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Irving Fisher and the Red Guards

The hypothesis to be advanced here is that the recent activities of the red guards in China stem, at least in part, from their use of a refined concept of capital. And it is my conjecture that, had Fisher's *Theory of Interest* been translated into Chinese thirty years ago, Mao probably would have sought to solve the "social contradiction," or the people's conflict, differently.

I

The "social contradiction," which Mao states in vague terms, can be more precisely expressed by the economist. In a world where more than one individual wants the same scarce resources, *competition* is implied. Hence, there arises among competing individuals the conflict of who gets how much of what, and it is essential to establish some rules for competition known as property rights. On this Mao and the economist agree.

But the economist *postulates*, among other things, that the *individual* behaves so as to maximize wealth or utility subject to the property right constraint. Given the constrained maximization, economic theory derives different implications for income distribution and resource allocation from different systems of property rights. If we ignore problems of transaction cost, the constraint of *private* property rights leads to a set of equilibrium conditions which define economic *efficiency*. The attributes of private property are exclusive and transferable resource rights. Hence the market, which gives and takes away, is one criterion for solving the people's conflict.

Consider the following: (1) postulates on *individual* behavior (preference functions), (2) *private* ownership of resources (one specific opportunity set), and (3) *efficient* resource allocation (some implied outputs given the objects of choice). Basically, Mao wants (3). Influenced by Marx's labor theory of value, however, Mao sees the people's conflict in (2). In doing away with (2), he disagrees with the economist on (1), in the belief that dialectical materialism will bail him out.

This note, written with only casual information on present-day China, was intended for the curiosity of Tang Tsou. Its failure to provoke laughter suggests that it should be made available to a wider audience.

II

Professor Tang Tsou has pointed out to me that Mao and the Marx-Lenin camp differ on the ending of the “social contradiction.” Whereas Marx and Lenin saw an end to the “contradiction” in a communist state, Mao does not. Mao’s logic is quite correct. What he sees, in the economist’s terminology, is an unending series of unstable equilibria.

If private ownership of capital assets is abolished, individual behavior must accordingly be changed in order to maintain a socially desirable output. However, while Mao considers that self-interest is subject to alterations and that the people can be molded as desired, he gives little or no inkling as to what specific behavior he desires of his people. To say that “thou shalt not be selfish” does not, of course, imply what “thou shalt be.” It is indeed difficult, if not impossible, to specify a class of behavior consistent with both communal ownership of resources and a desirable output—even if we grant that behavior can be molded as intended.

There is one alternative left: to specify the goal of output and to make whatever correction of human behavior is needed to satisfy that goal. Under this approach, changes in policy to “correct” behavior will be more extensive (a) the more thorough the adoption of communal ownership over resources, (b) the fewer the alterations of human nature that can be effectively induced, and (c) the more the changes in goals. And the people’s conflict continues.

That, perhaps, is why changes in rules, programs, and policy measures in Communist China have occurred at unprecedented speed under the direction of a very powerful man.

III

During the establishment of the People’s Communes—which was a greater “leap forward” than ever before toward abolishing private asset holdings (that is, in land and other farming assets)—“contradiction” mounted. People were found to be selfish and greedy; commune reports on output were outright lies; and retrogression to individualistic decisions progressed without government approval. Consequently, the next change in policy was distilled from the army, a seemingly independent organization that functions without private capital.

The outcome was the Red Guard.

IV

Capital assets, according to Fisher, are all goods with future income potential, be they land, building, craft animals, or human beings. The value of the asset is derived, with marketable rights, by capitalizing the income

stream it generates. The existence of a market value for an asset implies that it is privately owned. Even if right transfers in any form are excluded, the capital assets may still be privately held, generating incomes for the individual.

In the process of abolishing private property, therefore, prohibitions of exclusivity in use are likely to be preceded by prohibitions of right transfers.

V

The two economists who dominate economic thinking of China's political leaders, as I discovered from several volumes published in Peking in the 1950's, are Ricardo and Marx. Ricardo's doctrine of differential rent (with its implied "injustice") and Marx's labor theory of value (and surplus value) are emphasized.

While the labor theory of value fooled Marx and China's political leaders, it certainly does not fool the red guards. Under Mao's insistence on doing away with income differentials of private capital, and doing away with them *thoroughly*, the red guards have performed accordingly. Their behavior indicates that they, like Fisher, interpret capital as all-inclusive, which is a natural generalization of Mao's "thoroughness." And they apply the notion of differential rent to virtually everything. Class differentials are viewed as rent differentials. Thus from skilled ping-pong players to educated medical doctors, and for that matter to all those who command more comfortable livings (that is, higher incomes) than they, the red guards see good reasons to extract rent.

Odd as it may seem, what they do is in accordance with a sophisticated concept of capital.

VI

But the activities of the red guards will not endure. Differential rent will come into its own. For when one red guard sees someone above him, it will not be long before he also sees someone below him.

Thoroughly interpreted and strictly enforced, the elimination of class differentials implies the survival of one single man.

VII

The people's conflict which Mao sees in a Communist state is a real conflict. What is *not* real is the conflict he sees in private property: everything comes from labor, and conflict arises if non-labor assets are privately owned. His thesis of unequal income distribution is only a by-product of a

logical error, an error which stems from Marx's incomplete concept of "capital."

Mao is more thorough than Marx, and, by coincidence, the little red guards interpret Mao as Fisher.

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