theory for the analysis of cycle. The achievements by Chinese scholars on socialist economic cycles have become an important foundation for macroeconomic management, and a specific discipline that closely combines theory and practice.

VI

Initially the writing of this book aimed to study the Asian financial crisis of 1997. The original motivation was to generalize a more comprehensive, effective and reasonable theoretical model of Marxist economic crisis and cycle for analysis and feasibility. As the study deepened, the author became increasingly aware that a lot of study was necessary for summarizing Marx's theoretical analytical model for economic crisis and cycle. To elucidate the origin and development of this model, as well as its development and evolution after Marx, it is apparent that even more time and study was necessary. It was difficult to complete in a short period.

In order to figure the problem out, and achieve substantive results, the author decided to conduct a research and to write on the special topics of the crisis theories of Marx and Engels. This needed revisiting its formation and its relationships with the analytical model of classical economists. This anterior part includes two topics. After that, the study includes the historical sequence starting with the Marxist theory of economic crisis and cycle, the evolution of economic thoughts and analytical models, and ends with the review and reflection on the issue of Chinese scholars' studies of socialist economic cycles, which involves a number of topics. When studying and writing on these topics, the author's short-term goal was to publish in academic journals and bring together a special book in the long-term, so some parts of the content in the book is already published. Due to this reason, each chapter of the book is a thematic paper, relatively independent in format and integral in content. Such a structure has both strengths and shortcomings. The strengths are that readers can have a more comprehensive understanding of the content offered under a topic, and the shortcomings are that there are partial crossovers in some chapters. It should be noted that, the book is to build a theoretical system in the form of topics, but it does not affect its logical structure. The unity of logic and history is invariably followed, and the chapters are unfolded in a smooth manner.

The author believes that this research topic has great theoretic and practical significance, but he has no idea of what the result will be. Due to limitations in his ability and other objective conditions, there might certainly be ample errors in the book, thus criticism is sincerely welcome.

Beijing, 2009

Introduction

The Significance of Independent Innovation in Chinese Economics and Studies on the History of Economic Thought¹

In our view, as can be observed in the Western academia, the discipline of history of economic thought, although in equal footing with western economics and political economy has been seriously neglected when compared with the other disciplines of economics. Since the discipline is not getting any financial support, and receives the least funds, the brain drain seems extremely severe, thus the research and the teaching of the history of economic thought in some universities almost faces a standstill. Generally speaking at present, this discipline lacks successors in China.

How to revitalize the study of the history of economic thought? This is an important issue that cannot be ignored and must be tackled immediately in the development of economics in China. We believe that the independent innovation in Chinese economics could provide a historic opportunity for the revitalization and major innovation in the history of economic thought. Based on this consideration, we shall first discuss why we need to have independent innovation in Chinese economics, and then talk about the important effect of the study of the history of economic thought on the independent innovation in Chinese economics. Finally, we will offer a brief discussion on Jia Genliang's idea of new history of economic thought. Of course, our statements presented below are just our own understanding and perception, and these preliminary views are put forth in the hope of getting attention and correction from our colleagues.

1 Co-authored by Jia Genliang and Yao Kaijian.

Why Innovation in China's Economics

Let's start with the first book of the series, "The International Movement of Reform in Economics", an academic movement which opposes the domination of Western "mainstream" economics in the academy, formerly called itself as the "post-autistic economics movement". In English, "autistic" is a psychiatric term, referring to "self-closedness", "fantastic" or "fictitious". When the French students launched the movement in 2000, they used this term to accuse Western mainstream economics as being "self-enclosed economics", which implies a strong criticism against those serious problems in economics education and study in Western countries. Some researchers have suggested that the rise of "the international movement of reform in economics" marks that the western economics is faced with the most serious crisis since the Great Depression.

However, unlike the rebellious movement by the economics students of France, Britain and the United States; since the mid-1990s, there occurred an idolatrous trend of Western mainstream economics which keeps rising in China's economics circles. If one reviews the literature of the international movement of reform in economics, it can be easily found that this dogmatism is no more than Western mainstream economics being pirated into China. Whether in China or in Western countries, such a dogmatism essentially regards the Western mainstream economics as the only scientific economics, and demands that this paradigmatic advocate and practice should be accepted as the "desired standard" which all economic disciplines need to follow. It encompasses all aspects of economics sphere, including the teaching, scientific research, personnel selection, etc. suggesting that the Western mainstream economics could systematically dominate the entire relevant sphere.

