

Five lessons for land reformers



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THE GAP between the rich and the poor has been narrowing for the past quarter century on Taiwan, and the country has prospered greatly under the influence of a land reform which reflected concepts very similar to the thoughts of Henry George. Elsewhere in the world, especially in "third world" countries, the rich-poor gap has been widening. Two such countries were Iran and Nicaragua where bloody revolutions occurred during 1979. Several times in *Progress and Poverty*, Henry George commented on the likelihood of such uprisings under conditions of increasing income disparity.

The revolutions in Iran and Nicaragua surprised and shocked many, but hardly surprised the people who were aware of the widening income disparity. Considerable force was used to collect taxes from the poor and this added to the rate of ferment. Furthermore, outside forces were at work. The U.S.S.R. was busy stirring the revolutionary pot, and the U.S.A. was supporting the Shah of Iran and the President (dictator) of Nicaragua because they opposed communism. While history seldom smiles on such revolutions, conditions sufficiently oppressive continue to provoke them. Writing on land reform in 1960, Chen Cheng, then governor of Taiwan, said:

"Hunger and starvation have always been with us. Desperate people facing starvation are likely to take advantage of all opportunities to make trouble and raise the standard of revolt. Students of Chinese history find that years of civil commotion arising out of a poor harvest far outnumber the years of peace. Eight or nine out of ten such disturbances have been caused by our failure to find a thorough-going and permanent solution of the land problem."

Henry George had watched what happened in California in the land boom days as land barons preempted huge tracts of land; and land was then virtually the sole means of production. His argument was based on the need to halt monopolization of economic opportunity, and he proposed a way to do it.¹ He also studied the Irish land question and said in no uncertain terms that Irish misery resulted from grossly unequal access to the means of production, and not from overpopulation. He began to express his ideas about 1860 in news stories and editorials, and in 1871 published *Our Land and Land Policy*. In 1879, one hundred years ago, he finished refining his ideas and published *Progress and Poverty*, which had an international impact and influenced history as far away as Taiwan.

FEW REFORMS are ever realized exactly as first proposed, and this was true of the Taiwan land reform. It does not strictly follow Henry George in form, but it does so in spirit, and few reforms in all history have worked as dramatically. Land was redistributed within a free enterprise economy; incomes were brought closer to equality, not by exterminating the rich but by building up the poor. Very few people were hurt in the process. What happened in Taiwan resulted from the fusion of Henry George's ideas with the ancient Confucian philosophy of equality of opportunity, and with the thinking of certain German land reformers who had also been influenced by Henry George.

Chiang Kai-shek, through the land reform, vigorously carried forward the ideas of equalization of opportunity common to Henry George and Dr. Sun Yat-Sun.² Farmland reform came first, designed to vest title in the tillers, as was befitting in a nation then almost solidly agricultural. Urban land reform came later. Increment taxes were for some years applied only to urban land but were extended to all land in 1973. They diverted to social projects considerable sums which would otherwise have become the private harvest of land speculators.

Land reform began with rural rent control and moved fast to distribution of the public domain which the Japanese had unwillingly bequeathed to the Chinese on retrocession. It included the best rice land on the west coast. In accordance with Dr. Sun's principle of *Ming Shen*, this was sold in five-hectare parcels to the peasant families who had been tilling it. At the same time, rent control reduced to 37½ per cent of the rice crop the landlords' share on rented farms from 66 per cent or more. The law was enforceable because of the reservoir of land in the Japanese domain which was offered for sale on long terms. Terms of repayment were such that the farmer did not have to pay more than 37½ per cent of his rice crop income. As soon as these laws were partly digested, the government began to buy land from the landlords and resell it to the tenants on similar terms so that no farmer had to pay out more than 37½ per cent.

This affected the local economy more markedly and more rapidly than even the most optimistic advocates had dared to predict. Dr. Sun had long since pointed out in the *San Min Chu-I* (the *Three Principles of the People*) that industrialization should follow, not precede, the building up of the internal capacity to consume. The land reform did just that. Farmers doubled their income when rents came down to 37½ per cent; and, thus encouraged, proved again the truth of Henry George's statement:

Give a man security that he may reap and he will sow
Assure a man of the possession of a house he wants to build and he will build it. These are the natural rewards of labor. It is for the sake of reaping that men sow; it is for the sake of possessing houses that men build.

