

THE GENERALIZED VIRTUAL ECONOMY

Volume

1

AN ECONOMY OF THE
DUALISTIC VALUE
RONG-JIE STATE

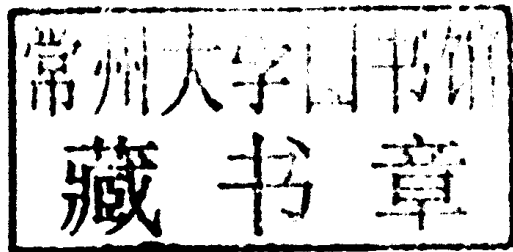
Lin Zuoming

Translated by Zhang Li

People's Publishing House

The Generalized Virtual Economy:
An Economy of the Dualistic
Value Rong-Jie State

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FOREWORD

*By Xiao Chen*¹

*T*he generalized *Virtual Economy: An Economy of the Dualistic Value Rong-Jie State* by Lin Zuoming, is being published in English through the joint efforts of the General Administration of Press and Publication of the People's Republic of China and the Foreign Affairs Bureau of the State Council. Mr. Li Kean, secretary-general of the Academic Committee of the Generalized Virtual Economy Research Foundation, told me the good news and asked me to write a foreword for this book.

Having been so invited, I am truly happy for Mr. Lin and feel that it is incumbent upon me to accomplish this arduous task of glory. It is glorious because Lin's pioneering work has made an impact in both the field of management and the field of economics since its unveiling in March 2010 by People's Publishing House, and seminars related to the new concept have attracted the attention of scholars at home and abroad. It is arduous because Lin is a man of action and

¹ Xiao Chen is a professor of economics at Peking University, former consultant to the World Bank, and vice-chairman of the Academic Committee of the Generalized Virtual Economy Research Foundation.

success who understands the situation in China very well. With his profound knowledge and agile mind, he provides the reader with abundant shining points—more than 100—in his book of over 500 pages! Prior to the writing of this foreword, I have pondered the shining points in the book many times.

I believe that there are many others who also share an appreciation for this book, which can be seen from the following facts. A new school has gradually developed in China since 2002, when Lin for the first time put forward the new concept of “generalized virtual economy.” At the beginning of 2008, the first research center for generalized virtual economy in China was founded. In August of the same year, Beihang University established a doctoral education program, registered with the Ministry of Education, in generalized virtual economy research and management and commenced enrollment. In February 2009, the trial issue of the journal, *Research on the Generalized Virtual Economy*, which was formally published in October, was published. In the past two years, more than 100 professors and scholars from Peking University, Renmin University of China, the University of International Business and Economics, Nankai University, the Nanjing University of Aeronautics and Astronautics, Nanjing Normal University, Zhejiang University, Xiamen University, the Wuhan University of Technology, the Dongbei University of Finance and Economics, Central South University, the Hunan University of Commerce, the Chinese Academy of Social Sciences, the Research Center of the China Aviation Industry

Foreword

Corporation, etc. have already worked diligently in this new field.

How could an ordinary scholarly work make such an impact in such a short time, merging streams into a torrent? Is there anything behind it for us to consider?

Let's take a look at the book, *The Generalized Virtual Economy: An Economy of the Dualistic Value Rong-jie State*, which is rich in content, rigorous in logic, novel in opinion, and clear in expression. Apparently, all these are important factors to win the reader over in a short time, yet this is only a narrow glimpse of the book. There are numerous similar books in China, but few of them can be considered pioneering. What are the in-depth reasons for this? I would like to make the following points:

First, the term "generalized virtual economy" was put forward at the turning point of an era.

Material wealth is not abundant in the era of industrial economy, so the first priority for most countries is to pursue a large number of products. When the supply in an economy can no longer automatically create its own demand, the economics that emphasizes aggregate demand is naturally born. Such has been the history of the development of advanced economies like the U. S. since the 1930s. The basic mode was that led by the automotive industry, the industrial sectors of steel, rubber, plastics, petroleum, semi-conductors, supermarkets, shopping malls, and suburban housing pushed GDP growth for more than half a century.

In the economic era led by the automotive industry, industry, manufacturing, and real capital were obviously the

determinants of national economy, while the asset price of real capital and its change, measured by money, stock prices, etc., reflected a virtual economic world. This is what Karl Marx referred to as “virtual capital.” It of course could also be called “virtual economy,” because Marx’s concept of capital embraced not only the factors of production, but also the relations of production.

