Episode 424: Rothbard and Mises in China? Plus, Is China a Bubble Waiting to Burst?

Guest: Jing Jin

WOODS: I'm looking to ask you questions about the Austrian School in China, but also about the situation in China overall in terms of both economics and politics, because we have quite a bit of controversy in the United States over this. And particularly even among Austrians when they go to analyze what's going on in China, we get two, what seem to me to be, diametrically opposed analyses. We get, on the one hand, we're seeing really authentic, robust growth in China, and on the other hand, the whole thing is a giant credit bubble waiting to burst. Now, it could be a little of both. You could have some genuine growth and some artificial credit expansion, but we'll get into that a little bit later. I want to find out how somebody with your background, which I just shared with the audience, comes to have an interest in the Austrian School, such that you gave an interview to the Mises Institute — which I will link to at TomWoods.com/424 — in which you mention not only the name Mises, but the names Rothbard and Hoppe. How does that happen?

JIN: I came across the term of Austrian economics while I worked at the investment bank. That was right after the financial crisis, and we thought Austrian School framework really explained what happened in 2008, the financial crisis. And also quite a number of arguments of the theories in Austrian economics explain all the confusion about what's going on in China, really, because we monitor this information as part of our work all the time. So then later, we went on a trip to New York, and we found Mises' book in the store, and we came back, read through it, and realized, hey, this is something that really explains what's going on, and this is really the economics we should have learned a long time ago.

WOODS: How long had you at that point been a professional economist?

JIN: Well, I studied in the U.S. in Georgetown and Johns Hopkins. I came back to Asia in 2004. At the time, actually, I was looking for an economist job, but I turned out to be sucked into the industry. I started with DCM work. But then, I have started at this school where I am now the Assistant Dean at the same time. So, 10 years plus.

WOODS: So, in other words, you came to adopt a school of thought that runs somewhat counter to the training you received in the United States?

JIN: Oh, definitely. The interesting things is, in 2003 when I was interviewed for an economist job in Hong Kong, one of the economists at the investment bank even asked me about Austrian School. At the time, I didn't even know what that was. It didn't really register with me then, but at the end of 2013 when I went to New York for a business trip, then we found the book by Mises, then at the time I was really shocked at the fact that in Asia, in China in particular, we always think that the U.S. has the most free, liberated education system. And at the time, when I realized that the seven years that I studied in the U.S. and later through my discussions with so many economists training at the Ivy League schools, at the economics departments there, not a single one ever mentioned the name Mises or Rothbard to me. And how ignorant we had been to this school of thought. I felt at the time really — it's a feeling of betrayal almost.

WOODS: Yeah, that is an interesting way of putting it. I certainly felt that way myself, and I know a great many other people have felt that way. And yet as you're describing this process to me, what stands out is that, first of all, you were in the U.S. learning economics that runs counter to at least the official doctrine of the Chinese government — even though I know that at the Communist Party, whatever their major event is, a couple of years ago they did say that markets ought to play a decisive role in the economy, which is interesting. But the fact that you were able to come to the West and learn economics that, more or less, they knew at least in some way or another, even though it wasn't Austrian, would nevertheless challenge the regime, and that you can sit here and talk to me about economics that challenges the regime, and you can teach that economics at your school, says to me that there is something different about this regime than it was two generations ago. So what exactly happened, and when did it happen?

JIN: Yeah, I would say this is a very complicated process, and I don't know how to make it in a very clear manner. But I can just share with you how I really feel about all this. When we say, "Communist Party," or "communism," when it was introduced into China, of course if you follow very strict framework, then you basically already know what it is, even in terms of economic structure. But the truth, in the early 20th century when communism was introduced in China, it was a time when China was invaded by what we call imperialist forces, and also a place where basically ruins after hundreds — 300 years — of the Manchurian rules.

So it's more for its nationalistic, nation building efforts. So they just grabbed something from the West and thought, okay, everything in the West, that can lead them to industrialization and wealth, then it certainly can do the same in China. So the way Chinese understand communism is not exactly the same as where you come from, and then you understand almost the religion — even the religious roots of where that comes from. But to the Chinese, they just grabbed something that is convenient, and there's a party, and they need to use it for the nationalistic drive and the nation building after thousands of years of imperial court rules. That's how it was started. Actually, Marxism was introduced into China at the same time with anarchism in the early 20th century. So it's really for — in a sense, I'm not sure a lot of people would

agree with me, but I did think about this for some time, it's really for practical purposes that they used this.

So if you think of China as an empire for thousands of years, its economy has always been very decentralized in a way, because in an agrarian society, there is simply no way to be able to have a very highly centralized system, given this vast land and geography and the ethnic combinations. So let's, how you discuss, so China has never been as centralized as, say for example, the former Soviet Union.

Yet, this is the historical part that I always think is worthwhile to trace back to — but yes, most people would agree it started from 1978 when the economic reform started. Then again, the Party has never said, we're going to abandon the Party's doctrine. But they say, okay, we will have an open door policy; we'll liberate the economy and let people release their productivity. So yeah, I think it has its historical logic on top of what they think where this economic reform is supposed to go.

