RE43: TWENTIETH CENTURY CHINESE ECONOMIC THOUGHT
(1/89; 5/91, 5/95, 3/97)

A. The Age of "Crank" Economists

Everywhere in the world, the 20th century has been the century of the crank economist—the economist with one single (and mistaken) material determinist answer to the problems of the age. None other than John Maynard Keynes himself, the century's most influential economist, affectionately applies this label to both himself and such cranks as Henry George and Major Douglas.

In the last chapter of the *General Theory* Keynes embraces the "cranks" as his brothers under the skin, and congratulates them for offering realistic *political* solutions to real *economic* problems. Their solutions are, Keynes disarmingly admits, though simplistic, not too different from those he himself offers. They all require use of the state to solve problems which Keynes, if not the other cranks, at least obliquely concedes were created by the state in the first place.

Without embracing Keynes's nostrums, and without giving up the insight of post-classical economics that the results of intervention are invariably perverse, one may agree with Keynes and the cranks he celebrates when they complain that some very severe economic problems during the 20th century are not addressed, at least emotionally, and perhaps not entirely satisfactorily in intellectual terms either, when one merely talks about the inner logic of the marketplace.

If for no other reason, talk of the logic of the market is insufficient because people are frightened by the sheer size and complexity of the modern market. They cannot believe that so enormous and baffling a man-made contraption can actually tend to be self-correcting. Nor can they believe that something that men have created can be too complex for men to control by direct, political manipulation.

That manipulation called for by the cranks required the mobilization eventually of whole armies of bureaucrats and more immediately those who would sooner or later actually mobilize and direct the bureaucrats. These constituted the new classes, essentially unproductive, who intercepted the new money of the price revolution first and lowered the incomes of everyone else below what they might have been by banning or delegitimizing many forms of market exchange.

Unfortunately, most people, including most of the intellectuals constituting this new class, never read good economics books or even Friedrich von Hayek's 1944 high popularization of good economics, *The Road to Serfdom*. And so they committed and still do commit what Hayek called "The Fatal Conceit" in his 1988 book of that name. This fatal conceit is the unexamined belief that the state can control the market.

People turn to the state to relieve their fear of the market, and the state has as a consequence taken on considerable power during this century. Despite its repeated failures it still seems unreasonable to most people (except those who have taken the trouble to unravel the inner logic of economic theory) to deny that the state may apply itself to economic problems without causing enormous trouble.

"Crank" economics simply represents the attempts by worried but sincere and often otherwise intelligent people to think up theoretical justifications for state interventions. These attempts are absurd only at the intellectual level, and only because they attempt to justify politically that which is unjustifiable and unnecessary in terms of economic logic.

Once some crank has justified a particular course of intervention, it is all too easy to mob ilize enough fearful people to put it into effect, and in the confusing buzz and hum of the marketplace and state interaction with the marketplace, to not notice where the resulting trouble is coming from.

In a sense, our century has only exacerbated what respectable cranks have been doing ever since the 16th century. During these four centuries the state has grown ever more powerful riding on the back of the market economy as the industrial revolution has worked out its potential, and the two—state and market—have come into ever more tension with each other. Crankism is the default response to that tension.

1. The Euro-American cranks

a. Henry George

One of the most intelligent of the Euro-American cranks, and one who heavily influenced Chinese policy during the republican age—the American Henry George (1839-97)—was bright enough to have more or less independently reinvented Ricardian economics, at least at a popular level, without having read much of Ricardo.

George seems to have taken Ricardo's assumptions and style of thought "out of the air" of his times, and so was able, before reading Ricardo, to reach Ricardo's conclusion about the supposed competitive advantage enjoyed by the owners of the Land factor of production over Labor and Capital.

Like Ricardo, George noticed that they aren't making any more land. If you demand more of the factors Labor or Capital, he reasoned, you stimulate their production, and eventually get more of them, and the increased number of laborers and quantity of capital goods drives wages and profits back down.

This is not necessarily so, especially for labor, which may well stop increasing its numbers for any number of reasons, only some of them economic. And yet the 19th century thought it was especially true of labor, and so called it the "iron law of wages." Once you notice the radical differences between individual laborers, the distinction between Land and Labor disappears altogether. How many additional Einsteins will a marginal increase in the price of physicists induce? That is, particular *types* of laborer may be much scarcer than well-located tracts of

George reasoned. equally erroneously about Capital. Just as people supposedly reproduce themselves more frequently as their wages increase, they save more and produce more capital goods, if you offer them higher profit and interest rates, and the resulting increased supply of Capital in turn drives interest and profit back down again.

But what holds for Labor and Capital, concluded George (and Ricardo before him), does not hold for Land. Once you have a filled-up country, you can't produce any more land, and so rents stay high. Hence, both Ricardo and George conclude, unless the state does something about it, except for retaining just enough to keep Labor working and Capitalists saving and investing just enough to maintain the capital stock to avoid starvation of Labor, the wealth of a society's laborers and capitalists will *all* eventually flow into the hands of the landowners as they jack up prices for their increasingly scarce land.

To prevent this, George wanted to place a high tax on this monopoly rent of land—i.e. on that portion of the return to land that represents a return to its scarcity. This tax would confiscate all of this monopoly rent, and provide enough revenue all by itself to finance a benevolent welfare state. All other taxes could be abolished. Hence the popular label "Single Tax" for George's movement.