2

We believe that the Chinese economics circles should think carefully and inquire the issues addressed by "the international movement of reform in economics", but not ignore it. If we have not had the in-depth study of the scientific basis and crisis situations of the western mainstream economics, or not taken into account the economic type China needs, but stubbornly continue to implement the Chinese economics education system towards the entire Western mainstream economics on a large scale in accordance with the accepted neo-classical paradigm, it is undoubtedly irresponsible historically. We know that, economists believe in the rational concept of reflection or introspection as the first prerequisite, and it is said that they recently began a cutting-edge research on beliefs and cognitive patterns. However, they really should first look at their own rationality, beliefs and cognitive patterns, and the rationality, beliefs and cognitive patterns of economists are essentially constituted by the philosophical foundation or the world view of economics. Therefore, it is necessary for us to have a brief examination.

It is hard for economists to deny the decisive influence of the philosophical basis on the paradigms of economics; accordingly William Stanley Jevons and Léon Walras are widely recognized as the pioneers of modern western mainstream neoclassical economics. However, as for the philosophical foundation of Western mainstream economics, Nicholas Georgescu-Roegen once wrote the famous words, “When Jevons and Walras started the foundation for modern economics, and one amazing revolution in physics swept the mechanistic dogma in the field of natural science and philosophy. Curiously, architects of ‘effectiveness and selfish mechanics’, or even the more recent model designers do not seemed to notice this decline timely”. Currently, the Western mainstream economics still adhere to the mechanical reduction theory as the fundamental rationality – individualism – a balanced view of the world, and never go one step further. This old-fashioned view of the world has increasingly shown its serious flaws in dealing with the increasing complexity of the modern economic life.

Because it is based on the establishment of the above-mentioned mechanical, static and closed worldview, the Western mainstream economics considered the mathematical formalization of economics as a universal, or even the only scientific method, and therefore established an academic norm. However, examining its scientific and philosophical base, we will find that whether it is the assumption of the closed system or the standard of inner compatibility, the mathematical formalization of economics cannot guarantee its real relevance to mathematical methods because of its own shortcomings. The mathematical formalization of economics has largely driven economics away from the reality and away from the science increasingly, and this is because science cannot be divorced from reality. As for the point of view that Western mainstream economists believe the science of economics depends on mathematical formalization, French economists who support the economic reform movement pointed out that it is childish and ridiculous to link science and the use of mathematics, and it is a deception to limit the controversy on scientific status of economics in the issue of whether to use mathematical or not. (Edward Fullbrook, 2004).

Thus, for a long time, many economists including some Nobel Economics Prize winners had fierce criticism on the mathematical formalization attitude, because mathematical formalization is institutionalized in the economic circle in the West, it has become a chronic malady that cannot be eradicated. When talking about the issue in *Economics in the 20th Century: A Century of Lost Opportunity*, Geoffrey Hodgson once noted very pessimistically that the formalistic approach does not require knowledge of the history of economics, nor even need to understand the history of actual economics. Formalism is growing and self-reinforcing, just like bad money drives out good money. If economics were not dead, it is dying. Whether economics is left to rot or beyond cure, within the current framework of prevailing economic system, the hope for recovery is extremely slim (Geoffrey Hodgson, 1999).

However, if we look closely, we will find two very interesting phenomena. First of all, there are some defects or others in various study traditions of Western heterodox economics thought, its intuitive sense suits the new worldview of the modern natural science, and it also eliminates the scientific thinking of the mathematical formalism in understanding the nature. However, various schools of Western heterodox economics have also created a strong sectarianism in the long process of development, tending to overestimate themselves but to belittle others, or even having the dogmatism towards its own ideological traditions, such as Paul Davidson, the Post-Keynesian school representative, who asserted that *The General Theory of Employment, Interest and Money* by John Maynard Keynes is the only real alternative to the neo-classical theory. Second, the keen interests on economic issues from other disciplines in social science are being rapidly developed. Currently, many scholars of School of Business, Department of Sociology, and other departments or even institutions of the public policy are engaged in economic research, which is reality-oriented and public-oriented, and its excellent research is mainly found in the publications of School of Business, Technology Policy, Public Policy and International Relations, or published as a book, rare to be found in the authoritative *Journal of Economics* (Hodgson, 1999). However, studies on economic issues beyond economics faculties are often not recognized as a proper economics study by Western mainstream economics.