In the 1930s, with the growing popularity of the theory emphasizing aggregate demand, the concepts of “money economy,” “symbolic economy,” and “symbol economy”¹ came one after another and became the new expression of “virtual economy.” At the same time, the adoption of the System of National Accounts (SNA) has gradually made the world of virtual economy so colorful and bright that the quantity of GDP overshadowed its quality and composition.

However, the leading position of the automotive industry has been assumed since the 1990s by a new industrial sector, namely, the microelectronics or information technology industrial sector. The world economy was also redirected from an era relying on natural resources, manufacturing, and individual national economies to one depending on informational resources, the information technology industry, and an integrated world economy.²

The most important elements in the era dominated by the information technology or knowledge industry have already

1 Referred to by British economist Lord John Maynard Keynes.

2 Xiao Chen, *World Economic Transition and China: Economic Tendency, Financial Crisis, WTO Entry, and Market Membership*, People’s Publishing House, April, 2006.

Foreword

changed into service, creation, and human capital, with knowledge, intelligence, and system (design), etc. as the core. In the new economic world, intangible assets (like brands, trademarks, and so on) are always more important than tangible assets. Lighter products are not necessarily weaker than heavier ones, because the value of products lies primarily in the level of intelligence (science and technology) rather than the cost of raw materials.

“To date, the pricing of ‘intelligent products’ is still in ‘uncharted waters,’ even in the advanced market economies.”¹ Therefore, all kinds of distributive endeavors find broad application. The pricing of assets is no longer determined by the level of liquidity, but by artificial design or factors like information, wisdom, and so on. It is probable that an idea in the mind of a retired engineer can save a factory on the verge of bankruptcy, and an unfruitful laboratory can suddenly and magically become invaluable in the imminent future.

If the virtual economy in its early stages was an illusive image of the real economy projected by money symbols, then the artificial design and distribution wisdom of the present is further magnifying the image of the symbolized money or projecting the image in three dimensions.

Moreover, such design and projection has been put into a brand new technological environment, namely, the technological environment of the Internet and the under-construction “Internet of Goods.” In a new era pursuing

1 Xiao Chen, *Global Network Economy*, Hua Xia Publishing House, 1998.

“Intelligent Cities” and an “Intelligent Earth,” all kinds of derivative capital products, securitized investments (like subprime mortgage-backed securities), various systematic (informational) products designed for the time (like low-carbon), and so forth are emerging one after another. The crystal ball has become more difficult to read when it comes to the reallocation of global wealth.

Facing such an uncertain world of the virtual economy and the annexation of fortune by new economic persons, shouldn't there be scholars to take the lead in putting forward the new dimensions and exploring the new laws?

Second, the term “generalized virtual economy” was put forward at the moment when the two major bubbles of the new economic cycle burst.

When Lin proposed the new concept of the generalized virtual economy in 2002, the 9/11 incident had recently occurred, and the U. S. had experienced a quarter of negative growth. The NASDAQ index dropped drastically, from 5,000 to 1,500 points. With the bursting of the fabulous dot-com bubble, the ten-year bull market came to an end, and the expectations of many were dashed. Nevertheless, the expansion of the U. S. 's new economic period didn't come to a halt owing to the support of the virtual economy (as discussed above).

The reason lies in that the dot-com bubble was replaced by the sub-prime bubble. As a “virtual investment tool,” sub-prime mortgage-backed securities had gestated for many years. From “hot opportunity” to “hot potato,” they fully utilized the present global financial system, the differences

Foreword

among individual national market mechanisms, and the deficiencies of traditional enterprise systems. The sub-prime bubble not only effectively prevented the decline of the U. S. economy, but also successfully achieved the goal of redistributing global wealth. The result is that on the one hand, houses were built in the U. S. while the debt accrued in other countries, and on the other hand, the European debt crisis deteriorated, and few measures can save worldwide markets. The world still cannot emerge from a mire of excess liquidity and depression.

The sub-prime crisis erupted in the U. S. in December 2007, and Lin's work was unveiled at the beginning of 2008. The book answers many questions that people had never thought of and explains many puzzles that people have had difficulty understanding. Behind the sub-prime crisis lies the U. S.'s new mode of managing the global economy. With the help of the generalized virtual economy and exploiting the privilege of the U. S. dollar being the international reserve currency, the U. S. promotes the redistribution of global wealth in trade, finance, investment, petroleum, food, gold, and real estate in its own interest.