With the landlords brought to bay and with assured possession, the farmers began to plant second crops of rice and intervening crops of vegetables, thus doubling their income a second time. The four-to-one increase had a multiplier effect throughout the Chinese economy. The detailed sequence of the economic development is less important than its impressive totality. Within a decade much of the island was rehoused. Former adobe structures with thatched roofs and dirt floors gave way to brick houses with tile roofs and cement floors. Electricity was extended throughout the countryside: electric fans spell the difference between comfort and discomfort in such a climate, and they were an early addition to most country houses. Transportation went through stages from rusty bicycles to brand-new shiny bicycles to small motorcycles to automobiles. With each economic change came a new industry, selling to an indigenous local market bicycles, electric appliances, and later motorbikes.

Income equalization. For some time the World Bank has been computing an index of income equality. The process is notoriously imprecise because of the spongy nature of the input data, but in crude terms it is revealing. As land reform took a firm hold in Taiwan, the income per capita of the *least* affluent fifth of the population increased relative to the income per capita of the *most* affluent fifth. The land reform built the prosperity of the country from the bottom up. This did not mean that the top was cut down. The top continued to rise, but the bottom fifth rose so much faster that the gap between them narrowed.

This is the first great lesson from Taiwan: *proper allocation of resources combined with the diligence of a naturally hard-working population greatly improves the economic circumstances of the bottom quintile.* It does not totally eliminate poverty, but the general benefit to the lowest quintile is spectacular. Taiwan is not a unique example; the same principle was applied, with equally effective results, in post-war Japan through the land reform of 1946, and very similar results were achieved in South Korea.

Keeping people busy. The second lesson from Taiwan is related to the first. At the start the country banned the importation of large tractors. It recognized that it had surplus human power, limited land, and a dearth of foreign exchange. The Chinese agricultural experts reached the correct conclusion that more food could be grown by hand and water buffalo from a hectare of land than could be produced by large-scale mechanized farming. This fact has been demonstrated the world over. Tractors and other farm machinery save man-hours of labour, but do little else, and a country with a manpower surplus does not need that.

Countries which imported large machinery accomplished minimal increases in production, but faced the displacement of tenant farmers. The availability of farm machinery holds back land tenure reform. Large landowners can make more money by displacing tenants and mechanizing, so they like the new arrangement. But displaced farm tenants have no place to go but to the edges of cities where they cluster in urban slums and where they have to be fed on the bounty of those working.

When industrialization was far enough advanced, and a manpower balance attained, Taiwan began to mechanize farms to release manpower to industry. *The second lesson is not to displace agricultural labour, until the industrial sector has developed enough to begin to demand it.*

Political gains. The third lesson is political. Asian government is sufficiently different from American that confusion results when Chinese try to find adequate words to describe what goes on in America and Americans find equal or greater trouble in trying to describe the government of Taiwan. Americans are fond of political clichés and like to sort systems into tidy categories, appropriately labelled, each to its own bin. America has been prone to classify the government of Taiwan as a dictatorship and to criticize the government and also General Chiang Kiashek accordingly. The Taiwanese central government exercises more power over more things than the White House does in America, although recent American administrations seem to have been trying hard to catch up. Below the level of central government, Taiwan is quite democratic.

Taiwan is more democratic than any Chinese government of the mainland has been within recorded history, and far more democratic than about 100 of the 144 members of the UN. Dictatorships, incidentally, can have broad popular support, as various powerful monarchs have proved over the span of history; they can also be feared and tolerated only because of the force at their command.

The Chinese government on Taiwan earned very broad-based support by the land reform. The majority of the island's population were peasants. Asia has a long memory, and the one-time tenant farmers remember what life was like before land reform. The older generation has told the younger. This has not altogether erased a lingering uncertainty on the part of the "old islanders" towards the newcomers who arrived in a rush around 1950; it has nevertheless left a very comfortable power base for the island government. The Japanese and Chinese mentality differ enough to suggest restraint in generalization, but the same general result followed the land reform in Japan. The third lesson is: *A land reform which upgrades the economic condition of the peasantry provides an important political power base for the government that engineers the reform.*

The raunchy reality. The fourth lesson is different, and has sometimes been called the raunchy reality of land reform. The landlords of Taiwan included the Japanese

Land Company and a number of ethnic Chinese, "old islanders," who had been active Japanese collaborators. The Japanese deserved the unpopularity they earned in Taiwan during their 50-year occupation and few Chinese tears were shed over the acquisition of the Japanese public domain. The collaborators had acted like traditional Asian landlords. They gave only verbal leases, terminable at their pleasure. The rent was nominally about two thirds of the crop, but the landlords, at least the larger ones, employed estate agents who extracted from the local farmers whatever they could, paid enough to the landlord to keep him reasonably happy and pocketed the balance until the shifting of the economic sand forced a landlord to sell, and the agent could buy his way into the land-owning class. The small "village" landlord, usually an ex-farmer or a farmer's widow, generally did not use an estate agent but dealt with the tenants in an atmosphere of mutual respect. The "big" landlord was an object of village obloquy; the "village" landlord was an object of village sympathy.