4

However, these economic studies beyond the Western mainstream economics, especially the study of evolutionary economics are, in fact, the components of the new paradigm of the evolutionary science, a potential tide widely surging in various disciplines of social science. The evolutionary social science is the trend in the future development of disciplines of social science, while the Western mainstream economics has been locked in the traditional paradigm of economics and cannot escape. Thus, it is not a disaster, but an opportunity for China's economics to be behind the West in the development of the old paradigm of Western mainstream economics, because the observation of the history of economic thought confirms the "allopatric speciation" in evolutionary biology: the formation and evolution of a new species will move away from regions of a huge number or being competitive of the original species, and a new economics is most likely to achieve a more complete development in outlying semi-edge areas where the original paradigm of economics is locked through the "punctuated equilibrium". In this case, it is a real case that China must have an in-depth study of economics of innovation in the following issues: how to avoid repeating the mistakes of Western mainstream economics, and absorb a useful gain from Western heterodox economics but avoid its sectarianism, while incorporating the economics studies in which the scientific community in Western society are engaged beyond economics faculties into our system of teaching and research in economics.

However, China's independent innovation in economics did not just eventuate from observing the trend of Western social science development, but more from the awareness of The China question. At present, in less developed countries the theories of economic development still lags behind and as the world's largest developing country, China should make an important contribution to this in the process of achieving economic take-off. China has achieved remarkable success before entering the new century, but as alerted by many serious difficulties faced in the recent years, past success does not guarantee future to be the same, and currently we still do not have a deeper understanding of our past successes. Many serious difficulties we currently encounter suggest that, the economic development mode based on comparative advantage, relying on foreign investment and external demand, and lacking the effective protection of the national industry and the majority of workers cannot sustain, especially in the face of the challenge of the new techno-economic paradigm revolution, China's future economic development is still a major and pending issue of economic theories. With regard to solving these problems, the failure of "Washington Consensus" marks that there is a serious flaw in the western mainstream economics, and the current Western heterodox economics fails to cope with this challenge. In this case, China's economics has no other way but develop independent innovation based on the China question, and thus achieve the strategic objective of serving China's economic development.

The Significance of the History of Economics and the Independent Innovation of Chinese Economics

The main objective of the independent innovation of Chinese economics is to solve the China question, and to develop the new paradigm of evolutionary science. In this case, we must always keep acute problem awareness in mind. However, whether we can raise the special and specific, but original theoretical propositions on the China question as well as find a strong and creative answer through the evolution of a new paradigm of scientific development, depend on the profound subsidiary awareness obtained by Chinese scholars through a variety of ways imperceptibly. The subsidiary awareness is what Michael Polanyi called the tacit knowledge inherited from the scientific tradition or cultural traditions. Therefore, the question is what types of subsidiary awareness does Chinese economics need for independent innovation? First of all, as for the less developed countries, since they encountered some important theoretical propositions quite different from the developed economies, the subsidiary awareness generalized by the contemporary and historical experiences and theories on the historic transformation from the less developed economies to the developed economies is essential. Second, the new paradigm of evolution is in some way behind the modern natural sciences in economics, or even in the whole social sciences, and therefore, absorbing nutrients from a wide range of philosophy and modern natural sciences became the basic precondition of the independent innovation in Chinese economics. Finally, the evolution of a new paradigm of

science has affluent pioneering thoughts in the history of Western economic thought, and it has also some amazing similarity with Chinese philosophical tradition (Jia Genliang, 2004). Therefore, it has become a basic theoretical work in the independent innovation efforts of Chinese economics to give answers on the issue of the creative transformation in the subsidiary awareness extracted from the knowledge of history of thought with a new vision.

With the above-mentioned subsidiary awareness, studies on the history of economic thought will undoubtedly provide an important source of inspiration for the innovation of economics, and it is especially true nowadays when the new paradigm of the evolution science is unfolding in economics. The history of scientific development tells us that at the critical moment when a crisis occur a revolution of paradigm brews in a discipline, it is essential to reflect the history of the discipline itself. Thus, the famous physicist Jules Henri Poincaré wrote between the early 19th century and the 20th century when the revolution in physics occurred, “in order to foresee the future of mathematics, the correct approach was to study its history and status quo.”