“If previously the virtual economy was not quite clear to people, after the world financial crisis in 2008, it should have been known to everybody. For a number of reasonable and unreasonable reasons, the virtual economy unveiled itself to the public in an ignominious role, and in public opinion, it was to blame as the crucial reason for the

world financial crisis. ”¹

As for the economy in China, although China was praised all around the world as the only country to enjoy economic growth, the destination of its market-saving capital flow was far from satisfying. During the global financial tsunami, the Chinese government, maintaining a high sense of responsibility to the whole world, unveiled an unprecedented 4 trillion yuan investment package to save the market and put forward a grand plan to revitalize ten major industries, yet the huge amount of money for saving the market wasn't invested in the real economy, but rather in real estate speculation and the stock market. As a result, both property prices and the A-share market increased by 100% within half a year.

It seems that focusing efforts on distribution rather than production and on the virtual economy rather than the real economy has become the ungovernable impulse of economic persons worldwide. Why is this? It is because it is apparently easier to get rich through speculation in the world of the virtual economy (the generalized virtual economy in particular), though the risk is sometimes greater as well!

Thirdly, the term “generalized virtual economy” was put forward on the starting line to rebuild the world economy by ridding it of financial and virtual excess.

The result of the U. S. managing the global economy with the concept of the generalized virtual economy was that

¹ Lin Zuoming, *Guangyi Xuni Jingji: Eryuan Rongjietai de Jingji* (Generalized Virtual Economy: The Economy of the Rong-Jie State), People's Publishing House, March, 2010, p. 6.

Foreword

their debt far surpassed their assets, such that the point of saturation was gradually reached, and it was difficult for them to raise more credit. Sovereign debt crises came one after another in Europe. The credit ratings of the U. S. , France, and so on were downgraded in succession. The two parties in the U. S. Congress were fighting hard, and quarrels spread quickly in the world. All of this indicates that the U. S. went too far on the path of financial and virtual excess.

It is inevitable that the economy should get back on track, and restructuring is imminent. In the developing countries and the emerging market, voices calling for the abandonment of the U. S. dollar in the new era are emerging,¹ while in the developed countries, social movements calling for improving people's lives such as Occupy Wall Street are spreading like a raging fire and may even overshadow the social movements of the Great Depression in the 1930s.

Where is the new starting line? Let's take a look at the "wisdom" of the Americans! The global strategy of the U. S. has taken shape and was revealed to the whole world during the 2009 Copenhagen Conference and the 2011 Durban Conference: they try to take the lead in holding high the flag of the "low-carbon" economy! While we are still playing the ping-pong ball, they have made a play for the planet. Both games are characterized by bringing out one's own advantages while suppressing others. As for the advantages of the U. S. , the three major growth points for the economy,

1 According to Zhou Xiaochuan, governor of the People's Bank of China.

namely new energy, intelligent cultural services, and the Internet of Goods, have already reached a certain scale in the “low-carbon” era. The industry of “new energy” will definitely upgrade the industrial economy of the U. S. , while the latter two industries will fully refresh its service-oriented economy.

The shift from high-carbon to low-carbon provides an epochal opportunity for the restructuring of the real economy; the change from financial excess to financial moderation indicates the growing importance of non-financial wisdom; and the path from production to creation implies the upgrading of the service industry, since the objects of service are no longer limited to “life” and “production,” but have spread to “creation,” and they are not limited to one country, but rather are for the whole world!

Since the implementation of the 12th five-year plan, Chinese central government leaders have repeatedly stressed that emphasis should be placed on both the real economy and the growing tertiary industry, including the service industry. In Beijing, such questions as whether real estate is in the real economy or the virtual economy have frequently been raised and discussed in various seminars. In fact, there is no doubt that the real estate economy, like other industries, also has dualities. It is the objective real economy in terms of physics and technology, such as cement, steel, construction, human power, and so on, yet it should be classified under the (generalized) virtual economy from the perspective of real estate speculation, because the real estate industry in China currently belongs still to the distributive endeavor in the

Foreword

virtual world. Therefore, it is obvious that we should encourage the construction of high quality homes (real economy) rather than seek profit by pushing property prices higher (virtual economy) in our policy!