Most of the land was owned by "big" landlords and the reform process involved their removal. In Japan they were bought out in yen which promptly declined in value through inflation leaving many of them stranded, too old to go back to work and unable to live on the pittance inflation left them. In Taiwan, the landlords were compensated in New Taiwan (NT) dollars, but the compensation contracts were tied to a commodity base. The annual payment was computed in terms of the number of NT dollars required to buy a certain quantity of rice or sweet potatoes. This made the payment reasonably inflation proof.

Collectively landlords invariably oppose land reforms. At the very least it involves change, and change is always traumatic. To many the prospect suggests the loss of financial position and social prestige; they just cannot see beyond the first step. Landlords in Taiwan and Japan were no exception to this rule. Some ex-landlords from Taiwan still rail against the indignities heaped upon them by the government and find some sympathetic ears in the US.

In the Philippines, the Senate, also landlord-dominated, blocked reform which the House had approved, until about the time Marcos declared martial law, disbanded Parliament, and pushed land reform dictatorially. In Thailand the entrenched nobility and other landowners have blocked a really effective land reform, although lower echelons of government keep talking about it. In Nicaragua and San Salvador, the land was owned by a handful of friends and relations of the dictators, and the

peasants were left to fester at the bottom of the pile. The fourth lesson from Taiwan is: *Land reform must be imposed on the landowners by a central government strong enough to do it.*

The follow-through. In a country that needs a land reform the peasantry usually depend on their landlords for credit to buy seed and fertilizer, do other banking transactions and handle much of the marketing. The landlords function in all these capacities. They are often the rice millers, the bankers, and the local suppliers of whatever is needed to make a crop. They also often are the sole marketing vehicle. If this situation is not changed, the tenants quickly come back under their influence and the landlords wind up owning the land again in a short time.

In Taiwan, a system of cooperatives had developed in Japanese times as a semi-underground movement. The cooperatives were bankers of a sort, hiding wealth from the Japanese and providing other clandestine services, and they developed strength and peasant confidence. When the land reform took place, the cooperatives emerged and became the dominant factor in supply, marketing, and local banking. They have never enjoyed an exclusive monopoly; farmers can buy and sell from and to whomsoever they wish, but the cooperatives generally offer the "best deal." This has been a significant factor in making the land reform "stick."

The tax system must also be designed so that the farmers are not taxed out of their holdings. Rural taxes in Taiwan are almost entirely on land and are kept at a level which encourages the farmers, and does not in any way discourage them.

The fifth lesson is: *To make a land reform "stick," marketing, supply, and credit facilities must be supplied so that the farmers are not driven back into the clutches of the former landlords.*

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2. See Chen Cheng, *Land Reform in Taiwan*, China Publishing Co., Taiwan, 1961. Chapter I is an excellent summary of the Chinese land reform background. The balance of the book is an equally excellent description of the land reform, 1950 to about 1960.

COLOMBIA Cont. from P.48 would lose the incentive to grow marijuana. A thriving rural sector would curb migration to the towns, and push up the wages of urban workers.

Unfortunately, Washington fails to make its gigantic foreign aid to client states like Colombia conditional on such reforms until - as in the current case of El Salvador - civil strife has begun to collapse the country into the arms of Moscow-orientated forces.

The landed elite will certainly not freely implement land reform, for the under-use of land is a rational part of its strategy for reducing wages and increasing rental income. As Feder notes:

"The minifundio problem and the under-utilization of the resources is

an inherent feature of a latifundio agriculture which prevents access to land to the campesinos and reduces the employment of its resources in order to maintain an excess obedient labour supply working at low wages."⁵

Land reform, far from constituting a threat to the landlords, has been skilfully turned to their financial advantage. As one INCORA official noted at an early stage of the "reform" programme: "We buy their land for more than its worth, and often for cash. Our own investments raise the land's value."⁶

Thus, a tax based on land values - which would recoup the increased land values for the benefit of the whole community - is the last change which they would be willing to countenance.

As a result, left-wing guerrillas such as members of M-19, who took over the Dominican Embassy in Bogota, will continue to undermine geo-political stability. Who is to blame?

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