
Taiwan & The Battle Of The Philosophers

Every county, at the beginning of self-government, shall first assess the value of private land in the whole county, which value is to be declared by the owner himself. The local government shall tax private land on the basis of its assessed value and may purchase it at the same value. If, after this assessment, the land increases in value as a result of political advancement or social progress, such unearned increment should be set aside for the common benefit of the people in the whole county, and should not be kept by the landowner as private profit.¹

— Sun Yat-sen (pictured right) in his *Fundamentals of National Reconstruction*.

Report by Fred Harrison

TAIWAN'S economic success has not been matched by any other developing country. But tensions have now emerged in this dynamic society. These have been monitored by the authoritarian government, which is genuinely seeking an enlightened solution.

Prosperity and political stability will be determined by the choice now being made between the policies of two 19th century economists.

The philosophies of Henry George, an American, and John Stuart Mill, the English utilitarian, helped to shape the constitution of this powerful little trading nation off the Chinese mainland.

The contrasts between their views appear to be relatively minor. The subtleties, however, conceal major differences in policy-orientation which will determine whether Taiwan continues to flourish.

It looks as though J. S. Mill will emerge the victor — and that the people of Taiwan will pay a heavy economic price.

THE TAIWAN story begins with the father of Chinese nationalism, Sun Yat-sen.

During a tour of Europe and the US in 1896, he was exposed to the works of George and Mill,¹ whose strictures on the land question were subsequently incorporated into the Kuomintang programme through the notions of *land equalisation* and *land taxation*.

These principles were used to lay the foundations of the Taiwan economy in the 1950s.

Sun Yat-sen also had the benefit of seeing land taxation in action. In 1898 the Chinese leased 200 square miles to Germany. The civil commissioner was Dr. Ludwig Wilhelm Schrameier, an admirer of Henry George.²

Schrameier imposed a tax on the assessed value of land; the initial rate was 6%, rising for vacant land from



9% to 24% according to the length of time it was held idle.

Tsingtao, the urban centre, flourished. There was no land speculation, and the economy boomed. The land tax was abolished during the Japanese occupation (1915-22). Schrameier was invited by Sun Yat-sen to draft a land law for China, but he died in a car accident 10 days before the law was completed.

SUN YAT-SEN died in 1925, but his vision of a good society lived on in his Three Principles of the People (*San Min Chu I*).

The Chinese land law was completed in 1930. Although it was implemented in 1936, it was not successfully executed because of political instability, beginning with the Sino-Japanese War (1937-45) and the Communist Rebellion (1949).

Chiang Kai-Shek and his Kuomintang nationalist supporters took the reform programme with them when they sought refuge on what was then called Formosa in 1950. There, beginning in 1956, they began their land equalisation programme in earnest.

And the economy took off with growth rates that astonished socialist critics of the capitalist system.

Industrialists on the island have emphasised that it was the annual tax which shifted money away from the land market and into capital formation in the urban-industrial sector.³ By 1969-72, industry was growing at an annual rate of 21%, and GDP at an annual rate of over 10% in the 10 years to 1974. In 1978, it reached a 25% growth rate.

THE NATIONALIST leaders retained an authoritarian grip on the islanders. They were determined that one day they would return to the mainland and assume

the control over the destiny of China which they regarded as rightfully theirs.

To accomplish their ends, they had to mobilise the wealth and energies of the peasants. They could have chosen the brutal path elected by Stalin during his determined industrialisation of Russia: expropriating the surplus product of the countryside for the benefit of industry and the war machine.

Instead, however, they enlisted the sympathies of the agricultural workers. As Dr. Archibald Woodruff has noted:

"A land reform which truly upgrades the economic conditions of the peasantry provides an important political power base for the government that engineers the reform."

Taiwan's leaders adopted the sensible approach, some of the elements of which were –

- *Rent controls.* The landlords' share of rural income was reduced from 66% to a maximum 37½%. Working farmers doubled their incomes.

- *Living standards.* Income levels were equalised from the bottom up. The ratio of income of the richest 20% to the poorest 20% was altered from 15:1 (1950) to 4.5:1 (1969).⁴ Unlike the experience in the rest of the Third World, rural incomes did not lag far behind urban incomes.

- *Land-to-the-tiller.* One-quarter of the land was re-distributed to the men and women who sowed the seeds in the fields. Productivity increased by 220%. Fragmented holdings were combined into viable family farms.

- *Balanced growth.* The urban-industrial sector was nurtured along to provide off-farm jobs which supplemented rural incomes. The bridge between the two sectors allowed a swift flow of labour and resources to take advantage of a dynamic economy.

