

# Analysis of the Formation and Revelation of International Financial Crisis Based on the Theory of Economic Crisis

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**Abstract:** At present, China is in a new period of rapid development, and a sound financial market and regulatory system is necessary to meet the needs of the market economy, achieve rational allocation of resources, and serve the real economy with financial precision. On this basis, this topic intends to explain the causes and essence of the occurrence of the current international financial crisis within the perspective of economic crisis theory, and on this basis, to discuss how to use economic crisis theory to control and contain the occurrence of the international financial crisis from the new development stage, so as to provide reference for our country to prevent and cope with financial risks in the new development stage.

**Keywords:** Economic Crisis Theory, International Financial Crisis, Financial Risk.

## 1. Introduction

Along with the continuous promotion of economic globalization, the world economy has also exhibited several characteristics such as globalization of trade, globalization of investment, globalization of production and financial globalization. It is because of the close connection between production activities and financial capital in the world that the productivity of human society has been increased as never before. However, at the same time, the international financial crisis has gradually spread from the financial market to the real economy and from specific regions to the global scale.

The so-called economic crisis is a series of failures in the functioning of the market due to the relative excess in social production activities under the capitalist system. In the early stages of capitalist development, economic crisis manifested itself more in a series of operational failures in the production, distribution and circulation of commodities due to the relative process of their production. In the period of highly developed credit system and excessive expansion of virtual capital, the economic crisis first broke out in the financial sector and eventually presented itself as an economic depression with relative overproduction. When the crisis broke out, the apparent prosperity of the entire capitalist society was shattered. Capitalists, based on their own profit-seeking nature, scaled down production and carried out massive layoffs, preferring to stop production rather than lower the prices of their products in order to meet people's most basic needs. As a result, people suffered from a sharp increase in unemployment, soaring prices, declining purchasing power and a collapse of the credit system during the crisis. At the same time, society produced a widening gap between the rich and the poor and increasing class conflicts, which led to the emergence of a large relative surplus population.

To fundamentally solve this problem, the possibility of this problem must be fundamentally eliminated, so that this problem will not be solved in the presence of private ownership, capitalist relations of production. To completely solve the contradiction between production and consumption and to overcome the economic crisis, it is necessary to change

private ownership to public ownership and to change the distribution according to capital to distribution according to labor.

## 2. Causes and Characteristics of The Formation of The International Financial Crisis

### 2.1. Reasons for the formation of the international financial crisis

Firstly, with the continuous progress of science and technology and the continuous improvement of social productivity, the development of human society has stepped into the process of trade internationalization and economic globalization, and the economic development of each region has crossed national boundaries to form an economic organism that interacts and depends on each other on a global scale by means of foreign trade, capital flow, technology transfer and transnational services, which are manifested in the following ways: trade liberalization, internationalization of production, globalization of capital and globalization of science and technology, all of which are inevitable results of the development of productive forces [1]. The general development of productivity and scientific and technological innovation makes economic globalization possible, and economic globalization in turn promotes the development of the world economy, which also creates an objective environment for financial globalization and crisis globalization. In the context of economic globalization, the contradictions of capitalism are deepening, and the financial fluctuations caused by the relative excess of virtual capital will inevitably evolve into a global financial crisis.

Secondly, driven by capital's pursuit of profits, a large number of derivatives have emerged in the capital market, which, together with the misguidance of credit rating agencies and the failure of government regulation, has led to a capital market full of high liquidity, high risk and high risk. This problem is fundamentally determined by the capital market itself.

Thirdly, the increasing disconnection between the virtual

economy and the development of the real economy and putting the cart before the horse. Virtual capital does not belong to real capital, and under normal circumstances, virtual economy and real economy can promote each other, each other and co-development, while the healthy development of financial market cannot be separated from the support of basic industries of real economy, and at the same time, the growth of real economy also needs the capital financing function of financial market [2]. However, because the relative excess of industrial capital leads to the relative excess of virtual capital, which in turn is determined by the nature of capital to avoid harm, there is an inevitable reason for the emergence of financial crisis under the capitalist system. Virtual capital, which matches the real economy, can not only provide services to the real economy, but also contribute to social reproduction. However, because of the relative overproduction, the resulting capital flowed from the real economy to the virtual capital such as the financial market, therefore, excessive asset bubbles were bound to accumulate and backfire on the real economy when the financial crisis occurred, thus causing damage to the entire social production sector.

