

Critics of A Prestigious Chinese Economist in 1930s to the Great Depression

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The advent of horrendous financial crisis, originated from the United States since September of 2008, has been causing a huge shock rippling all over the globe. The power of American model of capitalism to economic development becomes questionable, as highlighted in a Newsweek magazine's article that "American model ... tatters, its European and Asian rivals make their move."¹ Its impact and sequel to the world is mostly discussed and expounded by evoking the historic Great Depression occurred in 1929.

There have been numerous articles in Western world regarding such havoc overwhelming the whole United States in 1930s. However, Ma Yin-Chu, one of the most prestigious and influential economists of China in the last century, had also made much effort to analyze the root cause of the Great Depression, and to suggest any solution to overcome it. In this paper an account of his point of view to this issue, by reviewing his works written in different periods during the 1920s-1940s, will be given; plus distinction of views between him (as a Chinese scholar) and several representing economists in the Western world on depression. These economists are mainly from the United States, and their works released in 1920s and 1930s (except one released in 1970s, which is a treatise on the Great Depression) are being used as reference. They are William T. Foster and Waddill Catchings who wrote *Profits* in 1925; Lionel Robbins who wrote *The Great Depression* in 1934; and M.N. Rothbard who wrote *America's Great Depression* in 1975. Moreover, perspectives of others like Irving Fisher, Hans Nassier and Carl Synder, as delineated in their academic papers released during 1930s, are also presented.

Ma Yin Chu is deemed as a legendary figure in modern Chinese history. Born in 1882 in Zhejiang province, his way to be educated was mostly close to the Western except in his early days that he received traditional Chinese education. Upon subsequently studied mining and metallurgy in two "modern-educational" institutes respectively in Shanghai and Tianjin, he then went to the United States in 1907, shifting to the field of economics, where he finished his undergraduate at Yale, followed by postgraduate work at Columbia from which he received his PhD degree in economics in 1914². Upon his returning to China, he began as a teacher at the National Peking University (predecessor of the existing Peking University), of which he became the president in 1950s. During more than forty years since 1910s, Ma had written thousands of articles, speeches, comments and treatises published in various media in China. Most of his works have been compiled in fifteen volumes of collections.

In early 1920s Ma tended to agree that capitalism could impact the society positively. Nonetheless, since late 1920s he had radically changed his view to another extreme, although he did not obviate certain benefits of capitalism brought to the society³, as it would lead to crisis to the society and world politics, particularly the emergence of imperialism⁴ and disparity between rich and poor.

¹ Newsweek, 13 October 2008 issue, pp 21.

² *The China Quarterly*, No. 6, pp 53.

³ Ma agreed that its benefits to the society were fourfold: (1) to drive technology improvement so as to improve quality of commodities; (2) to trigger scientific invention for better efficiency of production; (3) to enhance initiative power of individual innovativeness for creating more knowledge; and (4) to curtail production cost so that prices of commodities would be much cheaper. See *The Complete Writings of Ma Yin-Chu (Vol. 5)*, pp 410.

⁴ Ma's view was that, in order to pare production costs, developed nations would pillage "cheap" resources from under-developed nations (such as Africa) through establishment of colonies

Over-Production as Root Cause, Planned Production as Solution

Over-production, as reflected from his various writings from late 1920s to 1940s, was the key factor of the Great Depression in Ma's view. However, in Ma's thought over-production was *mostly* generated under capitalism-based institution. Production under capitalism was, using a term coined by Ma, a kind of "blind production"⁵, which occurred in "capitalism-based nations". Decision of how many certain commodities would be produced was merely based on how much profit could be made from there. Capitalists would disregard to "forecast" what kinds of commodities, and how many of them the community would demand. When surplus commodities could not be sold at profit-making price levels, most enterprises chose to dump these commodities to market with deficit-causing price levels, as long as they could be cleared out of stock. But each nation insisted to "boost up export (through government's subsidiaries as incentive) and curtail import (through customs duty)", there was no further room of market to accommodate these surpluses. Plummeting of general price levels was caused; and the Great Depression was ignited as enterprises having more severe deficits were closed down, workers were unemployed.

The end of the First World War, Ma claimed in 1930s, was triggering the over-production later. Upon the War money and commodities could not be flown freely among nations due to government's intervention. With emergence of nationalism, each state implemented autarkical policy, and encouraged to boost up domestic production. Ma attributed that as a "bane" of over-production⁶. Warfare debt due to the War also contributed to it. Nations like Britain and France, even as "winners", had to pay off warfare debt loaned by the United States. When both nations were unable to pay off the debt by money, using commodities as substitution was the only way. But due to obstruction of customs tax enforced by the United States government, both nations had to tackle it by dumping sales. Consequently prices of commodities declined, by which good made domestically in the United States were engulfed.