Of course this is absurd, particularly fanciful being the drastic consequences which Henry George thought would follow from a supposed land shortage.

We are actually a long way from running out of land. There are even vacant lots in Hong Kong and Amsterdam. We can also make land go further by putting tall buildings on it. We can use modern transportation to commute from houses built in the hitherto inconveniently distant and hence empty countryside to our jobs in town.

Beyond this, in practice, Henry George's prescription of levying a single tax on monopoly rent is impractical. There is no way to distinguish this monopoly rent from a "normal" return to land. All rent is monopoly rent in the sense that every piece of land is unique. Similarly, every laborer is unique, if only in his DNA, which makes him just a bit different in his abilities from every other man.

Nor, in spite of many attempts made in this country and in England over the past century or so, has it proved possible to approximate this distinction between monopoly and normal return to land by making some distinction between the value of land and the value of improvements placed upon the land, though people like tax assessors keep trying to do so. Too many other factors (location, the number and kind of neighbors) affect the value of the combination of land and improvements in different ways at different times.

Still, George's proposed reform—a single tax on the land or something approximating that—has always seemed so moderate and so decent that it has retained its appeal right down to the present day. Many American reformers have been kept from advocating something much worse by their avowal of Single Tax principles. A number of North American municipalities and counties have even tried to construct their real estate taxes upon George's principles.

b. Major C. H. Douglas

Somewhat more ominous than Henry George's innocent nostrum was the scheme of the Anglo-Canadian crank, Major C. H. Douglas (1879-1952), the founder of the Social Credit movement in Canada's western provinces (mainly in Alberta and British Columbia).

Social Credit, which combined a paper money scheme with a monolithic political movement, came as close in the Canadian prairies as an Anglo-Saxon democracy has come in this century to being both consistently reelectable and an outright fascism. Like his fellow Cambridge alumnus, J. M. Keynes, Douglas wanted to ensure that people had enough money to avoid cyclical busts simply by inflating the money supply through regular issue of state-controlled credit certificates. In this his thought is strikingly parallel to that of the Ming Dynasty's paper money cranks.

Social Credit advocated a 20th century engineer's equivalent of the remonetization of silver, which was the American Populists' way of inflating the money supply. Unlike the Populists (or Georgists, for that matter), Social Credit has actually run several Canadian provinces, but since the Canadian national government preserved its monopoly over the issue of money, the SoCreds were never able to put their key economic policy into effect. Under the pressures of elective politics they eventually lapsed into a relatively normal North American conservatism.

Such attempts to increase the supply of money were naive responses to the full industrial age market's inherent tendency to reduce prices as goods become more abundant. If the supply of money remains more or less constant, and the supply of goods increases, prices must go down. Wages may decline too, but unless population increases too rapidly, wages on the average always decline less than do the prices of goods. This means that real wages—the quantity of goods purchasable by each earner of money income—are normally going up.

But, though everyone actually *is* better off, many people do not *feel* better off, and a few people are indeed worse off—for example, people who have to get out of an ever more productive agriculture. This was especially true of farmers and farm town merchants on the economically marginal Canadian prairies, to whom Douglas's ideas appealed.

Such people ought to and indeed actually have during this century mostly left agriculture, simply because, as productivity in agriculture increases, food and fiber prices go down, and fewer people are needed to produce a much larger number of agricultural goods.

Since there is only so much that people can eat, as food and fiber prices fall, they prefer to shift some of their spending to new non-agricultural goods, and since agricultural prices have declined, they have extra money to do so.

Hence it becomes both appropriate and possible for people to move out of agriculture, into town and into these other areas of production. The problem is that they often don't want to move out of agriculture, at least at first.

In some cases (as in turn of the century Canada) the government actually encourages more people to enter agriculture so as to settle an underpopulated western province before it is grabbed by an expanding U.S. (Actually the Canadian politicos were worrying needlessly. The U.S. wasn't interested in conquering Alberta. It couldn't even fill the nearby Dakotas.)

Major Douglas and the American Populists before them give crankish explanations justifying this economically irrational (but perhaps politically rational and sentimentally appealing) preference for keeping people on the farm and in nearby farm towns.

Keynes himself in the *General Theory* claims kinship with cranks like Douglas and George, and I think rightly so, because his scheme in the *General Theory* for getting out of depressions is simply one more attempt to gain the same ends that George and Douglas were after. Keynes wanted to achieve these ends partly through manipulation of taxes but mainly through increase of the money supply. Keynes was merely more outwardly respectable than Major Douglas or George or Bryan.

In an age when the state's political powers were growing ever greater, the temptation to seek out a crankish economic theorist who would tell the state that it is a good thing to exercise its political powers to intervene in the economy, is all but irresistible, and hence has not been resisted, even by respectable Western economists.

Major Douglas found only a few sympathizers among Chinese (and somewhat more among Japanese) of the first third of the 20th century who felt drawn to at least the fringes of Euro-American economic crankdom of a culturally traditionalistic sort. George was far more influential in China.

c. the European cranks

George, Douglas and Keynes and some of the cultural conservatives (whose economics tended to be limited to the celebration of medieval crafts) were and still are the favored cranks of the respectable folk of the English-speaking world.