WOODS: What is your impression of how the average person in China looks back on the period of Chairman Mao? In the West, we have people who say Chairman Mao was one of the greatest mass murderers of all time, but on the other hand, we have so-called Progressives on the Left, who argue that, to the contrary; he was a great modernizer, and the deaths attributed to him are attributed to him unfairly, because they're the result of famine, which is beyond his control. Is there a general consensus today about his legacy?

JIN: No, there isn't. People are always polarized on the issue, about his contributions and his role in China's modern history. In my view, what you said are both true. So he's a very complicated figure, and then he did contribute a lot in terms of China's nation building as a national state after China was being ruled, as I said, for 300 years from Manchurian. But he also did a lot of crazy things, anti-human nature things. I don't have the right word for it, but it's really devastating. Almost every Chinese family suffered from it.

WOODS: There are so many things I want to ask you. I want to talk about this further, but at the same time I do want to talk about the economy and Austrian economics and so forth. But I also want to ask you about censorship of the Internet in China. Is there any, and to what extent does it exist?

JIN: Yes, Google was banned in China. YouTube, which is a terrible inconvenience on me, because I use YouTube a lot when I'm in Hong Kong. Yeah, the censorship is pretty severe, I would say. But I don't know if, when people are talking about the censorship, it's not like what happened several decades ago. Basically, people in a small group still can discuss a lot of things pretty freely, even political jokes, all over WeChat. So I would say Chinese people have a lot of freedom, in terms of speech, freedom of speech.

But yeah, the censorship does exist, which we dislike a lot, because we use Google Scholar all the time, writing papers. And without it, it's terribly inconvenient. I still

don't understand why they do that, because given Chinese economy today and the state and the people's lifestyle, they shouldn't be this insecure as to ban all these things, which is a surprise to me. But I have to be fair; it's not exactly like a lot of people said, that there's basically nothing you can read and see. For example, Mises.org: you can access it very easily. And I don't mind, but CNN.

WOODS: Yeah, yeah, that's interesting that ideas can spread, but they don't want YouTube in general, even though the whole world is using YouTube. And I can understand why you would — if you had a government like this — you would want to restrict this sort of content; you don't want these ideas spreading; you don't want testimonies from China going out, perhaps in some case. But as you say, since the free-flow of ideas seems to be taking place in so many areas, it's a bit of a puzzle.

I guess I want to ask you the million-dollar question from the American point of view, and that is, what is your assessment of the current economic picture in China? Because here, we get two different pictures. We get one picture showing tremendous growth in which people take the figures given by the Chinese regime at face value and say they're having tremendous economic growth. On the other hand, we have people who say it's not real growth, and we see these pictures of these ghost towns with all this building, these huge buildings that are unoccupied, where there's no economic activity, where there appears to be no human activity. And this appears to be a classic case of an Austrian business cycle going on. So what is your view of what the future holds for China and what the real story is of the Chinese growth that we're seeing? Is it real?

JIN: Oh definitely, it is real. Yeah, talking about the quality of Chinese statistics, we can talk for hours. Also I see debates about all of this. Ultimately, if you look at the grassroots data, they actually come up in supporting the adjusted GDP growth rate. So on that front, I don't really question a lot about the number of per se. From my own observations, I do think China has very sound economic fundamentals.

I guess when people talk about Chinese economists, they usually assume it is — there are already a lot of hypotheses in their minds. So from that, they take a number here and there, and they put into that picture what is pretty much the economic structure of the U.S. rather than China's. And then they come up with a conclusion, and say, hey, this is a ghost town. It's like in [inaudible] Beijing, I don't see that. And we do see that the housing prices are flattening, which is fine, because if you consider people worrying about those towns, because they thought when the bubble burst, then the economy would collapse.

But there are two facts that in China are so different from in the U.S. One is, considering the Chinese people, not until the 1990s that they started being able to own their own apartments and property. That's only 20 years ago. And then people, given how much Chinese people are allowed to say, of course, that's — at the time when there's no financial truth on which they can invest, and housing has become their only savings tools. So a lot of people put their money into purchasing apartments, which is quite understandable. But also if you look at today's housing prices on a

nationwide basis, on a per capita, GDP, or personal income basis adjusted, the housing prices have been coming down in the past 15 years. So how could you say this is a bubble?

And also, if you look at the average of Chinese households, Chinese are allowed to say, that's — I hope there's no dispute about that — even for the bank requirements of mortgages, basically if you added all the rules together, the minimum down payment is actually 50%. So the average we're talking about in China is a completely different picture from that in the U.S.

So everything put together, I don't see why housing is a bubble. There are ghost cities, mostly in the third tier or fourth tier cities. There are — like, there was a ghost city, which they used to have coal mining booming, which is a typical case of malinvestment. And together with that there are property bubbles. But on a national level, we don't see a bubble at all.