Ma stated a "three-stage model" to illustrate how over-production contributed to outbreak of the Depression. Using production and selling of cotton yarn as typical example, he proposed a chain of contemporary production process as an aid of explaining his model (as shown in the Attachment of the last page), It involved stakeholders from various sectors (farmers, industrialists and merchants). Some enterprises involved might need to raise bank loans for business operations and transactions⁷. Ma extended the use of such model from cotton yarn sector to other sectors like wheat, silk, cane sugar, oil and soy products, which he claimed could be explained under the same framework. The three stages were⁸:

- During initial moment of business prosperity period, commodities were all sold but production had not been boosted. Price levels were up due to supply not exceeding demand. Capitalists made a big profit due to low labor cost, material cost and interest rate.
- More capitalists were driven by desire of making profit to join the competition, not only in production industries but also other sectors (banks, insurance agents, etc.). Intensive rival would lead to mild increase of labor cost, material cost and interest rate. Production

⁵ *The Complete Writings of Ma Yin-Chu (Vol. 10)*, pp 24. The article was released in 1937. However, the term appeared at the first time in Ma's another writing released in 1932.

⁶ *The Complete Writings of Ma Yin-Chu (Vol. 6)*, pp 14.

⁷ *The Complete Writings of Ma Yin-Chu (Vol. 10)*, pp 19. Capital might also be raised by issuing shares of stock or corporate bonds.

⁸ *Ibid*, pp 22. Ma stated that, in some cases, in fact there were four or even five stages to depression. See *The Complete Writings of Ma Yin-Chu (Vol. 7)*, pp 458.

would be mildly up but price level down, and profits made by capitalists were relatively low.

- Along with more intensive competition, cost of production became much higher. Price level of commodities would decline even more, and profit made by capitalists were close to none. Enterprises with lower production efficiency would even suffer deficit and were eventually closed down. This led to more unemployment of workers, followed by detriment of purchasing power.

Over-production of commodities would also ignite “chain reaction” to other “for-producers” industries (machine makers, stain steel makers, transportation and raw materials, etc.). These sectors, when highly prospered and developed, would also compete with commodities makers for resources like labor, material, and capital. Over-production led to close-down of factory plants and machines idleness, and this might become burden to capitalists. Banking sector was affected as well⁹, as current capital would be loaned from a bank to capitalists with shares of stock from them as collateral. With close-down of factories fixed capital became valueless; which implied that related shares of stock had no value. Related bank loans could not be recalled, which led to close-down of banks themselves. Those still surviving would shrink their credits, and more enterprises were closed down because of lacking capital sources, and they were unable to keep operating the businesses. Moreover, rental of lands or properties were deferred for payment. Sellers highly exceeded buyers in property market. Government would also be a sufferer; the more the price level declining, the less income the government could obtain from income tax, excise and customs duty.

There were other causes than over-production leading to the Great Depression. More or less they were perceived as part of the nature of capitalism. The most important one was “individualism”. The fiasco and core problem of capitalism, as Ma stated, was “individual benefit” as its prime objective; everybody was pursuing his own profit and did not collaborate with each other”¹⁰. He blame the depression on the factor that all enterprises could not have information from each other of overall amount of supply and sales volume of the community, as a result of everyone’s keeping its own production situation as confidential¹¹.

Other causes contributing to the Depression included, first, large-scale production, prevailing in capitalism-based nations as the basic principle of contemporary economy. The second was private ownership, as commodities owners (suppliers) and consumers were two separate groups. If consumers lacked purchasing power, commodities could not be flown to consumers except being hoarded in suppliers’ stocks¹². The third was uneven distribution of commodities as incomes of most people were at relatively low level to capitalists; thus they had insufficient purchasing power for commodities, so all goods were bought by capitalists per se¹³. Last but not least was under-consumption. On one side workers made low income followed by weak purchasing power; and on the other wealthier classes had better purchasing power but less intention to purchase. This led to surplus of produced commodities. Decline of

⁹ In Ma’s idea, banks played a role of mediator for flow of capital. It was particularly critical along with expansion and more complication of production size and human resource, for which supplier and demander of capital might not be able of direct contact. See *The Complete Writings of Ma Yin-Chu (Vol. 10)*, pp18.

¹⁰ *The Complete Writings of Ma Yin-Chu (Vol. 5)*, pp 411.

¹¹ *The Complete Writings of Ma Yin-Chu (Vol. 7)*, pp 459.

¹² *The Complete Writings of Ma Yin-Chu (Vol. 10)*, pp 24. To Ma, under private ownership, “contradictory” phenomenon would occur (i.e. over-production on one side, under-consumption on the other), in particular during depression. It might also be true that null commodities would imply the worse the purchasing power. But did it mean the more the former, the better the latter? It was not always true.

¹³ *The Complete Writings of Ma Yin-Chu (Vol. 12)*, pp 426.

commodities price levels led to bankruptcies of factory plants, thus more workers were unemployed. Higher unemployment then led to much lower income of working classes, and so on, to keep recycling¹⁴.

