

LAND REFORM AND SAN MIN CHU I

BY

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Taiwan has been noted not only for its rapidly growing economy but also for its income distribution which has been moving steadily toward greater equality. During the ten years prior to 1973, the average annual real rate of growth in terms of GDP was 10.4%, with employment increasing by 4.4% and labor productivity by 6%. After two years of recession in 1974-75, when the growth rate fell to 0.6% and 3.1% respectively, the economy resumed its normal performance to achieve a 11.9% growth rate in 1976. As for income distribution, the share of the poorest 20% of the families in total disposable income before taxes increased from 7.71% in 1964 to 8.84% in 1974, while that of the richest 20% decreased from 41.07% to 38.63% during the same period. As a result, the average income of the richest 20% dropped from 5.33 times of that of the poorest 20% in 1964 to 4.37 times in 1974.

The simultaneous achievement of both rapid economic growth and a more equitable income distribution has been brought about following the Principle of Peoples' Livelihood, or Min Sheng Chu I, of our founding father, Dr. Sun Yat-sen's Three Principles of the People, or San Min Chu I. This ideological foundation of our progress has not generally been noted by overseas observers.

Of the Three Principles of the People, the Principle of Peoples' Livelihood, or Min Sheng Chu I, which is the one that laid down the guidelines for the development of the national economy. According to Article 142 of the constitution of the Republic of China, "The national economy should be guided basically in accordance with the Principle of Peoples' Livelihood ..." What then is the Principle of Peoples' Livelihood?

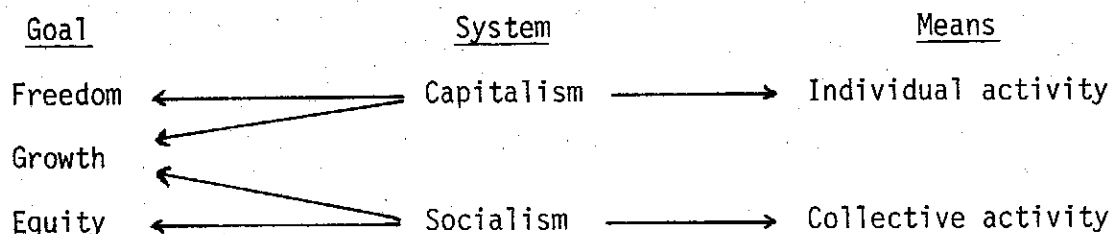
In modern terms, Min Sheng Chu I is an economic system aiming at the maximization of peoples' total welfare. Since it might be claimed that the function of any economic system is, intentionally or unintentionally, to maximize the total welfare of the whole society, the nature and characteristics of Min Sheng Chu I can only be fully understood when compared with such economic systems as capitalism and socialism.

However, both capitalism and socialism or communism, which is treated in this paper as identical with socialism, are what Max Weber called "historical individuals" in the sense that they mean different things at different times. Comparison is possible only when the "ideal type" or

"pure type" of the concepts is in use. Thus, the words capitalism and socialism here refer to their respective ideal meanings rather than any existing reality.

If the various economic systems are to be classified in accordance with their respective goals and the means by which to achieve these goals, then there are three major goals and two different categories of means.

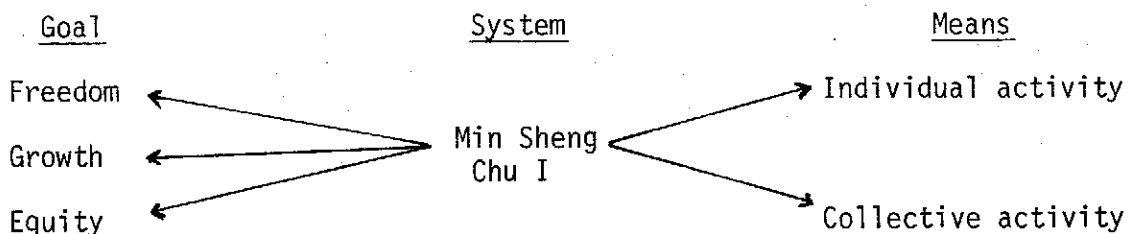
The goals are freedom, economic growth and equity in distribution. The two categories of means are individual activity and collective activity. Capitalism depends mainly on individual activities, or the activities taken by people of the society as individuals, to achieve freedom and growth. Socialism depends mainly on collective activities, or the activities taken by the society as a collective body, or by the government, to achieve growth and equity. This can be shown more clearly in a diagram.



