

The Unseen Dimensions of Wealth: Towards a Generalized Economic Theory

Reviewed by Edward H. Kaplan

Despite the large claims implied by its subtitle, this is not a theoretical treatise. Nor does it succeed in laying bare the principles of how an economy behaves under normal, that is, nonequilibrium, conditions. That is just as well, since such principles almost certainly cannot be discovered anyway. Much better, it is a slightly disguised but interesting and useful economic history which succeeds in raising the economic experience of post-1949 Hong Kong almost to the level of a Weberian ideal type of a particular sort of market economy.

If Henry Woo, a talented Hong Kong economic journalist, is more nearly like George Gilder than Israel Kirzner, this is not to be despised. Like Gilder, he has read some of the Austrians, and appreciates them, at least for their understanding of the nonreality of equilibrium, but (also like Gilder) he has not entirely mastered Austrian principles. Sometimes this leads him to reinvent the wheel, at other times to reinvent the triangle and call it the wheel.

Woo's notion of "human capital," for example, is blessedly free of the narrow focus on formal education of Schulz or Becker, whose work has been so mischievously exploited by apologists for a bloated U.S. tertiary education system. Informal learning on the job and by thoughtfully scanning the evolving market is, for Woo, much more important. Indeed, without quite indicating whether he has derived it from the Austrians, he recapitulates the notion epitomized by von Mises and Rothbard that there is no homogeneous Labor, but only a congeries of particular laborers, most of whose services constitute unique goods.

Woo also incorporates the von Mises-Hayek theory of the business cycle into his analysis, but because he does so from the more visible perspective of demand for credit rather than central-bank-induced increased supply of credit, his argument is far less clear than the Austrian original both to the reader and (one suspects, from his neglect of the role of government-induced increases in the money supply as a cause of inflation) to himself as well.

Of course, the good parts as well as the theoretically murky parts of his general treatment are the consequence of Woo's frankly announced decision to generalize from the modern Hong Kong experience. Hong Kong has barely enough land to stand on. The adaptability of its labor force has counted for far more than its relatively sparse and simple supply of capital goods. Its banks are relatively free to respond to domestic and foreign pressures to create money, so it is natural for Woo to focus on these pressures rather than on the increased money supply itself.

Though in principle it need not be so, in practice it is reasonable for Woo to emphasize the tendency of an unfettered market to spontaneously grow. Woo's general stages of growth—a long stasis before the market is unchained, a relatively short burst of unconstrained growth, followed by a long period of constrained growth (caused by, first, compounding manipulation from outside the market and, second, a constantly shifting disequilibrium permitted by inefficient manipulation within the market)—all faithfully reflect the stages of Hong Kong's actual economic history.

The book is also seeded with a number of bits of illuminating narrative, such as Woo's suggestion that the recent appearance of better housing across the waters in the New Territories may be making for greater inefficiency because workers commuting so far to their jobs can no longer as easily carry piecework home during the busy season to be worked on by the grannies and children. A bit of comparative historicizing on this point (which Woo does not do) will allow one to recognize that the Hong Kong experience is not entirely unique, and that even diligent Chinese at some stage begin to favor the leisure of a decent apartment over labor, just as did diligent and then prosperous Jewish refugees from the Russian Pale after 1920, when they abandoned the slums of the Lower East Side of New York for the comparatively palatial apartment houses of the South Bronx.