The economy of the United States and the world, as Ma and most economists had claimed, was absolutely abnormal at that moment. But would there be any solution to alleviate the Depression? In Ma' view neither "absolute capitalism" nor "absolute communism" could benefit as a solution to such crisis. Thus he suggested "the third alternative", lying in the mid of both extremes. This was, on one hand implementing a "planned production" and on the other retaining private ownership of property¹⁵. A planned production would bring two major advantages. First, it would avoid enterprises' manipulation of production when production was controlled by the government (as a mandate of people). Second, it would alleviate disparity of wealth and poor, a major crisis of capitalism, as planned production would generate more necessities to the community and fewer luxurious products¹⁶.

Ma claimed "planned production" (or economy in wide sense) as necessary, as well as the only way, to overcome the Depression caused by over-production and under-consumption. He thought that most businessmen over-emphasized capitalism, but it had fallen in quagmire which had to be improved. To him, the Soviet Union was setting a good example to the world¹⁷. Unlike what it was in the past, Soviet did not go for aggression anymore, and did adopt some advantages of capitalism. However, the only thing that the Soviet still insisted staunchly was planning economy, the only way to avoid blind production. He further observed that, upon outbreak of the Depression, more capitalism-based nations discerned the fruitful outcome of Soviet Union's five-year plan in economy, thus they started to advocate a "planned economy" to be adopted in their economic regimes. Indeed, in his mind although capitalism and communism were two totally extreme ideals, they had mutual influence to each other¹⁸.

Foster and Catching's Thought of Over-Production – Similarities

Obviously Ma ascribed the Great Depression to capitalism, with a view that it led to "blind expansion" of production, followed by outbreak of the Great Depression. In Western academia, Foster and Catchings's view could be said as similar of that of Ma but not totally. Their work, "Profits" published in 1925, several years before the advent of the Depression, denoted a prescient view that a depression of economy was imminent and inevitable. They claimed that economic stability was subject to steadily increasing volume of consumption that standards of living depended, and other factors would serve the economic interests of society as far as they played their roles toward steadily increasing the volume of production and consumption at the same rate. The economy would be stable if supply and demand of commodities would be in equilibrium. The fundamental cause of failing to achieve economy aim of society would be whether or not there was a limited market – in other words, a failure

¹⁴ *The Complete Writings of Ma Yin-Chu (Vol. 12)*, pp 427. There were also other minor reasons, such as deficit (imbalanced income and expense) of national budget. But Ma downplayed this point in his writings.

¹⁵ *The Complete Writings of Ma Yin-Chu (Vol. 5)*, pp 375-376.

¹⁶ Ma blamed that richer people would prefer more luxurious products, which were not daily necessities. The market would be suffused with luxurious products, instead of others such as food. See *The Complete Writings of Ma Yin-Chu (Vol. 6)*, pp 420.

¹⁷ *The Complete Writings of Ma Yin-Chu (Vol. 6)*, pp 17.

¹⁸ *The Complete Writings of Ma Yin-Chu (Vol. 9)*, pp 241.

of consumer demand to keep up with production¹⁹. Ma also stated a similar concern in this aspect²⁰. Besides, both authors agreed that over-production would lead to economic depression. Indeed, there was a fearful belief proliferating over the nation that markets could not absorb all produced commodities, and employers had to limit their production output. Laborers, therefore, were also convinced that the more productive they were, the sooner they would lose their jobs²¹.

Last and not least, all of them had consistent viewpoint in deficiency of purchasing power, although Ma revealed in his writings several years later. Foster and Catchings agreed that there was no doubt that every recession in business activity was due to over-production, or fear of public that it was imminent. Nonetheless, the point that deficiency of purchasing power was the main cause of recession should also be well considered²².

What Were The Differences?

Ma had very different view with Foster and Catchings in three issues. The first was about how over-production entailed the depression. Unlike Ma, stating that capitalism led to over-production and so forth, Foster and Catchings stated “psychological cause” be the root cause of depression. Most people expected that prosperity was always followed by fear of depression²³. Business men always thought that “periodic depressions were foreordained”, and nearly everybody was waiting for a recession. It was impossible to sustain economic progress, thus extreme alternations of prosperity and depression were inevitable²⁴. Depression occurred no matter how promising the forward economic prospect might be. For example, in 1925 the whole economic situation in the United States was thought to be remarkably sound, and there had been more promising factors said to make for prosperity²⁵, which led to steady increase of production. Yet most economists, bankers, trade journals and statistical agencies warned coherently the business world to be prepared for an economic recession. They feared not only overproduction in this or that commodity, but overproduction of goods in general²⁶.

Second, for “general” over-production, unlike Ma’s view that commodities supply exceeded what the society demanded, Foster and Catchings stated that the term “over-production” was

¹⁹ *Profits*, pp 240. Both authors raised a note that political and commercial policies of all leading industrial nations, at that moment, seemed to be based on belief in limited market, which could not possibly expand rapidly enough to absorb all goods which the world was able to produce.