What is theory? It could be considered as the process of sharpening your machete. Only when the machete is sharpened will your job of cutting wood not be delayed, and we can avoid unnecessary disputes. Even before the 12th five-year plan was started, Lin had unwaveringly written: “In the era of the generalized virtual economy, many laws and principles of conventional economics are being subverted...As a result, the entire discipline of economics is spirally rising to a higher level.”¹ “...[I]f we carefully study and positively and appropriately develop the generalized virtual economy, we will certainly get through this difficult situation and let our economy return to the healthy development path of a virtuous cycle.”²

People succeed in different ways, none of which are identical. Yet there is a prerequisite: the proper task or proposition is put forward by the right person at the right time. The incubation, development, and maturity of Lin’s generalized virtual economy is no exception.

In addition, Lin’s personal charm and cooperative ability are no doubt another important factor for the increasing craze for discussion on the generalized virtual economy. He was born in Zhangzhou, Fujian Province, not far from the

1 Lin Zuoming, *Generalized Virtual Economy: The Economy of the Rong-Jie State*, People’s Publishing House, March, 2010, p. 10.

2 Ibid. , p. 6.

Jimei School Village, which was founded by Tan Kah Kee, a patriotic overseas Chinese and prominent businessman, in his hometown while he was working overseas. After liberation, the Chinese leader Mao Zedong wrote eight Chinese characters for the “Gui Lai Tang” (Home-Coming Hall), the Memorial Hall of Tan Kah Kee: “Minzu Qizhi, Huaqiao Guangrong” (“the Chinese people’s banner, the glorious overseas Chinese”).

Man should have some revolutionary spirit: one flower doesn’t make a spring, and a spring garden is always full of flowers! Since 2010, the Generalized Virtual Economy Research Foundation has funded more than 84 projects at dozens of universities and research institutions in China. Yet this is just the beginning of a huge academic project!

To be able to put forward and solve an epochal proposition is always an extraordinary achievement for a scholar, and to open up a new field of study that is beneficial to the country and its people will be a heroic undertaking! Getting back to the subject of this foreword: the abovementioned facts have probably proven that even in the materialistic world of the (generalized) virtual economy, being an “economic person” is never the choice for a noble person.

One afternoon when the sky was made golden by the setting sun, Maxim Gorky was strolling with the great writer Leo Tolstoy. Seeing a person who was sharpening a knife under a big tree, one of them asked, “What is theory?” The other replied, “The outline of the person who is sharpening the knife is!” It seems that it is tedious and boring work

Foreword

moving the knife up and down repeatedly, but the essence of the activity is very important! Isn't the study and exploration of the generalized virtual economy similarly so?

Let me end this foreword with two quotations: ¹ the first is, "If we have chosen the position in life in which we can most of all work for mankind, no burdens can bend us down, because they are sacrifices for the benefit of all; then we shall experience no petty, limited, selfish joy, but our happiness will belong to millions, our deeds will live on quietly but perpetually at work..." and the second is, "There is no royal road to science, and only those who do not dread the fatiguing climb of its steep paths have a chance of gaining its luminous summits!"

Xiao Chen

March 3, 2012

Peking University

¹ Both quotations belong to Karl Marx, who at the turn of the century was voted the greatest thinker of the millennium.

Table of Contents

Chapter 1	The Generalized Virtual Economy Characterized by the Rong-Jie State Is the Inevitable Result of Historical Development	1
	Chapter Abstract	2
1. 1.	Evolution of the World Economy with the Explosion of Information	4
1. 2.	Evolution Is the Leap Made by the Unification of History and Logic	14
1. 3.	Gaps in Virtual Economy Research and the Truth that People Have Missed	23
1. 4.	The Generalized Virtual Economy Springs from a Special Circulation	37
1. 5.	The Emergence of Virtual Value and the Explosion of Commodities Brought about by Value Segmentation	48
1. 6.	Examination of the Rising Generalized Virtual Economy from the Perspective of Reassessing the Nature of Wealth	56
 Chapter 2	 Value Evolution: From the Objectification of Labor to the Objectification of Life	 67
	Chapter Abstract	68
2. 1.	The Most General Schema of Human Activities and Its Influence on Economic Theory	72
2. 2.	The Challenge of the Utility Theory of Value to the Labor Theory of Value Opened the Gate to the Human-Centered	