Similarly, if we do not know the history of economic thought, we will not know where to inject the innovation. George Lennox Sharman Shackle, the economist influenced by Austrian economics, said it well: “The theorists of creation need ruthless self-confidence. They must overthrow the understanding of hundreds of people, and their first instinct is to resist and counterattack.

6 However, the reconstruction of the theory should inevitably use many of the old material. The sincerity about the theory of the past is not only respectable, but essential. The invention without the reference to the tradition will be very difficult” (Hodgson, 2008). Well, in terms of the independent innovation of China’s economics, what significance does the history of Western economic thought have?

First, it helps to develop pluralistic thinking in economics, and hinders the dominance of the Western mainstream economics. Pluralism in economics is one of the core aims of the “International Movement of Economics Reform”, which advocates the formation of intellectual pluralism pattern within the internal economics, promote competition among different approaches, theories and paradigms on an equal basis, and oppose the dominance of Western mainstream economics. The so-called pluralism in economics is, in Uskali Mäki’s words, “a world with more than one theory” (Uskali Mäki, 2005): the objective world is exclusively unique, but it is composed of numerous things, complex evolution and uncertain future, and therefore, since observers have different angles, the world will demonstrate its diversity, and the interpretation will also possess diversified, mistakable and deficient features. In accordance with this view of pluralism in economics, the simple and static study paradigm of the Western mainstream economics is fundamentally flawed. Nonetheless, it is still a method to study the real world. The independent innovation of Chinese economics does not deny its value, but commits itself to the development of a more complex and dynamic new paradigm of evolutionary science.

The study of the history of Western economic thought can provide a wide field of view for such kind of pluralistic thinking. There is a basic fact in the history of development of economic thought: There has always been different research traditions within economics, and even within the same study tradition, there are different study methods and paradigms; Moreover, mainstream and non-mainstream are not static in their status, a heretic trend in a country or in a certain historical period is likely to become a mainstream doctrine in another country or in another historical period. For example, while the classical political economics and neoclassical economics dominating the development of British economics, the German Historical School and the old American school were once the mainstream economics of Germany and the United States between 1840 and 1940 and in the early 20th century respectively. On the other hand, the mainstream neoclassical economics earned the mainstream status in the United States and Continental Europe only after World War II, but was still rejected by a number of Western heterodox schools.

Ignoring these basic facts in the history of economic thought, our economists had once popularized the dogmatic point of view that “there is only one economics” assuming the principles of economics to be unitary and unified, economics should not have national differences, meaning that there is only one real economics in the world, the “modern economics” represented by the neoclassical mainstream economics. Even there is a famous economist who argues that the theories of the mainstream and non-mainstream economics are the same, since both the current mainstream economics, and the most basic theory of economics still advocates the general equilibrium theory, or known as the modern concept of general equilibrium theory by Gérard Debreu. It has a very solid foundation, and there is no other set of logic developed to replace it, but to supplement, amend and develop on its basis (Jia Genliang, 2006). These views are clearly untenable, and invalidate the need for the independent innovation of China’s economics. As for the status quo, the study of the history of economic thought has to assume the fundamental function of emancipating the mind.

Secondly, according to research report published by Gulbenkian Commission on the Restructuring of the Social Sciences, “ The conceptual framework offered by evolutionary complex systems as developed by the natural science presents to the social sciences a coherent set of ideas that matches long standing views in the social sciences, “ (quoted from Wallerstein, 1997), we believe that the evolutionary thought in the history of Western economic thought is the most abundant in the history of Western social sciences, and the study of the history of economic thought can make three fundamental contributions to the development of the new paradigm of evolutionary science in economics, and even in social sciences as a whole: To provide essential supplies; to provide historical experiences and lessons for the success in theoretical innovation; to provide new ideas and sources of inspiration for important theoretical issues which is not well attended or even neglected in the current development, thus new theories can be built upon the solid foundation of the history of thought.