²⁰ *The Complete Writings of Ma Yin-Chu (Vol. 5)*, pp 420. Ma stated that, under imperialism, developed nations set up colonies in areas of under-developed ones. Due to limited market, over-produced commodities would be delivered to colonies. Also, dumping commodities to another nation as a tactic of export was another way.

²¹ *Profits*, pp 245.

²² *Ibid*, pp 250.

²³ *Ibid*, pp 241.

²⁴ *Ibid*, pp 231.

²⁵ At that moment the political situation was stable. Business had long been free from government interference. Agricultural depression was over and commodity stocks not excessive. Situation in Europe was better after the First World War, the railroad recovery was remarkable. There were no unusual labor troubles, capital investment was greatly increased. Most importantly, there was “super-abundant” bank credit at low interest rates.

²⁶ *Profits*, pp 243. In the spring of 1925 various index of business activity and production in the United States were above normal. But most people feared that such over-production was an output not merely beyond the buying capacity of consumers at homeland, but also beyond the capacity of the world for which the nation would be unable to export its surplus commodities.

seldom used in this sense²⁷. In addition, not all goods could be over-produced in relation to each other, and the idea of general over-production in this sense seemed absurd. They further pointed out a misconception about “general over-production” at that time, that most people focused their attention on goods and overlooked money as the “mere medium of exchange”. In other words, a general over-production of goods *in relation to money*, which consumers offered *in exchange for goods*, seemed more possible and reasonable.

Third, over-production, in general sense or not, was main concern of all three economists. But Foster and Catchings’ attention was also on how over-production of goods was related to money, on which Ma did not focus. Whilst recognizing money as *medium of exchanging goods*, Ma stated that demand of money was subject to amount of commodities available for exchange. Thus, increase of money could not directly increase amount of commodities, which implied that *money supply itself could not stimulate over-production*²⁸. In contrast, whilst having similar view as Ma that flow of money to consumers would depend mainly on production activity, Foster and Catchings stated that such activity would also depend on the flow of money to consumers as well. They explicitly noted if the activity was increased without proportionately increasing the flow of money to consumers, prosperity would be short-lived; if flow of money was increased to consumers in proportion to increased production activity, consumer demand could be up and so prosperity could continue²⁹.

What Other Western Economists Thought of Over-Production?

Other economists, contemporary with Ma, carried even much more different view with him than Foster and Catching. First, about the concept of over-production, Fisher (1933) claimed that most people’s thought of over-production as “too little money for too much goods” was a common mistake³⁰. Robbins (1935) made even clearer that the meaning of “over-production”, in a correct sense, should refer to the fact that the commodities supplied *could not be sold at a profit* in important markets at the prevailing price level³¹. Neisser (1934) recapitulated the Say’s Law of Markets, widely accepted by economists in 1930s, and introduced a re-modified version to explaining the presence of general overproduction. In this new version, the term “production” was re-defined, no longer in the usual sense of physical output of commodities and services, but as production of commodities of which the sales receipts covered the costs. “Over-production” existed only if commodities could not be sold at cost³².

Second, did over-production really exist in reality as Ma claimed? To Fisher, theoretically, most of the time there ought to be some degree of general over- and under-production in both senses of stock and flow³³. Neisser admitted that there had been general over-production, but

²⁷ *Profits*, pp 249. It was because most businessmen and economists had a concept that capacity for consuming with satisfaction had always kept far ahead of capacity for producing

²⁸ *The Complete Writings of Ma Yin-Chu (Vol. 10)*, pp 18.

²⁹ Their quote “... there is no possibility of attaining the economic aim ... unless consumers somehow obtain enough money, year in and year out, to buy goods about as rapidly as they are produced.” was one of their three propositions about over-production. See *Profits*, pp 231.

³⁰ *Econometrica*, Vol. 1, Issue 4, pp 340. He reminded that production as a whole was relative to human desires and aversions, aside from the abundance or scarcity of particular products relative to each other.

³¹ *The Great Depression*, pp 13-14.

³² *Journal of Political Economy*, Vol. 42, No. 4, pp 434. The original Say's Law contended general over-production as impossible which, to Neisser, seemed contradicted by recurrence of several crises.

³³ *Econometrica*, Vol. 1, Issue 4, pp 339. Same situation was happened on over- or under-consumption, over- or under-spending, over- or under-savings, and over- or under-investment

it was obviously due to monetary causes³⁴. It was basically a deflationary phenomenon, in which the quantity of money had not grown in proportion to the quantity of commodities, whatever in absolute or relative sense. Robbins reminded that, as long as there were still wants to be satisfied, there could not be over-production in the sense of real superfluity of commodities. Rothbard (1975) sensed that most people suspected that the “capitalist system” produced “too much commodities” in the boom, which had outrun the productivity of most plants; and expected that the depression would be the period of rest, allowing excess inventories cleared away. He bluntly censured such concept, albeit popular, as *arrant nonsense*. He claimed that, as long as any economic desires remained unsatisfied, production would be needed and demanded. Thus there was over-production of specific goods, but none as “general” over-production. The problem to be observed should not one of “over-production”, but of *cost-price differentials*³⁵.