## **2.2. Characteristics of the international financial crisis**

### **(1) Periodicity**

The occurrence of the international financial crisis also shows a clear cyclical nature, divided into four phases: crisis, depression, recovery and high, with crisis being the decisive phase of the economic operating cycle. In this period, the main manifestations are: the contradiction of the relative excess of physical capital accumulated in the process of capital development, the collapse of the credit system and the financial market into depression. The depression phase, in which the effects of credit default and financial market collapse will be alleviated, the scale of credit default will no longer increase significantly, and the production in the real economy will no longer show a decline, the social economy will remain in stagnation, but the social purchasing power is still unable to meet supply. After the recession period, the business conditions of enterprises begin to improve, the profits of enterprises begin to rise, the production of capitalists gradually increases, the business conditions of enterprises begin to improve, and the business activities of enterprises begin to recover. In the process of economic recovery, the scale of commercial credit is correspondingly expanded, financial capital invests more in it, and the scale of virtual capital represented by financial capital also gets further growth, and the economic situation of the country seems to be good. However, behind the apparent prosperity of capitalism is the accumulation of various contradictions of capitalism, and when the contradiction of the relative excess of virtual capital reaches an irreconcilable level, a new round of crisis will start again, and the international financial crisis operates in a cyclical cycle around these four stages[3].

### **(2) Destructive**

Against the background of global economic integration and the increasingly accelerated process of internationalization of capital, the impact of the international financial crisis has become increasingly significant. The destructiveness of the international financial crisis is manifested in a dynamic transmission mechanism, which firstly manifests the collapse of the financial market, various defaults and failures of credit, and the breakage of company capital chains. It in turn has

caused an impact on the real economy, including all social sectors such as manufacturing and service industries, which have not escaped this calamity. The international financial crisis not only caused serious damage to the world financial system and brought the world's major mainstream financial institutions to the brink of collapse and bankruptcy, but also led to the collective recession of the global non-financial industries.

### **(3) Spreadability**

Comparing the history of the development of modern economic crises, we can see that the outbreak of modern economic crises usually starts in the financial sphere. This is due to the fact that, after the development of social production in the modern era, a model of development has been formed in which the economy is based on a high degree of credit and financialization of capital. In this process, financial markets carry most of the credit relations in the market, and financial products are based on credit transactions in the real economy, so the outbreak of modern economic crises usually starts in the financial sector and spreads to the real economy.

Furthermore, this financial crisis in turn reflects a relative excess of virtual capital, just like Marx's discourse on bills of exchange, most of which are real sales. However, at the time when a large number of bills of exchange transactions are overused, their sum has exceeded the actual needs of socioeconomic development. Meanwhile, the relative process of virtual capital becomes a precondition for the occurrence of economic crisis[4]. The essence of the financial crisis is the relative excess of virtual capital, mainly financial capital, which represents the relative excess of social production and reflects the contradiction of production that capitalism itself cannot solve. Virtual capital comes from real capital, and the excess of virtual capital also reflects the relative overproduction in real capital. Therefore, as an important form of contemporary economic crisis, the international financial crisis reflects the contradiction of relative overproduction behind this economic crisis.

## **3. Root Causes and Essence of International Financial Crisis in The Context of Economic Crisis Theory**

### **3.1. The international financial crisis reflects the contradictions of the capitalist production process**

The international financial crisis manifests itself as a crisis of relative excess in the real economy represented by the monetary crisis and credit crisis, but essentially it reflects the contradictions in the capitalist production process. The outbreak of economic crisis will become a necessary condition for the occurrence of economic crisis only when capitalist social production has reached an advanced stage of development, when a large number of commodities produced have completed their transformation into money, and when there is a serious overproduction. At the same time, since the goal of capitalist production is not to complete the circulation of commodities, but to maximize the surplus value and high profits [5].

Therefore, both the credit crisis and the monetary crisis come from the relative overproduction of the real capitalist economy, which reflects the deepening contradictions between production and consumption, workers and capitalists, and the relative overproduction that inevitably occurs in the

production process of capital. In short, this international financial crisis is a collection of contradictions arising in the process of production when capitalism has reached a higher stage of development, and it also reflects some unresolvable contradictions arising in the process of capitalist production.