It can be seen from the diagram that because of the use of different means, capitalism in its very nature tends to ignore equity of distribution, just as socialism tends to ignore freedom of choice.

Both the capitalist and socialist systems have undergone tremendous change. Generally speaking, in the case of the former, the change has been the adoption of gradually more and more collective methods to compensate for the deficiency of individual activity so that the goal of equity can be partially attained. In the case of the latter, the change has been to the contrary, with more freedom of personal choice permitted within certain limits. However, essential characteristics of the two systems remain the same.

In contrast to both capitalism and socialism, Min Sheng Chu I gives equal weight to all three goals. To achieve them, it combines the means of individual activity and collective activity, as shown in the diagram. Since Min Sheng Chu I was formulated later than capitalism and socialism, Dr. Sun Yat-sen was able to observe and study their strengths and weaknesses. As a result, Min Sheng Chu I pays more attention to the achievement of equity of distribution when compared with capitalism, and more attention to the achievement of freedom of choice when compared with socialism.



It may be argued whether simultaneous achievement of all three goals is practical. Is it possible that the goals are in conflict with one another? Is there some kind of trade-off, so that one goal can be achieved only at the expense of another? The answer appears to depend more on policy measures than on the goals themselves. Among the measures advocated by Sun Yat-sen were equalization of land rights, regulation of private capital, and development of public capital.

#### Equalization of Land Rights: The Original Idea and Its Development

San Min Chu I consists of the Principle of Nationalism, the Principle of Democracy and the Principle of Peoples' Livelihood. The Principle of Peoples' Livelihood was the last one evolved in Dr. Sun's system of thought. In 1904, Sun revised the charter of the Chi Kung Tang, an underground society of overseas Chinese, whose original aim was to overthrow the Manchus and restore the Ming Dynasty. This was the first time that the idea of equalization of land right appeared in an official document. Article 2 of the platform of the Chi Kung Tang read as follows: "To get rid of the tartars, to restore the nation to the Chinese, to create a republican government, and to equalize land rights." The first two phrases are concerned with the Principle of Nationalism; the third phrase, with the Principle of Democracy; the last phrase, with the Principle of Peoples' Livelihood. The same statement appeared also in a testimonial statement of the Tung Mung Hui, a predecessor of the Kuemintang reorganized from the Hsing Chung Hui in 1905 in Tokyo, and again in the grant charter of the Tung Mong Hui in 1906.

Let us not equate the equalization of land rights with equal distribution of land among people. It means only that the benefits of land value increment due to social progress rather than individual efforts should go to the public through taxation and government expenditure. In Article 4 of the Declaration of the Military Government of 1906, Sun wrote: "People have equal rights to enjoy the benefits of civilization. Social and economic organizations shall be improved, and prices of land shall be fixed. The present value of land belongs to the landowner, but the incremental value of land due to improvement and progress of society after the revolution belongs to the state and will be enjoyed by the public."

This serves as a good example illustrating a basic principle of Min Shen Chu I in dealing with private ownership. The pursuit of equitable

distribution under Min Sheng Chu I is based on full respect for private ownership. Dr. Sun never believed in redistribution of property by any radical means, as it would be "not workable in practice and inconsistent with the Principle."