In the history of Western economic thought, pioneer ideas in evolutionary economics can be traced back to philosophy and economics in the Renaissance period, including historical school and Marxist economics, but the modern evolutionary economics is the product of Darwinian revolution. Affected by the Darwinian revolution, in his classic essay “*Why is Economics not an Evolutionary Science?*” in 1898, Thorstein Veblen created the term “evolutionary economics”. Moreover, he proposed an ambitious research program, trying to turn economics into an evolutionary social science. Between the late 19th century and World War I, the evolutionary thought was quite popular in the economic circles, and Alfred Marshall once wrote that: “The Mecca of the economist lies in economic biology rather than in economic dynamics” (Alfred Marshall, 1897). However, as the development of the evolutionary doctrine fell into its “dark age” between the early 20th century and 1940s, the evolutionary paradigm in economics was ignored and was no longer popular after the 1920s. After World War II, as the neo-classical economics became increasingly dominant in the western economic circles, the evolutionary paradigm in economics was caught in a state of silence. Only after the 1980s, the evolutionary economics began to revive. Currently, the concept of evolution has become such a popular term in economics that the evolutionary game theory and economic theory of complex systems are claiming to be part of the evolutionary paradigm in economics.

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However, according to modern cosmology of open systems and the specific nature of social sciences, evolutionary game theory and economic theory of complex systems cannot be classified under evolutionary economics, and they also do not belong to the early attempts and try its early pioneer thought of the new paradigm of evolutionary science in the history of Western economic thought. From this perspective, the study of the history of Western economic thought is the basic approach to the insight into the future development of economics, and the evolutionary economics in particular. Because Thorstein Veblen had provided one of the earliest and most profound Darwinian explanations of the evolution of the society – economic system, Geoffrey Hodgson has pointed out: “in order to reconstruct the development of institutional economics, and avoid redundant discovery in science, we had to make backtrack in large span of time, revisiting the controversies that occurred on evolution in 19th century and early 20th century, and revisit the intelligence world of Charles Sanders Peirce, William James, Thorstein Veblen and John R. Commons, and discovered that what we want to say has been much talked about in the past” (Geoffrey M. Hodgson, 2005).

Because rich ideas were created on evolutionary thought in the history of Western economic thought, for future development of the new paradigm of the evolutionary science, revisiting the history of Western economic thought has become a fundamental theoretical work. If we review the two books by Geoffrey M. Hodgson on the history of economic thought published recently (i.e., *How Economics Forgot History: The Problem of Historical Specificity* in

Social Science in 2001 and *The Evolution of Institutional Economics: Agency, Structure and Darwinism in American Institutionalism* in 2004), we can conclude that these works include the following three basic constructive roles on the development of the new paradigm of the evolutionary science.

Firstly, as Hodgson pointed out in the preface of his book in 2004, the purpose of studying the history of economic thought “is to regain materials from the past and to build something new.” For example, issues about the relationship between activity and structure have not been completely resolved yet in current economics or even in social sciences as a whole. Hodgson believes that the answer to some of the unresolved issues seems to be found mainly in some American literature (basically from the 1890s to the 1920s), and it will give us valuable intellectual inspiration and guidance to re-examine these literature, which is probably the motive that Hodgson conducted specific study on agency, structure and Darwinism in American institutionalism.

Secondly, the study on the history of economic thought can provide valuable experiences and lessons for the new development of the evolutionary paradigm in order to avoid detours. For example, through his study on the history of thought of American institutionalism, Hodgson reveals why the old American institutionalism deviated from its original Darwinian vision in its later development, the lesson of which is still worth pondering and drawing today.

Thirdly, the study on the history of economic thought can discover important theoretical issues which are not well attended or are neglected in the current development of the new paradigm of evolutionary science. For example, situational and context-specific theories and methods (historically specific issues) were just being taken seriously in the past few years, which had in fact been recognized by Karl Marx and other German historical scholars as early as in the 1840s, and had once become the central issue of the theory in the past hundred years. Hodgson’s book in 2001 will undoubtedly promote the evolutionary economists to pay more attention to this important theoretic issue, and learn many lessons from studying the history of thought as well.

The last but most important issue of the study on the history of economic thought on Chinese economic innovation is: To explore policy tools, institutional measures and the “development strategy” the current developed countries took when they were in a poor status, so as to achieve the goal of getting rich; as the foundation of these policy tools, institutional measures and “development strategy”, how the economics proceeded discussion; in the era of economic globalization and the revolution in information, are still valid. Through this study, the history of economic thought can provide a reference to solving the China question directly. In this regard, Xiazhun Zhang, a development economist at the University of Cambridge and Norwegian economist Erik S. Reiner had made outstanding contributions, in which their study on how the developed countries were developing in the history had posed a serious challenge to western mainstream economic theory and to “Washington

Consensus”, providing an alternative idea for developing countries to devise a development strategy.