### **3.2. The root cause of the international financial crisis is the deepening of the basic contradictions of capitalism**

Taking the theory of economic crisis as the basis, we find that the outbreak of international financial crisis is not out of the scope of the basic contradiction of capitalism, "economic crisis is the inevitable expression of the inherent contradiction of capitalism, the root of which lies in the basic contradiction of the capitalist mode of production itself", it is because of the irreconcilable contradiction of the capitalist system itself, and the inconsistent It is the irreconcilable contradictions of the capitalist system itself and the incongruous allocation of resources that lead to the outbreak of the inherent contradictions in capitalist economic development. The basic contradictions of capitalism are irreconcilable and its outbreak is inevitable, but its outbreak can also be exacerbated or moderated by the influence of capitalist legal policies and markets. Economic globalization has allowed financial capitalists to spread their credit business together with risk transfer to the world, and the world market has allowed international monopoly capital to expand even more, which in turn has developed a large number of transnational financial institutions, which have a great impact on the world financial market. The international financial crisis in recent decades is the inevitable result of financial capital's mad rush for profits in the international market, although it is different from the traditional economic crisis Although its performance is very different from the traditional economic crisis, its root cause is still the deepening of the basic contradictions of capitalism.

The international financial crisis is a common kind of contemporary economic crisis, which arises from the deepening of the basic contradictions of capitalism in the general environment of economic globalization. The capitalist system means that no matter what regulatory measures and policies are adopted by capitalist countries, as long as the capitalist system exists, the international financial crisis can only be alleviated or postponed, but cannot be completely eliminated.

### **3.3. The essence of the international financial crisis is the relative excess of virtual capital**

The economic crisis is determined by the fundamental contradiction of capitalism, which is its main characteristic: the contradiction between the excessive growth of commodities and the relative decrease of the purchasing power of the population. On the basis of profit maximization, capitalists keep expanding production in order to obtain more surplus value. The essence of this international financial crisis is the relative excess of virtual capital, and it is also because of the relative excess of virtual capital that the breakage of the credit chain became a direct cause of this crisis. It is the manifestation of the relative excess of production.

On the one hand, the relative excess of virtual capital reflects the disproportion between the scale of the financial market and the real economy in capitalist countries. The

financial market is ultimately responding to the health of the real economy, and the higher the financialization of capital, the more speculative opportunities there will be, the higher the profits will be, and therefore, its scale will become correspondingly larger.

On the other hand, the relative excess of virtual capital will also lead to its emergence due to the nature of capitalists' pursuit of profit. Whether it was the Great Depression in 1929, the subprime mortgage crisis in the United States, or the European debt crisis in recent years, the large number of low-grade credit loans and speculation in pursuit of higher profits caused the separation of virtual capital from real capital, all of which were caused by capital's tendency to avoid profit [6]. On the surface, the international financial crisis was caused by excessive speculation and regulatory failures, but in essence, it was caused by the relative excess of industrial capital. It also reflects that the profit-seeking nature of capitalism in the development process has caused a relative imbalance in the weight of production and consumption.

## **4. Implications of Economic Crisis Theory for Prevention and Response to International Financial Crisis**

### **4.1. Correctly understanding and viewing the historical fate of contemporary capitalist development**

From the development history of financial crisis, the financial crisis of capitalism presents a cyclical character. Although there are many theories about the research and management of financial crisis in western countries, these theories are shallow and narrow in view of the actual situation of history.

Firstly, private ownership as the basis of the capitalist system, private ownership is the ownership relationship with private property as the main body, and Marx pointed out in the Economic and Philosophical Manuscripts that under the capitalist system, the alienated labor that exploits and enslaves people becomes the root of the private ownership of property, and the relationship between the system of private property and labor alienation is antagonistic and unified, promoting and intensifying each other [7].

Secondly, the modern capitalist economic crisis, represented by the international financial crisis. It deepens and creates a great constraint on the development of capitalism. It also shortens the duration, the intensification of the destructiveness, and the expansion of the ripple effects of the crisis in this period all indicate that the crisis in this period has accelerated the demise of capitalism.

Finally, the changes of contemporary capitalism are in response to economic crises, such as increasing social welfare, improving the treatment of the working class, and strengthening economic macro-control. These measures are self-correcting and adjustment to keep up with the development of the times. This accurately shows that capitalism is still recognizing its shortcomings. Connecting the development status of the theory of modern capitalism, the international financial crisis and the economic crisis, we can see the process of self-redemption and its essence of continuous self-denial, self-adjustment and self-perfection. At the same time, we can also see that the destruction of the doomed history of capitalism is due to its own institutional defects.