Third and most important, was over-production the main cause leading to the Depression?³⁶ Snyder (1931) stated firmly that *over-production would not necessarily lead to price decline*; as in the past there had been several instances of increased production, but no violent declines in prices were found³⁷. Fisher stated even explicitly that, in practice, general over-production had never been a chief cause of great disequilibrium leading to depression. Other than over-production, there might be other factors; but he doubted that if it was adequate to cause big disturbances to the economy by putting all of these factors together³⁸. The dominant two factors causing depressions, or booms, were over-indebtedness to start with (debt disturbance) and deflation following soon after (price-level disturbance)³⁹.

Nassier and Robbins shared a same view to blame the *credit mechanism*, not over-production, to be responsible for such depression. Robbins further stated that over-production in one line of industry was not possible to lead to a general depression. One possible situation that over-production in one industry would bring negative effect on others was the hoarding process. In other words, consumers hoarded the money left over rather than spent it. But still the question was why consumers hoard and did not spend the money on something else. In this regard, he suggested that the ultimate cause of such the Great Depression, and indeed of all other depressions, should be looked for *on the side of money, not of commodity supply*⁴⁰. Rothbard shared the same view that focus should be on why money was not used to buy these over-

³⁴ *Journal of Political Economy*, pp 435.

³⁵ *America's Great Depression*, pp 55. His argument was that selling prices of products were below their cost of production. But as costs were determined by expected future selling prices, this might mean that costs were previously bid too high by enterprises.

³⁶ It was favorite explanation or even popular belief, that almost all recessions were the result of wide-spread over-production.

³⁷ *American Economic Review*, Vol. 21, No. 1, pp 177. Snyder quoted an example of world's wheat production in 1929 and 1930 which was a little above average; there was record crop of 1928; and average increase from 1919 to 1923 was rapid. Yet there was not any marked decline in the price of wheat during there periods. Besides, he observed that prices of commodities, in which there was no unusual rate of increase, had fallen as much (or even more) than those in which the expansion seemed exaggerated. He also reminded that, first, evidence of over-production and of accumulation of large stocks of commodities almost invariably appeared after economic crisis, and *not before*. Second, there was always a certain tendency to over-production, whenever in times of prosperity or “indifferent” financial health.

³⁸ *Econometrica*, Vol. 1, Issue 4, pp 340. These factors included under-consumption, over-capacity, price-dislocation, mal-adjustment between agricultural and industrial prices, over-confidence, over-investment, over-saving, over-spending, and the discrepancy between saving and investment. In great booms and depressions, each of these factors merely played a subordinate role.

³⁹ *Ibid*, pp 341.

⁴⁰ *The Great Depression*, pp 17.

produced goods, as money still existed even in the steepest deflation. To him, depression should be marked by mal-investment and under-saving. Particularly, mal-investment, caused by *credit expansion*, had diverted production into commodities which turned out to be unprofitable (where selling prices were lower than costs) and away from those which could make profits⁴¹. Further, how could increase in consumption be financed when investment was increased? The only way, as he stated, was through *inflationary credit expansion*⁴², claimed by many Western economists as one possible main cause of the Depression.

Rothbard and Nassier also reminded that depression should not be merely measured in terms of production of consumer commodities. In Rothbard's finding, as generally admitted, it was *producers'*, not *consumers'*, commodities industries that suffered most during a depression⁴³. Likewise, Nassier suggested that the re-modified Say's Law was usable to examine general over-production in two most important non-monetary theories of crisis, one of under-consumption and the other of over-capitalization⁴⁴.

Finally, would "planned production" be the sole solution of economic depression? Among all Western world economists mentioned here, Robbins was the only one expounding his viewpoints to reprimand those upholding planned production, or economy, as the way to overcome depression. He admitted that, even a democratic community, at any time would attempt to organize production to meet the preferences of consumers – quite unlike what Ma claimed to use plan for satisfying what the *community* needed and overcoming disparity between rich and poor. But planning of economy would be impossible and detrimental to the society in two-fold. First, to organizers of planned economy, their concern was how to well distribute the given supply between different industries. If wants of consumers changed, production would have to be rearranged to attain it. But in reality, once factors of production was distribute to one line of industry, it would be impossible to withdraw them, if necessary, from this line to another without production of the former being sacrificed of greater value than the products gained in the latter. Also organizers would face questions hard to be handled, such as way to maintain efficiency of different factors of production for satisfying the changes, criteria to choose between two production lines, or otherwise⁴⁵.