Saint-Simon, Fourier, and Kropotkin—the utopian socialists and anarcho-syndicalists of 19th century Europe—as well as Karl Marx himself and his Marxist-Nativist successors in Russia, China and other "underdeveloped" 20th century nations, were the cranks who appealed to what we could now (admittedly somewhat anachronistically) call the "hippy" intelligentsia of the 19th and first part of the 20th century.

Unlike the followers of the respectable cranks, the disciples of the utopian communards and anarcho-syndicalists wished to wipe out most of the market as well as the political institutions of the 19th and 20th centuries, and then go back to some weird industrialized version of a Neolithic village. Though they had their American followers, these cranks were all Europeans. Americans were mostly too capitalistic and too a-intellectual to be much enamored of them.

Karl Marx represented the attempt (to use a Hegelian phrase) at a synthesis of the first two trends: to use the crankish aspects of the methods of the first scientific revolution in economics—that of Adam Smith and David Ricardo—in order to demonstrate how at the end of history the market will inevitably destroy itself. Once the market is gone, Marx prophesized, mankind will be freed to achieve the hippy Neolithic communalism of the utopians.

Marx was not concerned about wealth becoming concentrated into the hands of landowners. He did not read Ricardo carefully enough to take that possibility seriously. In any event, he was not interested in saving mankind just from landlords.

Instead Marx focused on Ricardo's assumption that goods received all their value from the value of the labor expended in their manufacture. Ricardo understood that this could not be universally true, but assumed that it was, partly because Adam Smith and other English economists did so, but mainly to ease his own calculations as the first mathematisizer of the concept of market equilibrium.

Marx took Ricardo's resulting universalization of the labor theory of value much too literally. He also noticed that capitalists got more for their goods than they paid workers to make them, and proclaimed that the difference—which he called "surplus value"—showed that the capitalist market intrinsically exploited workers.

However, Marx insisted, this exploitation of their workers did the capitalists no good in the long run. Their sole profit came from this surplus value wrung from Labor.

Unfortunately for the capitalists, for some reason (Marx lapses into incoherence at this point), machines, unlike people, sold or rented for their *full* value-creating price, and so no surplus value could be extracted from them. Hence the progress of industrialization, which raises the role of machines relative to labor, inevitably reduced profit toward the vanishing point.

Attempts to restore profit by further reducing wages would merely drive the workers toward revolution, and to the achievement of the post-revolutionary utopia described by Saint-Simon and his successors.

Marx was wrong, to put it mildly, in all of his economic theories. In principle, profit only disappears in *particular* activities as equilibrium is approached. Novel activities regain profit for the capitalists who underwrite them because they disrupt the drift toward the previous equilibrium.

So in practice, profit has not disappeared. Nor have real wages had to go down to keep profit levels up. Indeed, since production has increased faster than population (which is normally the case), goods per person (real wages) have always tended to increase as the full industrial revolution has waxed.

Marx also missed the time dimension of economic behavior. He did not understand that employers pay workers in "present money," but receive from them only "future money"—goods which can only be sold for money later. The difference between the two does not represent exploitation, but merely the pure rate of interest, which measures the premium any person expects to earn for postponing consumption. Laborers are merely people who are more impatient than capitalists. They want wages *now* rather than interest and profit *later*.

The German Social Democrat "revisionists" who recaptured European socialism after Marx's death, gradually abandoned Marxist economics, largely because they could not reason their way around its above-mentioned intellectual defects.

The utopian aspects of Marx's thought were eventually revived by a gaggle of nativist-populist Russian revolutionaries, led by Lenin, and it is this Russified Marxism-Nativism which went on to rule half the world for a time in the 20th century. This form of crank economics proved to be far more tragic in its effects than anything done by the earlier European utopians or the much more innocuous Anglo- American cranks.

Crankish though Marx, the Marxist-Nativists and the utopians, like Douglas and George, may have been, we must confess that Keynes was right about their influence: They have constituted the dominant trend in economic thought in the modern world, influencing more people, even more statesmen, for longer periods of time than have the non-crank economists. You should keep this in mind when laughing at the vagaries of the Chinese cranks whom I will discuss next.

2. The 19th century Chinese cranks

The Chinese, who had a powerful bureaucratic state going much further back in their history than did the Westerners, had a crankish tradition of their own that also went very far back. I discussed the last efflorescence of that tradition during the 19th century in chapter RE37.

The money crank Wang Liu flourished during the second quarter of the 19th century. He wrote in response to the shrinkage of the supply of China's silver money as a consequence of opium addicts using silver to buy foreign opium. He is a Chinese parallel to such eccentric Ricardians as Henry George and even more to the American Populists, with their "free silver" money-multiplying policies.

During the last part of the 19th century the statist ideas of the Confucian utopian socialist K'ang Yu-wei ran parallel to the later more active state interventionism of a Major Douglas. While Douglas's ideas were dependent on a politically accidental connection with fundamentalist Protestantism, K'ang's were drawn directly from the hard Confucian philosophical tradition and ultimately from the ancient religion of T'ien from which Confucianism was drawn, one aspect of which had long since degenerated into the secular civil religion of the Chinese bureaucracy.

The ideas of all of these 19th century Chinese cranks remained available in whole or part to all 20th century Chinese intellectuals who had received at least a rudimentary classical education, and so could read their books. This normally meant men born no later than the turn of the century.

