

LESSONS FROM THE APPLICATION OF GEORGIST IDEAS ON TAIWAN

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In Taiwan, the discrepancy between the rich and the poor has been steadily narrowing during the last three decades thanks to the application of the principles of Henry George and other of like mind, while in countries like Iran, San Salvador, and Nicaragua, which are all predominantly agricultural, it has been widening. The latter three have been plagued with civil unrest and revolution, while Taiwan has prospered to become one of the stablest countries in the Far East.

In his day, George's recommended remedy to combat unequal distribution was a redistributive tax on the means of production, namely land. In several countries ideas related to Henry George's had been brewing since the second half of the 19th century. In Germany, beyond the martial shadows of Otto von Bismarck, egalitarian movement had been bubbling. Progress and Poverty was translated into German as early as 1880 by F. Gutschow, and gained almost instant success among German intellectuals.

The industrial revolution in Germany resulted in rapidly expanding cities. Farmers at the outer edges made huge profits on land sales and became instant millionaires (Millionenbauern). At the turn of the century legislation was enacted to recapture some of the unearned increment. This tax was not rooted exclusively in Henry George, but the originators were certainly influenced by his work.

The Germans implemented these concepts in Kiao-chau, a German colony in China. They instituted a land value tax and a land value increment tax. The latter produced so much revenue that the colonial administration had to search for ways to spend its revenues. World War I put an end to the German colony. But Dr. Sun Yat-sen had an opportunity to observe Georgist and German ideas, and blended them with Confucius' philosophy. He recruited Dr. Schrameier to write the revenue section of the Chinese Republic Constitution. The principle was established in China that land value increments belonged to the public and should be used for public improvement. The Constitution was in 1950 installed in Taiwan almost intact. The result was one of the world's most effective applications of the principles of equalization of economic opportunity through redistributive taxation.

Chang Kai-shek on Taiwan vigorously pushed the process of rural land reform designed to vest title to farmland in the actual tillers. Urban land reform followed considerably later. Increment taxes initially applied only to urban land and they diverted to social projects considerable amounts of profits.

Land reform on the Island began with rural rent control and moved fast to the distribution of the public domain formerly held by the Japanese. Rent controls reduced the landlords' share to 37½% from 66% and up. This affected the local economy beyond expectation. Farmers doubled their income when rents came down and, with assured possession of their land, began to plant second crops of rice and intervening crops of vegetables, thus doubling their income again.

Much can be learned from the Taiwan land reform. The first lesson is that proper allocation of resources combined with the diligence of a naturally hard-working population greatly improves the economic circumstances at the bottom quintile. It does not eliminate poverty, but the general benefit to the lowest quintile is spectacular.

The second lesson is not to displace farm manpower wantonly, until industry has developed enough to begin to demand it. Taiwan initially banned importation of large tractors. These and other farm machines save man-hours of labor, but a country with a manpower surplus does not need that. When industrialization was far enough advanced and manpower balance attained, Taiwan began to mechanize farms to release manpower to industry.

The third lesson is political. A land reform which upgrades the economic condition of the peasantry provides the government that engineers the reform with a political power base. Taiwan is far more democratic than any government on the Asian mainland, has earned very broad-based support by its land reform, and is stable.

The fourth lesson is: Land reform must be imposed on the landowners by a central government strong enough to do it. Before 1946 the landlords of Taiwan gave only verbal leases terminable at their pleasure. Rent was two thirds of the crop plus additional moneys extracted by estate agents. The land reform process involved the removal of these hated landlords. They were compensated in NT dollars and the compensation contract was tied to a commodity base which made it reasonably inflation proof.

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 former landlords. Before the land reform the peasantry depended on landlords for credit to buy seed and fertilizer, banking, and marketing. If this is not changed, tenants will quickly come back under their influence, and the landlords will wind up owing the land again.

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It is dangerous to neglect the principles of equalization of income. In Nicaragua, San Salvador, and Iran the government lacked the will to bring about land reform. The Shah of Iran made a truly noble beginning a decade ago, but stopped short of a good follow-up. Nicaragua and San Salvador have not really tried at all and are faced with ever increasing unrest. The countries which experienced unrest made the classic mistake of importing large farm machinery too soon and displaced a lot of labor who had no place to go but to the outer fringes of the cities.

The past two decades have been dominated by two super powers, the Union of Soviet Socialist Republics and the United States. America has exported its technology, including mechanized agriculture, to undeveloped countries, which has aggravated problems rather than solving them, and has not heeded Taiwan's lesson not to displace farm labor until alternative employment is available. The Americans made the same mistake in their own country when mechanical cotton-pickers displaced 12,000,000 farm laborers.

America, with generosity unparalleled in all world history, has doled out countless billions of dollars to developing countries without insisting on some human rights for the lowest quintile, as long as there was a declared opposition to the USSR, but it failed to look behind the facade of anti-communism. Meanwhile, the USSR, with unending determination, continues to sow seeds of discontent in countries where the gap between the upper and lower quintiles has been wide and is widening.

Placed side to side the lessons from Taiwan on the one hand, and from Iran, San Salvador, and Nicaragua on the other seem unpleasantly clear. A country which does respect human rights and does take genuine steps to uplift the condition of its lowest agricultural quintile, even in the face of opposition from the entrenched upper quintile, has a good chance to escape revolution and violence. A developing country which marches only to the drumbeat of the upper quintile marches dangerously.

Henry George displayed uncommon clarity of vision when he said, in discussing the Irish question in Progress and Poverty (Book II, Chapter II):

It is difficult for one who has been looking over the literature of Irish misery...to speak in decorous terms of the complacent attribution of Irish want and suffering to overpopulation. I know of nothing better calculated to make the blood boil than the cold account of the grinding grasping tyranny to which the Irish people have been subjected and to which, and not to any inability of the land to support its population, Irish pauperism...is to be attributed...