



BROKEN CHINA

by Dr. David B. Ascher

"Economically speaking the cultural revolution of the Maoists is sheer nonsense"

A CULTURAL REVOLUTION is going on in China. Young boys roam over the country destroying the relics of China's glorious past—wonderful pagodas, delicate pictures painted on tender silk, priceless manuscripts and exquisite china.

They do it deliberately. Though "East is East, and West is West, and never the twain shall meet," even Europeans can understand its purpose. When, about 1,500 years ago, the King of the Franks accepted the Christian religion, the baptising bishop said: "*Mitis decline collum, Sigamber; adora, quod incendisti, incende, quod adorasti.*" (Meekly bow thy neck, Frank, worship what thou hast burned, burn what thou hast worshipped.)

If you want to direct people to take a course totally different from that of the past, you have to destroy their former course so that no trace thereof will be left, even in their memory. When Alexander the Great burnt his ships, he knew well enough what he was doing.

It has been said that "for ways that are dark, and for tricks that are vain the heathen Chinese is peculiar." But we must look beyond the alleged reasons for seemingly senseless actions and we must also recognise unforeseen effects of them. Sometimes these effects are exactly what the people carrying out the action want to produce; but, more often than not, these actions result in something quite different.

This has happened in the case of the cultural revolution in China. Hooligans destroyed classical Chinese china at home; but they did not know that huge amounts of such china are in store in the USA and Europe. Their destructive hands were unable to reach that china.

What happened? Dealers the world over estimated quickly the amount of undestroyed classical china in other countries. By their very acts the revolutionaries had turned the scales in favour of the china in western stores and in private collections. They liberated it from the threat of Chinese competition! And as the amount of china became smaller, its market-value went up. Thus, young Chinese communists enlarged the fortunes of capitalists abroad. Unwittingly, to be sure, but the fact remains.

History repeats itself. 1,200 years ago, iconoclasts destroyed so many Byzantine holy images that even today the few remaining classical icons are priceless treasures—and they are owned by a few wealthy people in the West—not in the East where these icons once stood. It happened again when the image-breakers in Germany (1524) and the Netherlands (1566) destroyed vast quantities of religious monuments and pictures; their present scarcity enhances their value beyond their artistic qualities. The wholesale destruction of icons in the Russian

revolution of 1917 brought forth the same result.

Economically speaking, the cultural revolution of the Maoists is sheer nonsense, whatever be the merits or demerits of its acts in its political and sociological aspects. Many people are foolishly tempted to destroy valuable goods in order to reduce supply so as to cause an artificial scarcity and in this way cause a rise in the market-value.

If you have a monopoly in this particular field you may achieve your purpose. You destroy your stocks, and the small remainder in your hands goes up in value. But think well before you do it! Perhaps there are large stocks in the stores of a foreign trader. What will happen in this case? He will become rich because his stock goes up in value by your acts. Or it might happen that there are other producers—not being members of your cartel—who grasp the opportunity and produce more and more goods in your line, so that in the end they may throw their undestroyed stocks on to your market.

But even if a truly monopolistic cartel restricts or destroys the greater part of the stocks of a given commodity, and if no outside interference can take place, the effect of these measures is frustrated in the long run. An economist therefore, should not advocate a movement "to break china," in order to maintain a high price.

Governments as well as businessmen believe in the value of artificial restrictions imposed upon trade and production. And even when they know the economic effects of such an action they are not deterred. They will try to stimulate demand by artificial means in order to "sell china" at high prices. To a certain degree they will succeed. Luxury goods and goods of artistic value, like classical china, can be foisted upon innocent purchasers by the "hidden persuaders." But do not forget that the economic life of a nation, to say nothing of mankind as a whole, is not based on the production and trade of luxury goods. At first people want to eat, to have light and warmth in their houses, and to get clothes to protect themselves from the cold. And here you cannot come with psychological tricks. Here are hard facts, and they have to be faced.

To quote a letter written by Graham Hallett to *The Listener* (December 22, 1966): "Professor Galbraith suggests that the modern corporation manages consumer demand in such a way that consumers are prepared to buy its products. Could he pass the secrets of this demand management on to the National Coal Board, please?"

Mr. Hallett is right. Bread, coal, meat and similar commodities cannot be forced upon the consumer. He needs them and he buys them, if he has the money; that is, if

he himself produces something to be given in exchange for these goods.