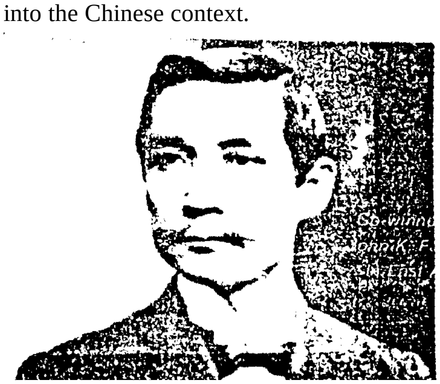
Even K'ang's ideas, though overtly Confucian, could be separated out from the Confucian tradition, and so remained available to those capable of reading the literary written language even after Confucianism as such was discredited.

The essence of the monetary crankism of a Wang Liu also remained "in the air," built into the very vocabulary of Chinese monetary theory. Such ideas went back deep into the Chinese historical tradition. To think of money, to talk of money in the categories of traditional Chinese economic thought was almost automatically to come up with schemes for using the state to control the supply of money in order to meet various nominally idealistic political goals.

In the course of the 20th century, both of these Old World interventionist traditions—the Euro-American and the native Chinese crankish tradition—came together as part of China's "modernization." No single one of them was influencing everybody in China at the same time, but between them they accounted for the dominant intellectual trends within Chinese economic thought after 1900, and played no small roll in making this as benighted a century in China as elsewhere.

3. *Sun Yat-sen's* min-sheng

The third of Sun Yat-sen's Three Principles of the People—*min*^{2}-*sheng*^{1} ◎🕐 ◎ or People's Livelihood—was essentially Henry George's economics carried whole hog into the Chinese context.



Sun Yat-sen. Cover of Harold Z. Schiffrin, *Sun Yat-sen and the Origins of the Chinese Revolution* (Berkeley: University of California Press, 1970.

Sun picked Georgism up while traveling in San Francisco (where George lived for many years and wrote his book, *Progress and Poverty*) and New York (to which George moved and twice ran for mayor of). Both cities were hotbeds of Georgism and the sites of large Chinese communities during the last decade and a half of the 19th century.

Once he was back in China, Georgism looked even better to Sun. He hoped that by confiscating the supposed monopoly rent of rural landlords, he could finance China's moral and political modernization without burdening with excessive taxes his chief patrons, the urban working and business classes.

These rural landlords might even be bluffed into giving up excess land to their tenants so as to escape the Single Tax, thereby effecting land reform without seriously distorting the market for other goods.[1]

This non-revolutionary aspect of a Georgist revolution gave Sun a considerable advantage in the political competition among his fellow revolutionaries during the teens and twenties of this century. As early as 1901-7, Georgism had allowed Sun to outbid the pioneering Chinese Marxist, Liang Ch'i-ch'ao, for the loyalties of the Chinese detained students in Japan.

Liang, by then an ex-Confucian German-style social democrat, believed (cf. chapter RE37) that Chinese capitalism had to be given another half century to mature before socialism could replace it. Sun won the plaudits of Chinese students in Japan by asserting that Georgist socialism could be put into effect as soon as the Manchus had been overthrown.

More than a decade later, during the early 1920s, Georgism allowed Sun to continue to call himself a kind of a socialist even while collaborating with Russian totalitarian socialists and their Chinese disciples, without either being swallowed whole by these Marxists or scaring the pants off of the treaty port bourgeoisie—the local Chinese plutocracy—and the *hua*^{2}*-ch'iao*^{2} ✪➢ 🕒⯑ (Overseas Chinese) bourgeoisie who were still Sun's main bankrollers.

That is, Henry George's Single Taxism played the same sort of role in China that it did in New York or Cleveland (or Bellingham, Washington for that matter). It was the socialism (really the socialism-substitute) of the lawyers, and the rich urban merchants and manufacturers.

In the end, however, it was not an intellectual's socialism. At most, its use by the KMT only postponed the tropism of China's new meritocracy toward more intrinsically socialist economic theories.

4. The left-anarchist wing of Sun's revolutionary secret societies

If People's Livelihood/Henry Georgism represented the "right" wing of the economic ideology of Sun Yat-sen's series of revolutionary secret societies and parties—the Hsing-chung-hui and T'ung-meng-hui before the revolution, and the several incarnations of the Kuomintang during the decades after the revolution—there was also a "left," more or less anarchistic, wing of that political movement as well.

Before 1912, several of Sun's followers, or people who were to become his followers, notably Wu Chih-hui and a little later (post-1912), Liu Shih-fu, were in Paris imbibing the anarchist doctrines of Kropotkin at one of its European sources, and linking it to the Chinese utopian socialism tradition of the *ta*^{4}*-t'ung*^{2} ⊙ℯ𝓇 ❍🏳 (Great Harmony) of K'ang Yu-wei.

Wu and Liu were "technological utopians" of the same sort as K'ang Yu-wei was in China and Saint-Simon, Fourier and even, in a way, Kropotkin himself, were in Europe. They looked forward to creating an industrial economy layered over a stateless society consisting of an enormous congeries of Neolithic-size villages. Eventually, Liu Shih-fu even went so far as to argue that consumers' goods as well as producers' goods would all be held in common in these little communities. There would be no money in his society, but life would nevertheless be full of intriguing gadgets, and work would be easy and fun. These days I suppose we would call this a "nerd's utopia."