WOODS: What can you say about the question of slave labor that gets raised in Western circles, particularly among labor unions and labor interests in the U.S.? They say that we have to cut back on our trade with China, because it's unfair, because our American laborers can't be expected to compete against Chinese slave labor. And they throw this turn around quite a bit. What can you say about the extent of so-called slave labor? What do you think they have in mind?

JIN: Okay, this is new. This is something new to me. So when they say "slave labor," they're talking about how the Chinese workers are terribly underpaid, or are they talking about, like —

WOODS: To be honest with you, I don't even know exactly what the claim is. I think they may be of the belief that the regime can simply exploit people and put them in extremely undesirable conditions against their will, one way or another. I mean, not just against their will in the sense that it's lower paid than they might like, but that they can actually force people into hard labor — political prisoners, or whatever. I think that's the view that some Westerners have.

JIN: Well, I think cases like that happen in all countries. Not only in China. I don't rule out the injustice done in some cases, injustice done to a lot of people. But I don't see this as a nationwide phenomenon. Definitely not.

Or if they're talking about coal mining workers who don't have the proper protections, I think in many cases, they voluntarily want to work in those mines to have a better paid job to bring back to their home. Okay, I'm no expert in that; I don't want to get things more complicated on it. But I don't see it as a national phenomenon, to put it simply. And also, for a lot of labor-intensive assembly lines, people's working conditions are very good. I talked with an entrepreneur just recently, and he told me that a lot of people still think that Chinese workers in Shenzhen in the south part of China, they're still working with horrible conditions. He said that's totally wrong. They work in super good conditions, with robots working with them and the control

computers, and that's where the productivity comes from. If you look at the savings rates in the past 37 years, it ranges from 25% to 35%, and the capital deepening could happen in a very dramatic way.

WOODS: I'm looking at an article right now that claims, "China's communist dictators operate more than 1,000 slave labor camps, and this accounts for between 3-5 million convicts — real criminals along with thought criminals guilty of opposing communism, promoting freedom, or practicing religion, although the process doesn't wait on conviction. Chinese law permits the police to hold anyone for four years before judicial proceedings. These camps are estimated to have held between 40 and 50 million prisoners since they opened in 1949." I think this is the reference.

JIN: Oh, okay. The labor camp system has been there for decades, but I think in 2013, after decades of discussion of abandoning this system, it really happened, that they did two years ago. This got to be abandoned. To be honest, those labor camps during the Cultural Revolution, even my parents were forced to work there. They are always — China went through so many movements, until 1978, and then people came back to their senses and thought, hey, we've got to make our life right; forget about movements; forget about all these ideological arguments. We just want to have a better life. So yeah, there are labor camps, but it's not only China's phenomenon — or, it's not only the Chinese Communist Party's idea. Every ruler has their way of doing things like that.

WOODS: Well, I want to close by asking you about Austrian economics in China, and the extent to which young people can come into contact with it. We say, in the United States, that it's enjoying a bit of a rebirth, but at the same time, we have to realize that the numbers are still quite small. But they're growing, and they're very enthusiastic, and they're much larger than we expected them to be, even several years ago. Is the situation similar in China to what I've just described in the U.S.? That there is an interest in it, in other words, among some people, and there are texts available to read in Chinese for those people who are interested?

JIN: Definitely. I think there's tremendous interest in Austrian economics. I can only speak from my own experiences; I just started to spend more time in Beijing since the end of last year, and the people I encountered, surprisingly, many of them have already read *The Ethics of Liberty*, to my great surprise. It's in Chinese. And like *Human Action*, *An Austrian Perspective on the History of Economic Thought* — all of these are available in Chinese. There are a lot more. I know a group translating Dr. Hoppe's book as well.

Interestingly, I also see a higher interest in Austrian economics among young people. So, yes, the numbers are small in terms of a 1.3 billion population, but definitely, I think it's growing fast. Like, I almost had this personal experience on a daily basis several weeks ago when I visited a small town famous for its royal kiln, for producing porcelain for royal families. I met with a group of archaeologists there, and they asked me about the property rights of the land, which is still right now, in the legal sense, it belongs to the nation, to the government. And then I just sent them the book, *The*

Ethics of Liberty, and I said, maybe you can find your answer there. And then they embraced it. I find that, to so many people, it's just so intuitive.

WOODS: Well, that's of course how so many of us feel. It appears intuitive to us, and we say to ourselves, isn't it a shame that we haven't encountered this before, precisely because it's so intuitive, and it does indeed make so much sense. Well, I'm very grateful to you for joining us all the way from Beijing, and I really appreciate your perspective. I get a lot of — as I say, I've read a lot of different people commenting on China, but very few of them have visited, much less have lived there. So your testimony is very valuable to us. And I'm glad to hear that there are budding Austrians in China as well. That is certainly good news. Thanks again, Jing; I appreciate it.

JIN: Thank you, Tom.