AT THE HEART of this strategy was the taxation of land values, which broke up large holdings and financed free education and a housing programme that elevated the life-styles of the islanders.

Taiwan's land taxation is in two forms. One is an annual tax, as advocated by Henry George.⁵ The other

TAIWAN LAND TAXES, 1956-1979, N.T.\$m.

	Land Value Tax		Land Value Increment Tax	
	Taiwan	Taipei ¹	Taiwan	Taipei
1956	0.155	—	0.008	—
1957-62	0.475	—	0.424	—
1963-67	1.166	—	0.322	—
1968-72	2.798	2.563	2.410	1.700
1973-77	6.643	4.635	12.524	6.769
1978	3.117	1.935	5.683	3.893
1979	6.211	3.034	9.970	3.990
	20.555	12.178	31.366	16.374
Grand total, 1956-79, both taxes: NT\$80,472,531				

¹Taipei was designated as a provincial city before it was promoted to special municipality in 1968.

NOTE: figures do not add up due to rounding.

is a tax on incremental increases above base values of land, levied at the point of sale – a fiscal policy shaped by the philosophy of John Stuart Mill. By 1979, over NT\$80m. was raised by these two taxes.

Something, however, was going wrong: speculation in land which the politicians wanted to eliminate was re-emerging as a serious problem. And peasants expressed discontent at the sight of urban landowners making fat profits out of trading in land.

Although the authorities used some force to clamp down on demonstrations, they were still determined to promote their ideological objectives – beating the communists on the mainland – by retaining the sympathies of Taiwan's population. Coercion, they knew, would not work in the long run.

Dr. Robert Lee, who has played a leading role in the rural reconstruction programme, told the first World Congress on Land Policy at Harvard University in June 1980: "Land value has continued to increase and speculation has not been checked".

He pinpointed the problem when he declared that the

'Fairness' & the compromise of John Stuart Mill

ANALYSIS BY
VIC BLUNDELL

THERE ARE countless examples throughout history where the forces of logical thought and clearly perceived moral principles have suffered at the hands of political expediency or entrenched interests.

Herbert Spencer's views on the injustice of private property in land¹ at first so clearly and logically stated, as to leave no doubt whatsoever as to his meaning, were many years later retracted – with less logic and clarity.²

It is arguable that this retraction was the result of self-deception rather than self-interest. John Stuart Mill, however, a logician of some renown, presented his logical contradiction in one volume.³ In the battle of logic and principle versus appeasement of the land-owning interest (based on a misguided idea of "fairness"), logic and principle lost the battle.

Let us first take some examples of Mill's views on private property in land. After defining the rights of property in the products of man as being ownership vested in the producer, Mill makes the

exception that the passage of time might preclude such rights being established because of lack of historical evidence of original ownership. This, however, cannot apply, he says, to the requirement not to disturb "acts of injustice of old date, unjust systems or institutions, since a bad law or usage is not one bad act, in the remote past, but a perpetual repetition of bad acts, as long as the law or usage lasts."⁴

This principle applies perfectly to the question of the injustice of the private ownership of land. As Herbert Spencer, Henry George, Thomas Paine and others have emphasised, the passage of time cannot turn a wrong into a right, and thus the continuing robbery of land rights of successive generations is a violation of natural justice.

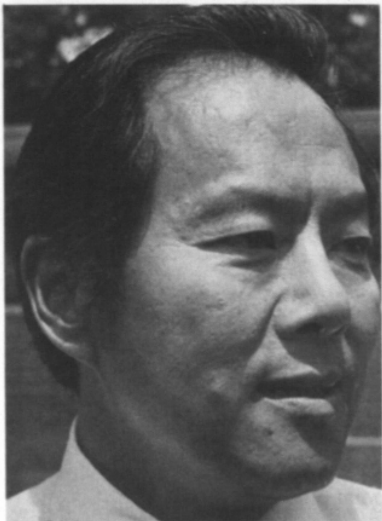
Here, Mill is explicit on property rights in land:

"The essential principle of property being to assure to all persons what they have produced by their labour and accumulated by their abstinence, this principle cannot apply to what is not the

produce of labour, the raw material of the earth. If the land derived its productive power wholly from nature, and not at all from industry, or if there were any means of discriminating what is derived from each source, it not only would not be necessary, but it would be the height of injustice, to let the gift of nature be engrossed by a few."⁵

Mill adds that while the cultivator must be permitted to reap his crop for the time being and the land occupied for just one season, the State might then "be the universal landlord and the cultivators tenants under it."⁶ Mill again makes his point:

"When the sacredness of property is talked of, it should always be remembered that this sacredness does not belong in the same degree to landed property. No man made the land. It is the original inheritance of the whole species... It is some hardship to be born into the world and to find all nature's gifts previously engrossed, and no place left for the newcomer."⁷



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TAIWAN

POPULATION: 17m, 20% of whom are Chinese mainlanders in exile.
POLITICS: authoritarian regime dominated by anti-communist Kuomintang Government of President Chiang Ching-Kuo. Second-class status accorded to islanders lay behind riots in Kaohsiung in Dec. 1979.
ECONOMY: one of most successful in world; this, linked with growing political confidence, has led to greater liberalisation.
TRADE: \$32 bn in 1979, compared with China's \$29 bn.
DEFENCE: military and security forces absorb 40% of state budget.
DIPLOMACY: U.S. broke off relations as part of new relationship with China. Only 22 nations recognize Taipei regime.
FINANCE: expelled from I.M.F. and World Bank, but inflow of foreign investment reached new peak of \$480m. in 1980.



ARCHIBALD WOODRUFF
Executive committee member, Land
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land value increment tax, "the principle tool to achieve the equalisation of land rights in Taiwan", did not seem to be effective.

The reasons why this was so are revealing; unfortunately, the authorities have not taken the lessons to heart in their plans for reforming the fiscal system.

THE FAULT lies with the mistaken belief that the sales tax on incremental increases in land values (with a marginal tax rate of 60%) would secure the desired results.

This variant of the land tax highlights the confusion in the original philosophy, which has been authoritatively restated by Wei-I Chang, the Director of the Ministry of Interior's Department of Land Administration. He claims:

"... to equalise the land rights is to levy the unearned natural increment of land from its owner for each

citizen to have equal opportunity to enjoy it. It is obvious that the natural increment results from the public effort, not from the owner's investment. The landowner himself has done nothing for it."⁶

There is a persistent emphasis that the increments above a base value are socially-created.

"Consequently, this part of land value, the increment, should be levied by the government for public use. This is exactly what Dr. Sun Yat-sen said: 'The fruit of civilization and the result of social progress should be equally enjoyed by the people'."

The process of assessing land values differentiates between current values and future increments. Chang explains:

"The assessed current value is the part that belongs to land owner while the incremental part which is not the result from the owners investment or improvement, should be considered as public property."

The belief that existing land values should be retained

● Cont. on next page

Similar observations by Dove, George and others led them to the conclusion that, in order to establish equal rights without infringing upon the liberty of the individual, it was necessary to communalise the rent of land. Mill, however, arrived at a different conclusion. Out of concern for the land-owner, he proposed to tax only the increase in value which accrued between the date of the first necessary valuation and subsequent valuations. This became known as the "increment tax."

Clearly the proposal of a mere increment tax on land values does not square with his statement that "it would be the height of injustice to let the gift of nature be engrossed by a few," and "no man made the land. It is the original inheritance of the whole species."

MILL, in defending land owners' rights to all existing values, makes this curious statement: "The principle of property gives them (the land owners) no right to the land, but only a right to compensation for whatever portion of their interest in land it may be the policy of the state to deprive them of . . . or an annual income equal to what they derived from it."⁸

Henry George in *Progress & Poverty*, commenting on Mill's proposal for an increment tax, says -

"To say nothing of the practical difficulties which such cumbrous plans involve, in the extension of the functions of government which they would require and the corruption they would beget, their inherent and essential defect lies in the impossibility of bridging over by any compromise the radical difference between wrong and right. Just in proportion as the interests of the land holders are conserved, just in that proportion must general interests and general rights be disregarded, and if land holders are to lose nothing of their special privileges, the people at large can gain nothing. To buy up individual property rights would merely be to give the land holders in another form a claim to the same kind and amount that their possession of land now gives them; it would be to raise for them by taxation the same proportion of the earnings of labour and capital that they are now enabled to appropriate in rent. Their unjust advantage would be preserved and the unjust disadvantage of the non-landholders would be continued."

George adds that while Mill's proposal would not add to the injustice of the present distribution of wealth, it would not remedy it but he has no time for expediency and compromise in matters of justice: "Justice in men's mouths is cringingly humble when she first begins

a protest against a time-honoured wrong, and we of the English-speaking nations still wear the collar of the Saxon thrall, and have been educated to look upon the 'vested rights' of land owners with all the superstitious reverence that ancient Egyptians looked upon the crocodile."¹⁰

George spells it out thus:

"If the land of any country belong to the people of that country, what right, in morality and justice, have the individuals called land owners to the rent?"¹¹

To implement John Stuart Mill's increment tax on land values instead of instituting justice is to pull out the top of a bad tooth and leave the root to fester and poison the system.