Let us return again to our broken china. We saw the "action at a distance" of the Chinese cultural revolution, something like a telekinesis realised in the china markets in London and New York. But there is more to it. Alfred Marshall in *Elements of Economics of Industry*, (p. 336) said: "The influence on values which has been exerted in the modern age by the new means of transport is nowhere so conspicuous as in the history of *land*; its value rises with every improvement in its communications with markets in which its produce can be sold, and its value

falls with every new access to its own markets of produce from more distant places."

"Marshall's Law" has not been refuted by either economists or theorists on land valuation. Sensible statesmen ought to draw the one and only practical consequence from this law, that is, they should impose a true land-value tax upon the land, in order to convert this telekinetic effect of economic actions anywhere in the world into money for the community. And if they happen to be Chinese statesmen, they could in this way, bring "oil for the lamps of China"—without breaking china.

The Great Depression—in Search of a Cause

By PETER RHODES

IN 1929 the American gross national product reached a peak six per cent higher than the previous year. Unemployment was running at about 3.2 per cent and everywhere there was an air of optimism and expansion. Within four years a quarter of the nation's labour force was out of work.

The search for the cause of the great depression has since been undertaken at irregular intervals by many students, historians and economists. A recent appraisal by Carl O. Nordling, former Assistant Professor of City Planning at Stockholm, throws some interesting light on an aspect of the events leading up to the sudden panic and economic recession of the 'thirties*.

Professor Nordling makes no claims to being an economist, but he has put forward a few figures that he has stumbled across during the course of research work. It appears that between 1920 and 1926 there was a very rapid increase in the U.S. population; the urban residents increased their numbers by an average of two million a year. As a result of the war there had also developed a housing shortage. More than half a million new units needed to be built every year to keep pace with growing needs and obsolescence. Around 1921, rents and house prices rose rapidly, encouraging new investment. Production rose from 450,000 in 1921 to 940,000 in 1925—no small measure of economic impetus.

According to Professor Nordling, however, production had increased far too rapidly. By 1926 sales of new units were falling, prices were reduced and vacancies began to pile up. In spite of these trends, however, the decrease in production in the following years was relatively slow. The surplus of dwellings in 1927 was in excess of 350,000. At the end of 1929 output had fallen by 250,000 over the previous year. This tremendous drop in production gave rise to a two per cent decline in the work force at the end of 1929—a rate of decline that rapidly increased. Alwin H. Hansen wrote: "Probably at no time

in our history had we reached as complete a temporary saturation in building construction, including apartment houses, residences, office buildings and other commercial structures, as was the case in the late 'twenties."

The lesson of these historical studies, says Professor Nordling, is that even in a planned economy such as that of Sweden, a similar state of affairs could arise. In the U.S.A. the surplus output was worsened by a rapid decline in population increase with the end of the post-war new family boom. The Professor concedes, however, that such a situation is unlikely to arise on the same scale again. Statistics are now more readily available than they were in the 'thirties and the market is more cautious in its approach.

Unfortunately Professor Nordling did not take his study far enough. What was the real cause of over-production and why was it so harmful? There is little doubt that rapidly rising land values from 1920 onwards encouraged wild land speculation. Those who had invested money in land transactions, often through mortgage facilities, had high hopes of reaping a bonanza. Many people did. Others, however, found themselves with financial burdens that they could not meet. Pure speculators often took chances on second mortgages to raise capital for construction in the hope that things would improve. When it was discovered that not only was it difficult to sell virgin land, but even more difficult to sell vacant houses, the financial difficulties multiplied. The land financing boom had shot through the entire economy, affecting small investors, finance houses, banks, insurance companies and large corporations. The sudden necessary reduction in construction that precipitated the great depression had its own roots in a short-lived land boom, the significance of which had been greatly under-estimated.

Just before the crash in 1929, an article in the *Magazine of Wall Street* said: "Every panic in our country has been preceded by an orgy of land speculation—the culmination of every period of prosperity is a land boom, and then comes panic."

Just as every building has land beneath it, Professor Nordling's housing statistics have land value figures behind them. Under a system of land taxation such dire consequences of rapid expansion are unlikely to occur.

*"Origin of a Depression": *Land Economics*, February, 1967.