In Tokyo, where many more of Sun Yat-sen's people hung out both before and after 1912, there grew another wing of Chinese anarcho-syndicalism, the leading lights of which were Liu Shih-p'ei and his wife, Ho Shen, one of the earliest Women's Libbers to show up in the evolution of the modern Chinese intelligentsia.

Liu was clever enough to see the congruence between the Fourier-like communes of the French utopian socialist tradition and those envisaged by the ancient Chinese Agrarian socialist Hsü Shen, whose ideas I (and Mencius) discussed back in chapter AE10.

Ho Shen is one of my favorite Women's Libbers. She rejected most of the more cockamamie schemes for Women's Liberation then being translated from European languages into Japanese and then Chinese. She rightly considered these as merely new forms of sexual exploitation. As early as 1907 she wrote an article denouncing "liberated" life in the treaty ports. This article bore the intriguing title, "Shanghai: Where Men are Robbers and Women are Whores."

There were limits to her perspicacity. She influenced her husband, Liu Shih-p'ei, into rejecting not just economic specialties but also all division of labor based upon sex. Presumably Ho would have approved of the U.S. Navy using women as combat pilots. During the late 1980s and '90s in the West, parts of the Women's Movement seem to be moving toward a renewed Puritanism, curiously parallel to that of Ho Shen.

5. The new Marxists

As in Europe and America, the above forms of left anarchism eventually tended to shade into Marxism of the Marxist-Nativist sort. Of those who started off as anarchists, particularly anarcho-syndicalists, like Liu Shih-p'ei and Ho Shen, a disproportionate number became Marxist-Nativists during the '20s, when there was finally a Communist party to join.

If, in Hegelian terms, orthodox crankism was the "thesis," anarcho-syndicalism or its antecedents were the "antithesis" and Marxism-Nativism was and is the "synthesis" of the first two. In other words, it was, however perversely, the logical next step to take.

I must concede, though, that most of those who turned formally Marxist during the '20s (as opposed to those who did so during the first decade of the century) did so for political and emotional reasons rather than for reasons of economic theory.

Turn of the century Marxists like Liang Ch'i-ch'ao, who at least had understood many of the details of Marx's economics, had long since lost the battle for leadership over the revolution to Sun Yat-sen and his allies, and had faded away into academic life.

Liang Ch'i-ch'ao knew more about the economic theory, such as it was, attached to Marxism than did most of the fellows who became Communist Party members after 1921, and more even than most of the Chinese theoreticians of Marxism during the '20s.

The professors who turned Marxists during the '20s, were invariably Marxist-Nativists. Li Ta-chao, for example, the Peking University professor and ultimately martyr to the Communist movement, who helped found the first Chinese Communist Party in 1921, showed almost no interest in economic theory. As late as 1915 Li deeply interested in Pure Land Buddhism. His move into the new Communist Party was a further extension of his search for a usable vision of Heaven in the chaotic new age of post-imperial China. No economist he.

A few professors did begin translating into Chinese bits and pieces of Marxian the-

[1] In fact, if Kathryn Bernhardt is right, tenants had been dodging their rents since the aftermath of the Taiping Rebellion, and were backed in this by local officials in exchange for tenants at least paying their taxes.

ory, including some of its economic aspects, as for example Li's colleague at Peking National University, Ku Meng-yü, who in the mid-'20s translated excerpts from *Das Kapital* into Chinese. It was, however, the early '30s before the whole book was rendered into Chinese. Ku himself was simply not interested in Marxian politics. He never even became a Marxist, and only barely for a time fellow-traveled with them.

Li Ta-chao in the 1920s

Indeed, it would have been embarrassing if very much attention had been paid to the economic theory aspects of Marx's writings. He was practically the last of the classical economists, and certainly one of the most wrong-headed of the followers of Smith and Ricardo. Though he did not die until 1883, Marx never even quite managed to fully notice the great revolution that had been occurring since the 1870s—the creation of the first versions of a post-classical economics.

These post-classical economists denied the labor theory of value, and indeed the very notion that value was or could be objective. They argued that value was imputed or attributed to a good by the subjective evaluations of that good by people considering the acquisition of a certain number of units of that good.

The post-classical economists also reasoned about change over successive periods of time, and noticed that change in economic behavior occurred at the margin—how many units of what good to acquire *next*—rather than on the basis of averages blurring together goods in general which might have begun to exist only at different times.

If Marx or his epigoni had noticed these developments, they would have had to give up the theoretical underpinnings for their claim that the market was both inherently exploitative and inevitably doomed. They would have had to give up being utopian, intellectual hippies, and would have had to tell the nativist-populists to start the revolution without them.

B. The Mainstream Economists

The mainstream economists, to whom I would now like to turn, did to one degree or another take account of these new developments in economic theory.

There are several neo-classical and non-classical schools of thought which at least tried to transcend the limits of Smithian-Ricardian classicism.

The neo-classical schools compromised the new formulations with the old classical assumptions. For example, they tried to combine post-classical subjective value with classical objective value.

The non-classical economists, mainly German historicists, all but abandoned logical thought about economic life.

The people I think of as the fully post-classical economists abandoned objective value altogether, and demonstrated the intellectual incoherence of all forms of socialism, but did not show how politicians could be weaned from minimal socialist nostrums.

Mainstream Chinese economists during this century mainly came under the influence of Western neo-classical economists. Some came under historical-institutional economists. Only a few were within the post-classical orbit.