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4. *Ibid*, p.156.
5. *Ibid*, p.162.
6. *Ibid*, p.163.
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8. *Ibid*.
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10. *Ibid*, p.362.
11. *Ibid*, p.363.

by current owners, and that they should be compensated for the loss of that value, can be traced to J. S. Mill. So far as the Taiwanese are concerned, the moral basis of this base value is established as a result of "the owner's investment or improvement," which ignores the fundamental question of how the original land value below the base-line (and leaving aside the value of capital improvements) was created.

In policy terms, this means that there is a value to be traded in the market like any other asset, which must inevitably result in speculative activity. When Chang claims that "It is unfair that the land owner is allowed to monopolize the incremental part of land value," he is defining equity in an arbitrary way. *For the whole of the economic rent of land is socially-created, and ought – in all conscience – to be taxed away for the benefit of the community.*

IT IS NOT surprising, then, that the Statute for Equalization of Land Rights (1977), which relies heavily on the land value increment tax, has not succeeded in abolishing speculation.

The authorities have fallen back on bureaucratic planning in a bid to arrest speculation. According to Dr. Lee:

"Owning land in the urban fringe had become a quick way to get rich. Since 1976 all lands are subject to taxation of increment value. Although land speculation has not been completely arrested, the levy of increment tax combined with regional planning and land use restrictions have greatly improved the situation of uncontrolled urbanization."

This complimentary strategy – planning the land market with instruments such as zoning regulations, combined with the increment tax – introduces an ironic twist into Taiwan's politics. For her key ideological weapon against the Peking communists has been the superiority of the free market over the socialist economy on the mainland.

Certainly, the contrast in the material and spiritual welfare of the two populations has vindicated the Taiwan leaders. *But their policies are now being deflected along a path that, logically, must lead towards the socialist style of economic regulation that has been ridiculed for the past 30 years.*

There are dangers in this approach, apart from the loss of the propaganda initiative. The land use plans have introduced a rigidity that will limit the economy's ability to adjust to the sharper competitive edge that will begin to cut into international trade as the western economies

recover from the global recession.

Already, there is evidence of less intensive use of rural land, and an increased competition for industrial land which requires the flexibility of a free market to satisfy.

The disadvantages of the two main policy planks – a tax on incremental land values at the point of sale (why sell when you can avoid the tax by holding onto the land?), and stricter land use planning – cannot be offset by the additional power of levying a heavier annual tax on vacant land.

THE RATIONAL strategy would be to shift in Henry George's direction.

A very high tax on the annual value of all land (in recognition that the whole of the economic rent of land is socially-created) would deter speculation and bring vacant land into use; there would be no incentive to hold surplus land off the market, and no need to levy an additional tax at the point of sale.

Within this framework, there would be no need to plan land use according to bureaucratic criteria: the free market would determine the best use to which land should be put, subject to obvious environmentally-desirable regulations (such as the control of pollution).

This policy emphasis would accomplish the goals articulated by Taiwan's leaders, shifting the economy even further and faster in the desired direction by equipping the dynamic citizens of this tiny island to take on all-comers in the 1980s.

So far, Henry George appears to have lost out in the philosophical fracas with John Stuart Mill. This must bode ill for the people of Taiwan. But it is not too late to change course.

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DERELICTION

Inner Cities Search For A Policy

THE LONDON Borough of Lambeth has received quite a lot of press coverage in recent months. The Council has been bitterly attacked for defying the government's exhortations to reduce expenditure. Many ratepayers have protested vigorously about the decision to raise a supplementary rate averaging £50 per domestic payer. According to one article¹ the borough has been dubbed "The People's Republic of Lambeth". "Red Ted" – Council Leader Edward Knight – is a self-confessed Marxist who continues to rule locally although he was defeated when he recently stood as Labour candidate for the Greater London Council.

In the north and most valuable part of the borough the

battle over the redevelopment of the Coin Street site continues between community groups and Environment Secretary Michael Heseltine. And then there have been the Brixton riots. A sad tale for a deprived area.

The Council has tried to maintain a large rolling programme of public housing. It owns 33,500 homes, of which 3,750 were empty at the start of this year. The borough's capital debt is at least £370m and there is no doubt that a substantial part of this sum is due to property acquisition, development costs and a low rents policy. What about vacant and derelict land? A 1980 estimate by the community group L.I.C.C.G.² suggests that there are about 120 acres of derelict land in the borough, most of