Second and much tougher, there was no mechanism available to ascertain the complex and changing tastes of millions of different individuals in the community. Conditions of demand and supply would continually change, so were production techniques⁴⁶. The real problem of planning production, or economy, was that it would involve thousands of commodities plus a vast multiplicity of alternatives. Any attempt to solve the problem would result in chaos, as consumers would be given simply what the planning authority decided that they ought to want on arbitrary principles, which would not be what they wanted. Robbins pointed out that there was an attempt to solve the problem of attaining equilibrium distribution of factors and

⁴¹ *America's Great Depression*, pp 56. Rothbard stated a "precise" situation, during the depression, that there was over-production of specific goods relative to consumer desires, and under-production of others specific.

⁴² *Ibid*, pp 64. Rothbard believed that increase in consumption could only be possible by decreasing saving and investment. But if aggregate saving and investment decreased for an aggregate increase in consumption, then investment to production could not increase in response to rising consumption; in contrast, it had to decline.

⁴³ *Ibid*, pp 58.

⁴⁴ *Journal of Political Economy*, Vol. 42, No. 4, pp 441 and 460. The theory of under-consumption was asserting existence of over-production in consumers' goods, while that of over-capitalization emphasizing over-production of producers' goods.

⁴⁵ *The Great Depression*, pp 148.

⁴⁶ *Ibid*, pp 154.

production of commodities by system of mathematical calculations⁴⁷. In practice, however, this solution was unworkable as millions of equations were needed on the basis of millions of statistical tables, based on many more millions of individual computations. Also, by the time the equations were solved, the information on which they were based would have become obsolete and they would need to be calculated anew⁴⁸.

Comments to Ma's View

Ma was claimed as one of the greatest scholar of economic thoughts in China during the early to mid twentieth century. Nonetheless it is worthwhile to explore two major issues of his thoughts to deal with economic depressions.

The first is his attitude on capitalism. During early 1920s, Ma was a pro-capitalist albeit not totally. From his writings during that time he contended that the economy in China ought to be developed under capitalism⁴⁹. However, since late 1920s his attitude had veered. Whilst no clear clue was revealed from his writings for such change, it should be well noted that in 1927 Ma left the National Peking University to join the Zhejiang provincial government as a member in charge of financial policy; and in the next year, he became a member of the Legislative Yuan of the central government in charge of financial legislation. Such point in time was probably the watershed on his stance turning, and it was not impossible that Ma was confronting political pressure and eventually surrendered to reality. In particular, when *Ziang Zhe-Shi* (as know as *Chiang Kai-Shek*), Generalissimo of *Guomindang* (the ruling party of China at that era), had enforced *quasi* planned economy in 1930s by taking over control of private enterprises, Ma might have to inevitably stand by Ziang. Besides, upon his return to China, he was disappointed that the knowledge of economics learned from Yale and Columbia, probably based on capitalism, was not applicable to China⁵⁰. Thus he determined to look into economic realities in China and to think of its own way to go. Lastly, in his writings Ma had paid particular concern to low-class labors, whom he claimed as the biggest sufferers during economic downturn and who were highly exploited by capitalists.⁵¹

The second is his attitude on communism. During his days at the National Peking University, Ma had association with some Chinese scholars noted as Marxists, which had undoubtedly influenced his thinking⁵². His interest in Marxism, however, was purely academic. He criticized communism as “dangerous manifesto”⁵³, as development of society would be obstructed and that of innovativeness of individuals would be stifled. He also did not agree

⁴⁷ E. F. M. Durbin published the paper “Economic Calculus in a Planned Economy”, in *The Economic Journal*, Vol. 46, No. 184, December 1936, pp. 676-690. The author attempted to demonstrate the theory of a pricing system in a planned economy. Nevertheless, it is at most a theoretical framework, and no workable mathematical models and equations were suggested.

⁴⁸ *The Great Depression*, pp 151.

⁴⁹ At least three papers can be found stating Ma's preference to capitalism. They are collected in *A Collection of Lectures by Ma Yin-Chu (Vol. 1)*, pp 220-228, and *Vol. 4*, pp 139-146 and pp 165-171.

⁵⁰ *The China Quarterly*, No. 6, pp 54. Ma also expressed such disappointment in a preface he wrote to a book by another author. Names of this book and the author, however, are still being sought.

⁵¹ Ma coined the term “parasites of the society” to blame the capitalists, as they could earn profits and dividends without contributing any effort. See *The Complete Writings of Ma Yin Chu (Vol. 4)*, pp 53.

⁵² *The China Quarterly*, No. 6, pp 53. Chen Du-Xiu and Li Da-Zhao were two among them. Both were later co-founders of Chinese Communist Party.

⁵³ *The Complete Writings of Ma Yin-Chu (Vol. 6)*, pp 16.

communism be applied to China due to the lack of the several essential conditions⁵⁴. The only reason of his favor to communism was probably his expectation that over-production would never exist under it.