Through the in-depth study of the history of Western economic thought, economists, especially represented by Erik S. Reinert, proposed the “knowledge and production-based alternative economics of canons” (Erik S. Reinert, Jia Genliang, 2007), which had been existing in the economic thought of mercantilism, American School, the German Historical School, American institutionalism and Schumpeterian economics, and has been extended to the modern times since the Renaissance. This is an economics which considers production, knowledge, innovation, collaboration, thus increasing returns and the consequently institutional change as the core mechanism of the economic development. The reason that the United Kingdom, Germany, the United States, Japan and South Korea have been rising is because they accepted the basic rule of the alternative economics of canons when they were in a poor status. Now, it can still provide an important theoretical and historical experience of thought for us in building an innovative country, and provide an important source of ideas for the innovation of Chinese economics as well, which constitutes an important part of the study of the so-called “New History of Economic Thought”.

Preliminary Ideas for the Study of the “New History of Economic Thought”

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Since the study of the history of economic thought has very important significance to the Chinese economic innovation, how do we engage in this study? We believe that, according to the two main goals of the independent innovation in Chinese economics, we are faced with two new tasks in the study of the history of Western economic thought. The first task is to rethink the architecture and the evolution of the history of Western economic thought from a philosophical basis and in accordance with the modern cosmology, sorting out the history of evolution in economic thought and making new exposition. This can only be done by having a profound insight to the essence of the modern cosmology and to its embodiment in the new paradigm of social science on the philosophical basis. Generally speaking, in stark contrast to the Newtonian time-reversible typological thinking, static, atomistic, closed worldview and mechanical determinism, the modern cosmology is characterized by the Darwinian time-irreversible, population thinking, dynamic, organic, open and uncertain worldview. However, the current education of economics cannot meet the study needs of this “new history of economic thought”, and therefore, the “new history of economic thought” itself must bring up a large number of well-trained economists from a philosophical basis, especially the philosophy of social science in the latest progress.

However, the relationship between the history of economic thought itself and the modern cosmology is definitely not in a passive position and studying the history of economic thought has roles of initiative inspiration and

promotion in understanding the embodiment of the modern cosmology in the new paradigm of evolutionary social sciences. The reason is that, as the Nobel Prize winner Ilya Prigogine has sharply pointed out, the classic (natural) science does not recognize the evolution and diversity of nature; the modern cosmology was born in the great revolution in biology in the second half of the 19th century and in physics in the late 19th century and the early 20th century, while the revolution of complexity in the natural sciences further enriched this new cosmology in the second half of 20th century. However, if we have some basic knowledge of this modern cosmology, we will find that the modern evolutionary economics, by the intuitive sense of many western pioneers in the history of economic thought, is somehow consistent with the cosmology provided by modern natural science, and the theoretical work has simple elements of modern cosmology. We can even say that they have some ideas of modern cosmology pioneers.

It is because of these reasons, when we re-determine the direction of development of the modern economics in accordance with the new paradigm of the evolutionary science, the history of economic thought must be rewritten. For example, as the revolution of the complexity in natural sciences was accepted by some economists, they took a new vision to re-examine the history of economic thought, which is illustrated by the fact that in 1998 the History of Economic Thought Society of the United States had a special discussion on the complexity theory in the history of economic thought, and published a book (David Colander, ed., 2000). According to the study of these scholars, when we look through the lens of complexity theory, some economists who had originally high position in the history of economic thought, such as David Ricardo, had their status greatly declined, and scholars who were neglected or not even being considered as economists, such as Charles Babbage quickly rose from obscurity to a prominent position. David Colander, the chief editor of this book also pointed out that in the history of economic thought the most interesting stories about the view of complexity have something to do with the heretical economists, many of whom have some ideas approaching to the conception of complexity. In fact, the heretical economists David Colander talked about here are basically what we call pioneers of the evolutionary economics. However, compared to the rich evolutionary thought in the history of Western economic thought, we can only get a very partial understanding at most by observing the history of economic thought according to the complexity theory.