1. The Euro-American neo-classical, post-classical and historical schools

Centering on Lausanne, Switzerland, was the school of thought founded by Leon Walras and his great successor, Wilfredo Pareto, the latter of whom brought sociology and political science into an interesting relationship with economic theory, and foreshadowed some aspects of later Public Choice political theory, but unfortunately not those more valid aspects of Public Choice that derived from post-classical economic doctrine.

The key activity for the Lausanne School was to write ever more elaborate sets of simultaneous equations to describe the so-called long-run equilibrium (what the Vienna School eventually called the "evenly rotating economy" in which each successive period became and then indefinitely remained exactly like the preceding one). The valid aspect of such exercises is that they demonstrated that at each moment economic behavior could be considered coherent because, if only for that moment, it was heading toward a particular equilibrium state. Unfortunately, the Lausanne School did not fully appreciate that as the present changed into a different future in novel ways, it would head toward a new equilibrium state.

The work of the Lausanne School gave some comfort to those Marxists who hoped that their equations could ultimately, perhaps with the aid of calculating machines, be used to actually manage a workable non-market economy. The Lausanne School, however, rightly kept aloof from such projects, and its lack of concern for such matters also kept it from enjoying much popularity among China's new meritocracy, whose members were less interested in theory than in such practice as would provide important jobs for its members.

In Cambridge, England (or for that matter Cambridge, Massachusetts and Chicago, Illinois, the English Cambridge's main intellectual colonies in matters of economic theory), most of the insights that the pioneering post-classical Cambridge economist, Stanley Jevons, had begun to get during the 1870s about how to create an economics based on subjective values at the margin were muddled over after his death in 1882.

A gentle counter-revolution was launched in Cambridge, England by Jevons's student, Alfred Marshall, during the four decades thereafter, and was carried on by Marshall's most distinguished student, John Maynard Keynes and his epigoni (notably Joan Robinson) from the 1930s on. After World War II, Paul Samuelson became the leading American guru of what he labeled "the neo-classical synthesis." Most Chinese who studied in the West, especially after 1930, came under the influence of this school.

Only in Vienna did a sharp break with the classical tradition occur. This began with the work of Carl Menger, Jevons's and Walras's contemporary, who independently began the marginal revolution. Menger's best pupil, Eugen von Bohm-Behwerck demonstrated the role of time in capital theory. Bohm-Behwerck's intellectual successor, who lived on into the 1970s, Ludwig von Mises, brought the post-classical second scientific revolution in economic theory to its logical culmination by integrating monetary theory with the general economic theory worked out by his predecessors in Vienna.

Mises took advantage of some hints from the Swede Knut Wicksell, and from a few disgruntled English and American pupils of Marshall, but only when these fit the essential Austrian School insights about the subjectivity of value and the key role of time in economic life.

By 1920, Mises demonstrated in à priori terms that a socialist commonwealth could not engage in economic calculation because it would lack prices, especially for producers' goods (the capital goods used to make goods ultimately consumed).

European socialists, like Oscar Lange, argued in the '30s that a game-board version of a market would allow socialist rulers to create what we would now call a "virtual market." Mises' pupil Friedrich von Hayek rebutted this by noting that such a market could not bring together all the information needed; that such information inherently existed in myriads of individuals' minds. Only a market could link those bits of information into networks by bringing the people possessing them into marketing networks.

During the first quarter of this century, this Vienna or Austrian School was at the peak of its influence, not only in Europe and North America, but world-wide. As a consequence, Chinese economists born around the turn of the century tended to become much more influenced by it than were men born in the middle of the 19th century and so who matured before its ideas crystallized out, or men who entered tertiary education during the 1930s and after, when the crankish, Keynesian version of the Cambridge School came into dominance.

Still more influential was the so-called Berlin School founded during the late 19th century by the Prussian economic historian Gustav Schmoller. It is also called the Historical School. In the United States, it is called the Institutional School. Its most famous American representatives during the first quarter of the century were John R. Commons and Thorstein Veblen. Its most notorious current representative is John Kenneth Galbraith.

The Historical and Institutional Schools had in common their assertion that the political and social context counts for so much more than the inner logic of the market in determining economic behavior that one can for most purposes ignore economic laws and instead concentrate upon the constraints imposed on the market by the cultural, social and the political institutions of a particular nation.

Orders emanating from the political side, Schmoller asserted, so totally override the logic of the market that each nation's unique market follows its own idiosyncratic rules. A "German economics" is profoundly different from "French economics," or for that matter from "Chinese economics."

Not just economic history differed country by country, but the intrinsic logic of economic life, a far more profoundly alarming claim. Hitler, for example, seems to have been influenced by the Historical School in his assertion that there was a decadent "Jewish physics," which had to be expunged from German intellectual life by driving Jewish physicists out of Germany.

2. Limited influence in China of Cambridge and Vienna

Despite their discomfort with such ideas, Keynes and his more orthodox successors, could spread into most American economics departments only at the cost of coming indirectly under the influence of this Historical/Institutional congeries of schools. Institutionalism appealed to the Pragmatist (and anti-intellectual) strain in American thought. It also allowed people who could not handle abstraction to shift from history departments to economics departments where they could earn higher wages.

Late imperial era hard Confucian thought and its intellectual descendant in post-imperial post-Confucianism had a similar tropism toward the pragmatic. John Dewey's lecture tour around China just after World War I reinforced that bent.

