

# A little tiger burns bright



• Kwoh-ting Li

THIS book is prescribed reading for every captain of industry, every small businessman, every trade union official, every educationist and every politician. It reprints a collection of papers and speeches made over the last two decades by Dr K.T. Li, a nuclear physicist by training who has, in the past, been Minister for Finance and Economics in the Executive Yuan of the Republic of China on Taiwan. He is currently senior adviser to the President and Minister without Portfolio in charge of planning towards the development of "high" technology in the next decade.

Taiwan is one of the four "little tigers" of Asia. All of them are marked by intense emphasis upon education and upon willingness to work - "he who doesn't work doesn't eat!" The Welfare State has not been heard of! Dr Li states that the initial land reforms in agriculture set the stage for the orderly progression in Taiwan to a steady growth in secondary industry. With expert management they learnt to walk before they ran. And they are certainly "up and running" now.

National welfare - improvement in the livelihood of the people - has come about because, consonant with Dr Sun Yat Sen's precepts of equalisation (or "equitableness") in land rights and of the regulation of capital, the division of incomes between the rich and the poor is less marked than in the other growth centres of Asia.

DR LI states that three major factors have contributed to Taiwan's success: education, savings and a free economy. This theme runs throughout the book, which is divided into seven categories: national economic development and planning, regional economic development, international economic co-operation, industrial and technological development, agricultural development, economic development and social change, and research on mainland China's economy.

What emerges is an account of the impressive level of competence in the higher echelons of the administration of the Republic of China in Taiwan. President Lee Teng-hui is himself a Ph.D. in Agricultural Economics. The emphasis on higher levels of education cannot be overstressed. It has been said that adversity is a great concentrator of the

mind. The defeat of the Nationalists on the mainland was one such adversity.

Yet it has had the effect of bringing together, in concentrated fashion, a team of brilliant administrators in every field, who had studied abroad in the 1930's and 1940's and were dedicated to bringing into play the precepts of Dr Sun Yat Sen. Free of foreign incursion and of civil war, they were able to proceed carefully. Today, Taiwan is one of the advanced creditor nations of the world, and is projected as a model for the mainland and for Third World countries.

Dr Li argues that Taiwan has deliberately used fiscal policy to prevent the emergence of a great disparity of incomes. This has involved a fair amount of governmental regulation of the economy, e.g.

*"The principle of equitable distribution of land rights requires no taxation on labour and capital. Furthermore, site rent has to be taxed for public revenue because land has monopoly power. There is a difference between ordinary products and land. The latter is a gift of nature, which is limited and cannot be increased by human beings; its revenue has to be shared among all citizens in society."*

- Tseng Hsiao, Director, China Research Institute of Land Economics.

increasing indirect taxes to discourage spending. (That's what such taxes do - intentional or not!).

A different approach could have achieved the same result with much less arbitrary control. Henry George's case was that the distribution of wealth is skewed primarily by the private appropriation of land rents. Historically, those who pocket the economic rents of locational advantage amass enormous amounts of spare funds over and above what labour and capital can command. These spare funds come to constitute "capital" in the monetary sense, the owners of which become the employing class. Hence the development of antagonism between "capital" and "labour".

The "single tax" on land rents terminates this skewed situation and, in socializing rent, enables the natural distribution of wealth to take place. Rent becomes "the common wealth". To be sure, Dr Sun

Continued on Page 63 ➤

time finding a place to live. But new buildings are being built that are not rent-controlled. Furthermore, the homeless problem exists in places where there are no rent controls.

*Despite the controls, New York has the highest rents in the country. They are simply out of reach of the average wage-earner.*

This is the core of the problem. But self-evident as it is, it is avoided. Arguments instead revolve around the question of whose responsibility it is to take care of the homeless after they become homeless, rather than preventing homelessness. If escalating rents are the reason people are homeless, the right question is how to bring them down.

The best way is to reduce - better still, eliminate - the tax on buildings and to increase the tax on land values. This would give builders a greater incentive to build and decrease the incentive to hold land for a higher price. It is the high price of land with high taxes on buildings that is

*QUOTE: "Every night, 100,000 American children sleep on streets, in cars or in temporary shelters. The total number of homeless people, estimated at somewhere between 1m and 3m, continues to grow rapidly. Roughly a third are working people. The poorest one-tenth of renters spend 70% of their meagre income for housing. And for the first time in half a century, home ownership is on the decline as middle-income families, especially young marrieds, are priced out of the market." - Walter Rybeck, Director, Center for Public Dialogue, Washington DC.*

keeping rents out of the reach of the average person.

Years ago, New York had a similar problem of insufficient housing at moderate rentals. The city fathers then offered a ten-year tax exemption on new multiple dwellings, but the land tax was retained. That did the job - new buildings sprang up and the housing problem was solved.

This simple remedy has been proposed to New York City and State leaders in these days, but they fail to see it, or say that things are more complex, or cannot accept that such a visible thing as an apartment house should not be taxed. And so we go on with escalating rents, an

increasing number of homeless persons, and each level of government blames the other.

Now we have the federal government enquiry. It is at least encouraging that the Department of Housing and Urban Development is interested. HUD responded favourably to a seminar sponsored by the Center for Public Dialogue in Washington, bringing out the relevance of land value taxation to the housing crisis. Past Secretaries of HUD have also shown interest and we hope the present Secretary will sit up and take notice. It's high time that attention be paid to a constructive measure that has proven itself.

← From Back Page

Yat Sen did not follow the full-blown Georgist programme. He thought of land "value" as being land "price", and he lent towards the idea of John Stuart Mill that an incremental land tax should be put upon profits from land price. The intentions were good, but the understanding of the economics was, in my view, not quite on target.

The Taiwan fiscal system certainly embraces a land tax, but it is just one tax among many. To this extent, Taiwan is not really a better model for the world than any other free-enterprise/mixed economy. The fundamental relationship between land occupancy and use and the necessities of human existence is not expressed in its fiscal policy. Were it so, the taxation of land rents would undergird the whole economy. It doesn't!

The insufficiency of the fiscal policy in Taiwan is evidenced by a number of facts. • High land prices are a serious social problem. • Taiwan has unfortunately turned, along with Europe, and now Japan, to V.A.T., which does not tackle the problem at all. • A rich employing class co-exists with many relatively lowly paid workers who have no prospects of equity either in the land or in the businesses that employ them. In South Korea this kind of situation

has made for serious social unrest. So the ultimate benefits from "land reform" have yet to be achieved. It is an entirely new ball game from the Fifties.

WITH THE passing of the decades, there will be a convergence in the methods of economic management in the "four little tigers". They have to compete with each other, and with Japan, in similar fields.

For what my opinion is worth, given the proven record of competent management that the Taiwan administration has constructed, it will gain the edge on the others only if it drops, for one thing, the burden of V.A.T. and relieves itself of the burden of high land prices by treating land rents as its major source of revenue.

Henry George drew the distinction between "young" countries where land was still comparatively cheap, and the tired old countries of Europe where the land had become fully monopolized. Taiwan is still a vigorous, young country. It ought not to allow the private capitalization of land prices to turn it into a tired, old country.

Sun Yat Sen had his dream for China - it is spelled out in *San Min Chu I*. That dream must never be allowed to fade. Dr Li's book is reassuring in that, given the will, Taiwan has the expertise to ensure that this need not happen.