However, if we re-observe the history of Western economic thought by modern cosmology, we will find that since the Renaissance, there had been two very different economics study traditions in the history of Western economic thought: One is the study tradition dated from Mercantilism, American School, the German Historical School, Schumpeterian economics and even Marxist economics until the modern evolutionary economics, while the other is the one dated from physiocracy, David Ricardo, “vulgar economics” and Marginal Revolution, etc. until the modern neoclassical economics. The former tradition

is, in the eyes of the Western mainstream economists, the heretic and subjected to denigration, while the latter is regarded as orthodox and respected. However, if the study is from the perspective of the “new history of economic thought,” we’ll come to an exact opposite view: The heretical economics study tradition in the eyes of the Western mainstream economists represents the future of economics. Therefore, the first important task for the “new history of economic thought” to re-sort the history of economic thought following these revolutionary ideas, providing an ideological source for the independent innovation of China’s economics. For example, in the economic system of some very important economists, such as Adam Smith, Karl Marx and Alfred Marshall, these two study traditions coexist. However, the current textbook on the history of economic thought neglected seriously, or even completely the economic evolution ideas of these economists, and did not discuss them at all. Therefore, if we rethink of and further explain the theoretical system of these economists according to two major study traditions in economics, we can obtain important innovative results from the study of the history of economic thought.

What we discussed above is the first task for the study of the “new history of economic thought”. Therefore, what is the second task for the study raised by the independent innovation in Chinese economics? We have already pointed out, for the independent innovation in Chinese economics, the significance of studying the history of economic thought is that, it can solve the China question and propose special and specific theoretical propositions to support subsidiary awareness. Therefore, the second task raised by the “new history of economic thought” is to take the awareness of the China question as the core, studying the relevant history of economic thought on the successfully historic transformation of the current developed countries from an underdeveloped economy to a developed economy, studying the relevant history of economic thought on the successful settlement of challenges similar to the ones we facing currently in the development process; combining with the technology revolution of information and communication, China’s national conditions and major changes in the international environment in which our country is facing, studying to what extent these historical economic thoughts are still valid; studying whether these economic thoughts need to be discarded, or corrected and developed under the new conditions. Through these studies, the discipline of the history of economic thought can provide important subsidiary awareness for solving the China question.

To achieve this goal, the scope of studying the history of economic thought must be expanded. In addition to the study of the history of economics or the history of economic thought, both of which are comparatively systematic, we must also study the “history of economic policy thought” in combining the history of economics and the “history of economic policy”. The history of economics and the “history of economic policy” do not belong to the scope of the history of thought, but there is no reason for us to exclude the “history of economic policy thought” from the study of the history of economic thought.

However, the current focus of the study of the history of economic thought is on the history of economics as a system, with the emphasis on the abstract economic theory based on the particular assumption while ignoring those economic thought of lower abstraction, which are based on practical observation and historical experience, and which sometimes may not be regarded as an economic theory. Particularly, we tend to ignore those economic thought which had once had a significant and practical influence on economic policies and economic management but was not a system, or even the ones to be summarized. However, when facing with very difficult major problems in the process of catching up with the developed countries, and trying to seek to learn from the solutions of developed countries at a similar stage of development, the underdeveloped countries need in particular, the latter two types of study which are ignored or even not existed in the current study of the history of economic thought. It is because of this reason, the economic theory based on practical observation and historical experience, together with the “history of economic policy thought”, constitute the important content of studying the “new history of economic thought”.

Due to space limitations, we only take *The Great Transformation: The Political and Economic Origins of Our Time* (1944) by Karl Polanyi as an example to illustrate the importance of the economic theory based on practical observation and historical experience. With its emphasis on the economy in Western Europe, the book by Karl Polanyi analyzes the process of how the socio-economic status in which the market was severely regulated in the 18th century, transformed into the uncontrolled market economy in the 19th century, and then how it transformed into one in which the market economy was constrained and the state intervention was implemented. The latter transformation is referred to as the “great transformation”. Based on the history of Western economics from the 19th century to the 1940s, Karl Polanyi proposed a theory: ... a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and the natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Therefore, the society is bound to take measures to protect itself. From the date of birth of the self-adjusting market system, the social security will inevitably become its accompaniment.”The social history in the 19th century is the result of a double movement”: On the one hand, market expansion extended around the world, and the number of goods involved grew to an incredible size; but on the other hand, at the same time there is a backlash with the purpose of fighting against the harmful effects of the market economy. Karl Polanyi noted that social protection which avoids the inherent risk of self-adjusting market system is the most inclusive characteristics in the history of this era.