For a time during the 1920s, the Cambridge and Vienna Schools had a significant, though limited, influence in China, particularly in and around the treaty ports.

P'eng Hsin-wei, for example, whose Austrian School-influenced *Monetary History of China* I have quoted so extensively from in these chapters, was educated in Japan during the 1920s, worked in modern banks in the treaty ports, and off and on was associated with Fudan University in Shanghai, the premier treaty port. P'eng's influence, however, has mostly been limited to monetary historians and numismatists.

P'eng's Austrianism mostly went over the heads of his colleagues, and for a time, at least, over the heads of the political authorities after 1949, a happy accident which postponed his lynching until the Cultural Revolution in 1967. At least this postponement gave him the time to complete the masterful third edition of his monetary history.

Most of the other Chinese academic economists were, however, far more influenced by Cambridge than Vienna.

Fortunately, most economists were sufficiently empirical to be innocent of corrupting influences from bad theory. The weekly and monthly treaty port business journals that began to be published in large numbers in the late teens and early '20s propagated a more eclectic, technical economics. These economic journalists wrote for and about businessmen operating in real markets in a situation where free trade was actually being approximated in places through which modern goods were actually moving in and out of China.

The business associations and the chambers of commerce which sponsored such publications had during the post-World War I era begun to shuck their former incarnations as charitable associations and family foundations. They had begun to give up, like so many other groups within Chinese society of that period, their Confucian rationales to become frankly secular, and to sponsor technical works dealing with the interests of the treaty port industrial-commercial middle class which bankrolled them.

Such work had real use. The resulting articles and monographs have proved as invaluable for later economic historians as they were for contemporary Chinese businessmen trying to evaluate rapidly changing markets.

It would be churlish to complain that they are not equally valuable for historians of economic *thought*, except as negative exemplars. The assumptions of these writers were, if anything, neo-classical, simply because the neo-classical position was more eclectic than the post-classical, but these theoretical distinctions were exemplified rather than discussed in these technical journals. Discussion probably would not have helped. The historical tilt was toward socialism.

3. Dominance of the historical/ institutional schools

The dominant foreign influence on Chinese economic thought during the 20th century, if we take all China into account, has been from the Historical/Institutional School side. Even or especially Chinese Marxism-Nativism has been more influenced by this historicism than by the easily refuted and stupendously dull technical economic reasoning of Marx and his epigoni.

In part this was the consequence of historical inertia within Chinese intellectual life. Almost from the time when the Confucians achieved dominance over the Administrative Legalists in the 4th, 3rd and 2nd centuries BC, there had been a tilt in Chinese thought about matters economic toward the historically contingent as opposed to rigorously logical theoretical analysis of the marketplace.

The last theoretically interesting work in economics was done during Sung times. The Ming economists who followed were either mindless empiricists or already on the road to becoming economic cranks. Unthinking adherence to the interventionism of the *Kuan Tzu* dominated crankish minds long after such interventionism should have been seen as having been falsified by events of the two millennia since the *Kuan Tzu*'s composition.

The *Kuan Tzu* turned out to have been a "rare-ripe," something which appeared prematurely and had no real offshoots in the later Chinese intellectual tradition. (If you want to review this argument in more detail, take another or first look at chapter AE10.)

The congruency of the Historical School with Marxism-Nativism (and Fascism), which seems to be inherent on the European side of the history of economic thought, lent still more prestige to Marxism on the Chinese side even before the Marxists could become dominant in the eastern marches of their European homeland.

Mises, with his usual historical acumen, even early in this century referred to Gustav Schmoller and his Historical School followers with the label "German Socialism," or as the "Socialism of the [Professorial] Chair," the latter of which echoes the label that Treitschke, the German political historian, had used for his fellow faculty members at the University of Berlin.

Treitschke proudly referred to himself and his colleagues as "the intellectual bodyguard of the House of Hohenzollern." In a similar sense, John Kenneth Galbraith leads and has led for a generation at Harvard (our equivalent to the University of Berlin) the "intellectual bodyguard of the House of Kennedy."

The literature professors at Peking National University from the late teens on, who introduced Marxism-Nativism into China, similarly volunteered as the intellectual bodyguard of the House of Marx.

When a follower of Mises like myself calls Chinese intellectuals of this type the representatives of "German Socialism," I mean a socialism which, unlike Marxism, nominally allows for private property, but permits its nominal owners no independent power to make decisions about this property's disposal. This is actually part of a definition of fascism.

Nowadays, Galbraith refers to himself quite frankly as a socialist in this sense of the term, while Chinese academic apologists for Teng Hsiao-p'ing's reforms in the 1980s are trying to rise up from the purer forms of socialism practiced earlier to what amounts to a contemporary version of "German Socialism," which would permit extensive private property, while assuring the masters of the socialist state that such private property remains compatible with rule by socialists.

One reason why Marxism was already by the middle of the '20s becoming the dominant ideological view within the Chinese intelligentsia, was that it was escorted into the Chinese universities by apologists from the Historical/Institutional School.

Before overt Marxism could become dominant, American-style Pragmatism in the form of the Instrumentalist philosophy of John Dewey had to spread into China. Deweyism and Dewey himself were brought back to China just after the end of World War I by Dewey's best pupil at Cornell and Columbia, Hu Shih.