As for the proper way of handling land ownership, Sun agreed:

"There are many scholars in the world who believe in state ownership of land. Their reasons are strong, so that state ownership of land is justifiable. However, there is no need for the state to own all the land. It will be enough for the state to have a claim on it when needed."<sup>1</sup>

The late President Chiang Kai-shek, who was a disciple of Sun and an advocate of San Min Chu I elaborated:

"I have explained the meaning of state ownership of land as 'land owned by the state but used by the people' or 'owned by the state but enjoyed by the people.' From the spirit of Dr. Sun's advocacy that 'the method of state ownership of land is not necessarily for the state to (actually) own land,' I am convinced that the true meaning of state ownership of land should permit the existence to a reasonable extent of private ownership, including land ownership."<sup>2</sup>

The full scheme of Dr. Sun's equalization of land rights consists of four steps. This was discussed in Lecture Two of the Min Sheng Chu I. (1) The landowner is required to determine by himself the value of his land and report it to the government. (2) The government may purchase the land at the value reported, should it be undervalued. (3) The government shall collect a land value tax at a flat rate according to the value reported, should it not be undervalued. (4) After the land value is fixed, any increase attributable to the progress of society rather than to the landowner's individual efforts shall go to the public through a land value increment tax.

Since the government may purchase the land at the value reported, the landowner will be very careful not to undervalue it for fear of losing his land to the government. Nor would he be inclined to overvalue it for fear of heavy taxation. As a result, Dr. Sun believed, a fair value of the land would be reported. Once land value is fixed, it is fixed forever so far as the landowner is concerned. All future increases from non-private efforts belong to the state. This is justified because the land value increment is a windfall without labor or capital inputs on the part of the owner. Thus, the equalization of land rights is a redistribution of the future increase in land value, not its present value. The landowner loses nothing because he still owns his land at its original value.

Taxes thus collected can be used for administrative expenses, social welfare programs, as well as construction of infrastructure, and the tax burden of the general public will be greatly reduced, according to Dr. Sun Yat-sen.

In this regard, Sun Yat-sen's land reform program is very much the same as the single tax on land of Henry George. While George's single tax is universally collected on the economic rent of the land, Sun's equalization of land rights taxes the full amount of gain in land value between each exchange.

However, Sun never believed that a single tax on land would yield enough revenue for the government to meet all its expenditures. Also, as an economy grows, the capitalist receives more income; becomes richer and causes greater inequalization. Sun's ideas on the regulation of private capital also aimed at correcting this as an additional matter of policy.

### Implementation of the Equalization of Land Rights in Taiwan

Dr. Sun advocated early implementation of the land right equalization program for several reasons. Firstly, resistance from the land-owners would be less while most of them were still small owners. Secondly, the land value increment would be larger as the initial value of land was still low. Unfortunately, there never occurred any opportunity for the government to put Sun's program into practice until after it was evacuated to Taiwan. As a matter of fact, the nation did not become unified until 1928, four years after the death of Dr. Sun and 17 years after the establishment of the Republic. The unification was only nominal. The struggle against Communist rebellion lasted until 1936, followed by the Japanese invasion. When the Sino-Japanese War ended in 1945, the fight against the Communists resumed.

### Concluding Remark

Basically, as described in the beginning of the paper, Min Sheng Chu I emphasizes economic growth as well as equitable distribution for the sake of justice. It relies on individual activity as well as public activity as a means to achieve these goals. Proportional land value increment tax, which takes into account both individual and public efforts, would be very much in line with the true spirit of Min Sheng Chu I.

NOTES

1. Sun Yat-sen, "Maximization of Majority Welfare can not be Achieved Without Land Right Equalization," in the Complete Works of Dr. Sun Yat-sen. (in Chinese), edited by the Committee on the Party History, KMT Central Committee, 1974, Taipei.
2. Chiang Kai-shek, "An Outline of San Min Chu I at the Present in Selected Documents on the Study of San Min Chu I (in Chinese), edited by Yang Ming Villa, 1976, Taipei.