However, despite the free market and social protection go hand in hand, the trade-off between these two forces has presented as a long-term cyclical movement: If the laissez-faire movement ignores the polarization, unemployment

and the state of social unrest it has caused, it will eventually and necessarily trigger a countermovement of social protection in order to counter its serious harms. Especially when a state goes further with the free-market economy, the recoil of the society will be more powerful. However, as Karl Polanyi pointed out that any measures taken will harm the self-adjustment of social market, destroy the organization of industrial life and therefore harm the society in another way. Karl Polanyi's implication is that such long-term "double movement" of free market and social security has not been able to maintain a non-pendulum balance, and sometimes it can even lead to major social disaster. For example, as the reaction to the laissez-faire movement in the late 19th century, the different intensity of reversal social protection campaign produced four different types of society, namely welfare state, Soviet socialism, German fascism and South-eastern Asian developmental state, in which the fascism caused unprecedented disaster for the human beings and society.

The famous book by Karl Polanyi is "unknown" in the history of Western economic thought, but his theory mentioned above (we can call it theory of socioeconomic history) provided a sharp scalpel for us to understand various theories of economics from the 19th century to the 20th century, as well as a profound insight into recognizing serious socioeconomic problems contemporary China is facing. In commemoration of the 30th anniversary of reform and opening up, we can clearly see that China is currently in a turning point far more serious than the social protection emphasized in Karl Polanyi's "double movement". Serious social polarization, domestic demand not started for a dozen years, failure in health care and social security reform, immoral behaviour of the market (such as 2008 Chinese milk scandal and a series of events), "three rural issues", and the destruction of resources, environment and ecology, as well as a large part of the Chinese economy controlled by foreign investors, etc., all of which suggests that a "great transformation" is needed in China's reform and opening up in the future.

Consistent with Karl Polanyi's "great transformation", if China's reform and opening up is placed under the international backdrop of periodic alternation between free trade and trade protection (state intervention) in the history of economic thought, we can also observe that, since the rise in the 1970s, the neo-liberalism had its development momentum decayed when entering the new century, since when the pendulum of periodic alternation began to swing to state intervention and the protection of national industry in the developing world (Jia Genliang, Huang Yanghua, 2008). Currently, the process of economic globalization has come to a halt, and the collapse of the Doha Development Round Negotiations and the outbreak of the U.S. economic crisis is an important signal that the process of economic globalization may reverse. The core of our current great transformation is to curb the devastating effects of the free market economy and to put Chinese economic reform back on the healthy track of the independence and prosperity through a series of institutional construction and policy measures such as social protection, protection of national industry

and environmental protection, etc. However, our mainstream media still propagandizes the clichés of the so-called “firmly adhering to the market-oriented reforms” by the agent of neo-liberalism in China, and one of the important reasons is the lack of knowledge of the history of economic thought, especially not understanding the results of economic theory which is based on practical observation and historical experience in the history of economic thought.

We believe that the study of the “new history of economic thought” has broad prospects in China, and it is an endeavour worth efforts for the Chinese economic circles. Currently, the foreign studies on the history of economic thoughts has accumulated a lot of new ideas and new materials, and began to overturn the traditional ideas and theories in the aspects of dominant mercantilism, physiocracy, Adam Smith, the German Historical School and the neo-classical economics, etc. However, these new ideas and new materials are still excluded by the mainstream Western economics from the textbook on the history of Western economic thought. In this case, the current textbooks on the history of Western economic thought have largely become the tool to maintain the dominance of the Western mainstream economics. Therefore, guided by the Marxist philosophy of science as well as new developments in the philosophy of science under critical realism, taking the tough challenges China is facing as the core, re-sorting and rewriting the history of economic thought in accordance with the two study traditions in economics has become a cutting-edge issue in the development of China’s economics. It can vigorously promote the independent innovation in China’s economics, and more importantly, it can make a positive contribution in solving many important and practical issues in China’s economic development.

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