

# **Can China make new contribution to Economics?**

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The 20<sup>th</sup> Century was an interesting time in economics. Economics is not a pure science; therefore we cannot conduct experiments like in Physics or Chemistry. However, in the 20<sup>th</sup> Century, many countries, including China, Central and Eastern Europe, Former Soviet Union and North Korea embarked on a social and economic experiment, which was Socialism, and for a time, it challenged traditional western capitalism.

Towards the end of the 20<sup>th</sup> Century, it was clear that Socialism had failed. Despite Capitalism's many faults, including boom and bust economic cycles, inequality and unemployment, it provided individuals with incentives for private gain which ultimately led to greater collective gain.

The beginning of the 21<sup>st</sup> century saw more troubles for Capitalism. First, the dotcom bubble burst. The Federal Reserve responded with very aggressive monetary policy. While it appeared to work at the time, the easy credit created at that time had sown the seeds of the sub-prime mortgage crisis which eventually led to a global financial crisis and the worst global recession since 1929.

The recent global financial crisis has also put in question some of the schools of thought within capitalism. Firstly, it severely challenges classical economics view that markets should be left to its own devices with limited regulation. Today, most of us believe that banks and other financial institutions should be regulated. Secondly, in response to the recession, many governments around the world increased government expenditure and cut taxes in order to stimulate the economy as suggested by the Keynesian school of economics. On the whole, this did not provide the desired effects. Economic growth was sluggish. However, what's worse, already indebted governments found their ability to repay their loans questioned. This led to a new round of crisis, the European sovereign debt crisis.