## 4.2. Clarify the strategic position of financial security

Financial security refers to the stable operation of the financial system and the ability of funds to flow normally in the money market. A safe and stable financial market can provide a solid backing for the healthy development of China's real economy. Now that China has entered a new stage of development, financial security is a very important component in the national economic security system. Because, the financial market is the most important and weakest link in China's economic system, it has the characteristic of moving the whole body by one hair, therefore, the strategic position of financial security is naturally in the highest position in the national economic security. Financial security refers to the relative stability of a country in a dynamic process.

From the perspective of financial security, firstly, in order to improve China's financial security system, China must construct and improve the risk prevention system of the virtual economy and build a complete financial risk prevention system on the basis of ensuring public ownership and government leadership, so that the financial market can develop reasonably within a reasonable range. Thus ensuring financial security.

Besides, financial derivatives belong to financial innovation products designed for risk hedging, and their leverage also determines that financial derivatives are speculative in nature. Reasonable financial derivatives will contribute well to hedging risks and increasing returns for enterprises, while flooded financial derivatives will turn into an accelerant for financial crisis.

Therefore, under the premise of clarifying the strategic position of financial security, controlling the scale of derivatives and accelerating financial innovation can better serve China's real economy and withstand the impact brought by the international financial crisis.

## 4.3. Insist on financial services for the real economy

In the orientation of financial services to the real economy, it should be based on the relationship between the virtual economy and the real economy firstly. The term virtual economy is firstly from "Capitalism", which originates from the real economy and reacts to the development of the real economy, and its formation process can be understood as: money-capital-virtual capital, and the essence of virtual capital is a new form derived from industrial capital in the economic circulation.

Besides, financial leverage and credit transactions allow virtual capital to grow rapidly at an exponential rate, and it plays a good role in promoting social production. However, when the excessive expansion of virtual capital is separated from the real economy to a certain extent, the financial risks will be exposed, and only by insisting on financial services to the real economy can we ensure that the financial market is within a reasonable range and maintain a healthy development [8].

In addition, it should be based on the new development pattern of China. General Secretary Xi Jinping has repeatedly emphasized the need to "accelerate the construction of a new development pattern with the domestic circulation as the mainstay and the domestic and international circulation promoting each other", and the main features of China's economic development are innovation-driven and high-level

opening to the outside world. should be in line with the new development pattern, so that the development structure of the financial market is coordinated with the service structure of the financial market.

Last but not least, it should be based on the industrial needs of China's real economy, which specifically includes small and micro enterprises, green economic development, manufacturing, technological innovation enterprises, sustainable development industries, etc. Therefore, the credit allocation to overcapacity industries should be transferred to new industries that widely drive employment development economy, especially small and medium-sized enterprises, to achieve financial inclusion.

From the perspective of financial services to the real economy, first of all, we should optimize the economic structure, solidify the foundation of the real economy, and provide the real economy foundation guarantee for the development of the financial market system.

Secondly, China is currently at an important stage of economic transformation. Whether it is deleveraging, production capacity reduction or supply-side reform, the interaction between finance and the real economy is inseparable. China should draw lessons from the history of the international financial crisis and give full play to the advantages of the socialist system. China should also guide the free flow of factors of production, ensure the centrality of the real economy, represented by the manufacturing industry, and make scientific analysis and decisions that meet the needs of national development.

Finally, China should promote finance to provide accurate services for the real economy on the basis of ensuring the rationality and effectiveness of regulation, use financial innovation to promote the innovative development of the real factors of production and promote the improvement of efficiency and industrial upgrading so that the vitality of the real economy can be continuously released.

## 5. Conclusion

The economic crisis of capitalism has been an insurmountable destiny since its emergence. Moreover, under the rapid development of the capitalist mode of production and economic globalization, a crisis caused by the excessive accumulation of virtual capital, such as the international financial crisis, has become an important form of contemporary capitalism. The theory of economic crisis is the most basic and thorough explanation of the capitalist economic crisis from the capitalist mode of production itself. This theory is of great theoretical significance for the study of the mechanism of generation and spread of the global economic crisis with the international financial crisis as the main cause and symptom. Combining the theory and practice of financial crisis can help us better understand the causes and essence of financial crisis.

At present, as the largest developing country and the largest socialist country, China's economic development has an important impact on our people's livelihood, politics, economy, and culture. Therefore, we must conduct an in-depth study of economic development theories to help us reduce unnecessary and unwanted mistakes in the process of economic development and make more scientific and accurate economic decisions, so as to better support socialism with Chinese characteristics and better support the economic development and constructions.

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