Nonetheless there are at least three shortcomings found in Ma's account. The first one comes from a suspicion that Ma had probably made conjectures and assumption on his arguments. One typical example to manifest it is the "three-stage model" he established which was based on his observation to the cotton yarn industry. Whether or not this model could aptly explain the situation of such industry is still a question, it seems not quite rational that Ma explicitly extended the model to other sectors, based on his presumption that phenomenon of all industries was explainable under the same framework. Rothbard mentioned the "acceleration principle", developed by some economists favoring on under-consumption as cause of the depression, to explain why there were greater fluctuation in producers' goods than consumers' ones. Details of this principle, and whether or not it was decent to traditional economic doctrines⁵⁵, are out of scope of the discussion. However, Rothbard pointed out a critical fallacy made by these economists that they took a "wholly illegitimate leap from the single firm or industry to the overall economy"⁵⁶, as what they did was to extend the principle from a particular industry to the economy as a whole. Rothbard charged such reasoning as "fatally wrong" because they might miss the important areas and the inter-relations between the various parts of the economy. It is likely that Ma made the same problem too.

Second, Ma was conceived as a pragmatic economist as he firmly believed in "learning for the sake of application."⁵⁷ It might be the key reason why his doctrine was short of orthodox theoretical and objective analysis. The problem could be revealed from his presenting little data quantifiable to back up his view. The only available data, found throughout his writings, was that the GDP of the United States, as well as its national productivity, had reached to an apex in 1929 with a value of about USD 80 billion, followed by bankruptcy of around 4,000 banks when the Great Depression was broken out in 1930⁵⁸. His assertion of over-production as main cause of the depression, as well as planned economy as the sole solution, was short of supportable data, nor any analysis in scientific approach. More critical, without going through intensive dialectical conversations with, as well as strict critiques from, any economists or relevant experts in China, his doctrine would become untenable.

Finally, Ma had made a severe misconception to planned production to allay the Great Depression. As described and understood through this paper, it was mainly because of his perception to over-production as the root cause of the Depression. From Robbins' account, it would be doubtful if planned production would solve surmount over-production, let alone the Depression of which over-production seemed not the root cause. Indeed, Oxenfeldt and van den Haag (1954) later stated that depression would also be possible in a planned economy. There would be two sources of depression. The first was deficient expenditure, occurred in inventory accumulation common in planned economy, which would impose real costs in non-use of goods, in deterioration, or in the resources required to prevent deterioration. Second and more complicate, there would be real depression if output goals were too low to leave

⁵⁴ *A Collection of Lectures by Ma Yin-Chu (Vol. 4)*, pp 138. These were concentration of capital, development of productive capacity, training in teamwork-production, and class distinction between labourers and capitalists.

⁵⁵ Details of this principle and Rothbard's critics to it can be found in *America's Great Depression*, pp 59-61.

⁵⁶ *Ibid*, pp 63.

⁵⁷ *The China Quarterly*, No. 6, pp 54.

⁵⁸ *The Complete Writings of Ma Yin Chu (Vol. 12)*, pp 426.

available resources, goods or labor unutilized. Such non-utilization would lead to hoarding of labor. It might lead to “too low” in some output goals while “too high” in others. The likely result was *simultaneous hidden unemployment and shortages of productive labor*. The way to correct it was complex, slow and difficult. Also, it would be very difficult for planners to justify where the real shortage of labor, or hidden unemployment, would exist.⁵⁹

Conclusion

Ma Yin-Chu was a prestigious economist and educator of China in the early to mid-twentieth century. But his influence to China was not limited to academic sphere. As mentioned before, he left the academia and joined the provincial government, followed by the central government, as a key person to formulate finance and monetary policies of the country. Such motivation, instead of yearning for power, was undoubtedly due to his strong patriotism to his country, and his desire to serve his country and his people, that he felt disinclined to confine himself in academic world⁶⁰. From his writings, Ma elicited his belief of a “universalist”, that society was not only an agglomeration of independent individuals but also a real entity. Such social philosophy was also transformed as part of his economic contention. In his work released in 1935 to compare “individualism” and “universalism”, Ma had explicitly admitted his doctrine on economics emphasizing “universalism” (i.e. benefit of the whole group), not “individualism”. With universalism, he expected, economy and society would be developed in harmony⁶¹.

Ma paid particular attention and compassion to low-class labors, an underprivileged stratum highly exploited by capitalists. It might be a triggering point of him to state several causes of igniting the depression such as large-scale production, private ownership, individualism and uneven distribution, which all constituted the nature of capitalism and might contribute to exploitation of labor. Among all factors over-production, as Ma claimed, was the root cause leading to the depression. It seemed not having direct link to capitalism, but Ma explicitly stated that “blind expansion” of production, mostly occurred in “capitalism-based nations” was the main driving force of over-production. Capitalism had no way to elude Ma’s criticism at this point.