Already by 1919, Hu had for several years been spreading the gospel of Deweyan Instrumentalist-Pragmatism at Peking National University, where he taught. Even the young library assistant, Mao Tse-tung, had, as he later told Edgar Snow, become a Deweyan Pragmatist in 1919-20, just months before he became one of the founding members of the first Chinese Communist Party.

Deweyan Pragmatism was at that time very closely linked to the Institutional School of economics in America, whose members had imbibed Schmoller's doctrine that particular cultural institutions determined economic behavior far more than did the supposed laws of economics. The transient popularity of Pragmatism in China helped popularize the Institutional School there as well.

Some intellectual influences were coming directly from Germany. There were already Chinese studying in Germany early in this century. The most famous of these was Carsun Chang (Chang Chia-sun), who in the '20s and '30s became quite overtly a "German Socialist" in Mises' sense of that term. Chang argued that the state ought to control the leading sectors of the economy: particularly communications and the heavy industries. It should also, he argued, exercise direct and close supervision over such basic consumer goods industries as textiles.

Indeed, when Chang set up his own party in 1934, he inadvertently gave it a name (*Chung*^{1}-*guo*^{2} *she*^{4}-*hui*^{4}-*tang*^{3} ⊙⊙ ⌗🡇 ✦⏲ ⏲✽ ⇘ஐ) which could be loosely translated as "Chinese [National] Socialist Party." Chang was, however, by no means a Nazi, or even one of their fellow travelers.

As a friend, and originally something of a disciple of Liang Ch'i-ch'ao, Carsun Chang represented a carrying over into China of the respectable aspects of the German Social Democratic tradition, including its historicism and devotion to preserving the good parts of the old culture. His resulting contribution to the domestication of an historicist-influenced Marxism-Nativism into China was unintentional, and would have been disapproved of by him even at the time if he had realized then what he was doing. (Chang was no economist. His main contribution to scholarship is a thoughtful intellectual history of Sung and Ming Neo-Confucianism.)

Some of China's Institutional School Pragmatists studied economics in the United States. For example, this was true of H. D. Fong of Nankai University in Tientsin. During the '20s, '30s and '40s Fong and others at Nankai conducted a number of empirical studies barren of theoretical significance, but which appear to have assumed the plausibility of their use for "German socialist" kinds of interventions by the state.

Even some of the treaty port economists, like Fang Chiao-po, who came from a Ningpo banking family, or Feng Hsiao-shan, who was associated with the Nanyang Brothers Tobacco Company, became followers of John Dewey and even of Bertrand Russell.

There were a number of similar bourgeois statists, like Chou Chin-sheng, eventually of National Chengchih University, the official Kuomintang Party university on Taiwan, who represented a kind of right-wing statist Kuomintang orthodoxy whose influence has extended into the current period. The disciples of this school of economic thought either come up with theoretical justifications for the 5 (and still falling from the original 40) percent of Taiwan's GNP which is still produced by state-owned companies, or even work for such companies. They also provide rationales for the substantial amount of protectionism that shields such industries and certain sectors of Taiwanese agriculture from foreign competition.

In short, from the viewpoint of a non-interventionist economics, the "bad guys" have dominated economic thought during the 20th century in China, rendering the recounting of the history of Chinese economic thought rather a dreary affair, only occasionally brightened by a P'eng Hsin-wei, but no more so than has been the case in the West, faint comfort though that may be to us now.

Study Questions:

43a. What important ideas do the 20th century Chinese cranks share among themselves? To what extent were these ideas derived from the West, to what extent from the Chinese intellectual tradition?

43b. Why has the historical-institutional style of economic thought become dominant in 20th century China? In what ways was this development parallel to what was occurring in the West? To what extent was it derived from the Chinese intellectual tradition?

Further Reading Suggestions:

Li, Yu-ning. *The Introduction of Socialism Into China*. New York: Columbia University Press, 1975. Much better than Martin Bernal's identically titled work.

Schiffrin, Harold. "Sun Yat-sen's Early Land Policy: The Origin and Meaning of 'Equalization of Land Rights'," *Journal of Asian Studies*, 16 (August 1957), 549-564.

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George on Two Continents: A Comparative Study in the Diffusion of Ideas," *Comparative Studies in Society and History* (October 1959), 85-108.

Dirlik, Arif. *Anarchism in the Chinese Revolution*. Berkeley: University of California Press, 1991.

Furth, Charlotte. "Intellectual Change: From the Reform Movement to the May Fourth Movement, 1895-1920," in *Cambridge History of China* v. 12 (ed. John King Fairbank). Cambridge: Cambridge University Press, 1983.

Fang, Hsien-t'ing (H. D. Fong). *Reminiscences of a Chinese Economist at 70.* Singapore: Southseas Press, 1975.

Chou, Chin-sheng. *An Economic History of China* (tr. in précis by Edward H. Kaplan). Bellingham: WWU Program in East Asian Studies, 1974. Cf. translator's preface.

Peng, Xinwei. *A Monetary History of China* (3rd ed., tr. & ed. Edward H. Kaplan). Bellingham: Center for East Asian Studies, 1994/1965.

Arnold, N. Scott. *The Philosophy and Economics of Market Socialism: A Critical Study*. NY: Oxford University Press, 1994. A closely reasoned argument by a philosopher who winds up agreeing with Mises that a market economy is inherently both more productive and just than a socialist commonwealth. Summarized and favorably reviewed by David Gordon in *The Mises Review,* 2.2 (Summer 1996), 18-22.