Ma could also be perceived as a pragmatist. His doctrine in economics was based on his belief that, first, it ought to be applicable in reality; second, be beneficial to his country and his people. However, it was most likely why his contention had significant contrast with that from western world, based on theoretical approach. Views of Foster and Catchings could be conceived as the closest to that of Ma, as all of them agreed that over-production would (and did) lead to economic depression. But there was significant difference regarding how over-production entailed the depression. Ma stated the trend that capitalism caused blind expansion of production, and then over-production, and so forth; while Foster and Catchings claimed that it was due to psychological effect that most people feared that economic downturn was impending, based on their belief that prosperity and depression would occur alternately. Besides, Ma’s concept of over-production was merely supply of commodities exceeding what the society demanded; but Foster and Catchings suggested that it should be a matter related to flow of money.

⁵⁹ *The Quarterly Journal of Economics*, Volume 68, No. 1, pp 49-51.

⁶⁰ *The China Quarterly*, No. 6, pp 55.

⁶¹ *The Complete Writings of Ma Yin-Chu (Vol. 7)*, pp 337.

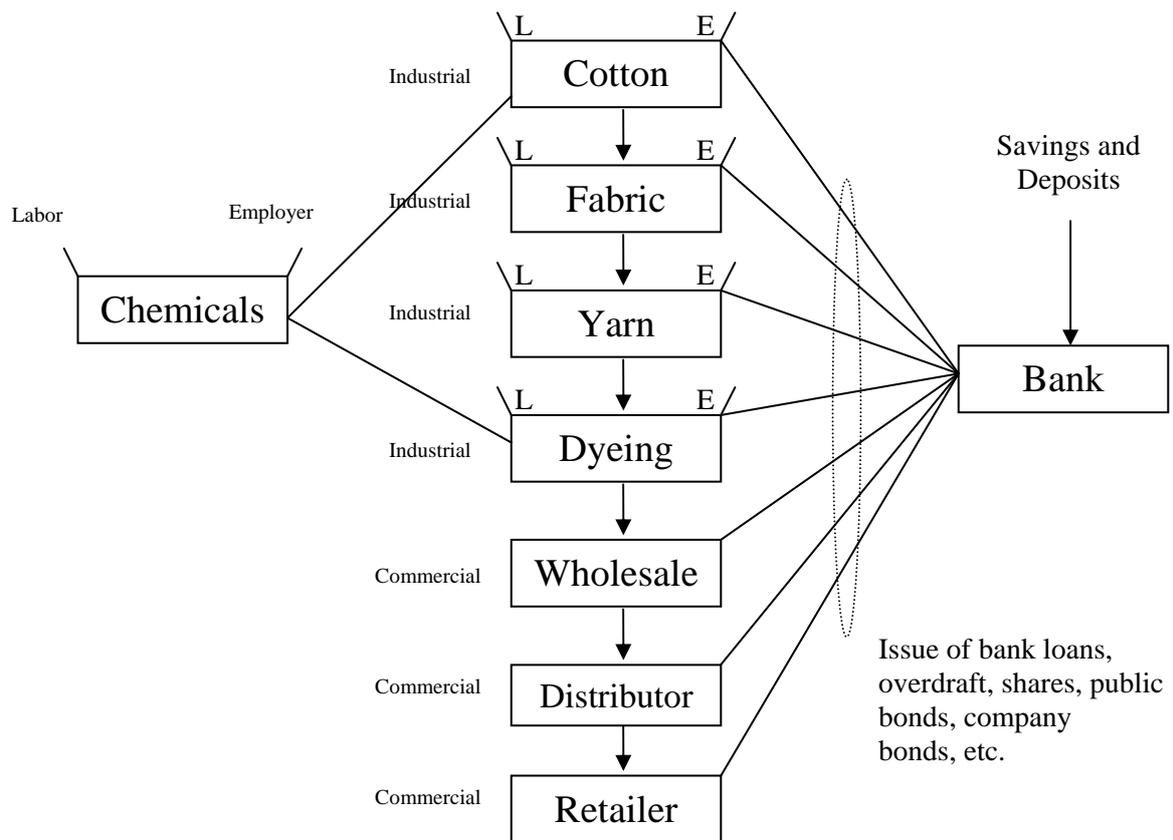
Other western world's economists, to whom this paper refers, did not agree with general over-production existed before the depression, and they believe that in every moment there were still wants anywhere to be satisfied. Even though it did happen, it was not merely measured by surplus of commodities supply but also other aspects such as monetary system and money supply, etc. Most important, all of them did not believe that over-production was the main cause of depression. The factor itself could not be adequate to ignite a downturn; also, over-production would not lead to price decline in all occasions.

All in all, Ma was a legendary figure in modern Chinese history. His thoughts, doctrine and even his personality have aroused a lot of interest of research and discussion in academic sphere in today's China. Numerous academic papers and articles have been published in the recent decade, but it is believed that there are still plenty of his archives unveiled for some untold reasons. It will be a huge treasury to help profiling the real face of China in the early twentieth century whatever in economy, politics, monetary policies and even his nexus with dignitaries.

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Attachment



Source: *The Complete Writings of Ma Yin-Chu (Vol. 10)*, pp 11