

Philosophies of Integration: Sun Yat-Sen and Henry George

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Paul Krugman, well-known economist and columnist, writing in the *New York Times* on August 29, 2005 declared that Americans were now making a living selling houses to each other with money borrowed from China. Sun Yat-Sen nearly a hundred years earlier marveled at the industrial output of the United States in coal and steel. China's industrial production was minuscule in comparison, even though the country was much larger in terms of territory and population. Today, China has an annual growth rate in gross domestic product of nearly ten per cent, a rate almost inconceivable in the Western industrialized world.

Is China condemned to endure extremes of poverty and wealth with this unprecedented economic expansion? Will these become so severe that social conditions result in instability and chaos? Are large-scale reforms necessary to restore the balances which enable economic and political circumstances to be tolerable for most people? The classical writers on political economy, such as Adam Smith, David Ricardo, John Stuart Mill, Henry George and Alfred Marshall were integrators. They sought systematic reconciliation of the factors of economic production with the social conditions under which the production and distribution of goods and services took place. They understood themselves to be scientists in a quest for the laws of economic life. How one might create sustainable commonwealths in which all are ennobled and enriched was ultimately the motivation for their detailed inquiries into the arcana of value determination, equilibrium theory, public finance and cost-benefit analysis.

Sun Yat-Sen is also in this tradition of classical political economy. He attempted to expand its scope so that political economy bridged the East and the West. It is only when the people have a share of everything in the state that the goal of the *Min Sheng* principle is reached, which is nothing other than a "great commonwealth." It was upon the foundations of modern science and industry that Sun Yat-Sen hoped to establish the modern republic of China. Trained as a doctor and thoroughly immersed in the works of the classical tradition of political economy, he had a unique ability to apply this knowledge to the cultural and historical peculiarities of Chinese society. He not only recognized that none of his political goals could be achieved without an

integrated plan, he also endeavoured to unite theory and practice to improve the lives of all citizens of the new republic.

Sun Yat-Sen also drew inspiration from the great American economic and social philosopher, Henry George, whose proposals for land and tax reform were adopted by Sun in his “Principle of Livelihood.” George also advanced an integrated philosophy of economics that he believed both explained and remedied the seemingly inevitable tendency for societies to fall into industrial depressions and into greater inequalities of wealth and income in the midst of progress. Both writers have left a legacy of thought and ideas that the East and the West would do well to absorb and articulate further in the perennial search for that “great commonwealth.”

SUN YAT-SEN

(1866-1925)

San Min Chu I or *The Three Principles of the People* held an extraordinarily influential place in the Chinese nationalist movement during the early decades of the twentieth century. The Principle of Nationalism secured the Chinese national spirit and was directed against the Manzhou dynasty as much as it was against foreign imperialism. The Principle of Democracy is secured by combining the Enlightenment separation of powers into the executive, judicial and legislative branches with the Chinese powers of examination and censorship. This is known as the quintuple-power constitution.

Our main focus here is the third principle, known as the Principle of the People’s Livelihood or *Min Sheng Chu I*. Sun never completed his extemporaneous lectures on the Principle of Livelihood. The text that is available does, however, reveal a clarity of intent and an articulate theoretical vision that may be controversial but is nonetheless transparent and substantive. When one is sensitive to both the Western and Chinese sources of the Principle of Livelihood, one can see that it is a powerful and integrated philosophy of social and economic reform.

The Principle of Livelihood (*Min Sheng*)

Min Sheng denotes “the livelihood of the people, the existence of society, the welfare of the nation, the life of the masses.” Sun expands the concept to include the “social problem,” which universally affects every country. Subsistence is at the heart of the social problem. It is “the central force in the cultural progress of society, in the improvement of economic organization and in moral evolution.”

To confront the problem he prefers the old Chinese phrase *Min Sheng*, rather than socialism, which is the predominate term used in the West. There are several reasons for this. Sun Yat-Sen wishes, like Henry George, to distinguish himself from the Marxian analysis of the social problem. There is a forceful critique of Marx's theory in Lecture One of *The Principle of Livelihood*. Like *Min Sheng*, socialism is an effort to solve the living problem. However, he likens Marx to a social pathologist rather than a social physiologist. Marx merely gives a historical and empirical description of class conflict. He then infers the inevitability of revolution and the rise of laborers over capitalists. In other words, Marx is a historicist.

Recent economic progress, according to Sun, has taken four forms: (i) social and industrial reform; (ii) public ownership of transportation and communication; (iii) direct taxation and (iv) socialized distribution. The first form of progress involves the use of governmental power to improve the lives of working people through improvements in education, health and working conditions. There are advantages and disadvantages to the private control of transportation and communication.

Direct taxation was viewed by Sun as a means of extracting resources from the large income of capitalists to finance the operations of the state. This was an advance over the system of relying on customs tariffs and the like, which oppressed poor people. Financing the state from the large income of capitalists was a way of securing money for the state without seeming oppressive. Sun would be quite dismayed at how the income tax systems of most Western countries now give preferential treatment to the large income of capitalists and which rely in a regressive manner on the direct taxation of the wage income of those in the middle and lower classes.

Socialized or governmental distribution is an advance over the confiscatory practices of intermediaries in trade systems. The monopolies of intermediaries greatly distort comparative advantages and often undermine trade agreements between nations.

These four factors of economic progress must be seen as operating coterminously in the advancement of nations. Sun is anxious to see a reconciliation between workers and capitalists, not a struggle that will result in the obliteration of the capitalists. Society progresses through the adjustment of economic interests and not through their conflict. The factors of production – land, labour and capital must work harmoniously in order to advance the *Min Sheng* principle.

Lecture Two of *The Principle of Livelihood* identifies two methods for the carrying out of *Min sheng*. In this Lecture one finds the most direct influence of the philosophy of Henry George. The two methods are: (i) the equalization of land ownership (or the proportional distribution of land and (ii) the regulation of capital. These methods show that when viewed in their historical and conceptual context the methods of *Min*

Sheng are neither vague nor utopian and that they are as relevant today, if not more so, than in the time of Henry George and Sun Yat-Sen.

The Role of Land in *Min Sheng*

Fluctuation in land values is a social problem for Sun. Why is this the case? Sun does not answer the question in terms of the economic havoc wrought by industrial and business cycles. Rather, he sees in it a simple injustice. Some people, primarily because of serendipity, take a vast amount of money away from everybody as a whole. They do not deserve such singular appropriations. These funds ought to stay in the hands of everybody. This is the point of the famous example Sun Yat-Sen gives of the drunk who mistakenly acquires a piece of land at an auction that increases so much in value he becomes the richest man in Australia.

Land speculation in China is caused by the Western economic invasion. This is as true today as it was a hundred years ago. People in China, as in the rest of the world, are gambling in land and it is not only creating great inequalities but is distorting the economy. Sun proposed not a spatial or geographical land reform or redistribution which ignores the economic realities of land and the margin of productivity. Rather the “equalization of land,” or its proportionalisation, depends upon two things: (I) taxation according to the value of the land and (ii) compensation according to declared value. It is equalization of the right of access to the fruits of nature and the equalization of the return of surplus value to the community or the state.

A system of self-assessment was proposed by Sun in order to bring about the proportionalisation of land. This system must be understood as transitional. The government would buy back land from owners at a self-declared price. After the fixing of land values, all future increments would revert to the community as a whole.

There is an important and integrative dialectic at work in this proposal that has lessons for us today. Sun is aware that a land value tax has the tendency of reducing the value of land, or at least removing the speculative component immersed in its value. Self-assessing the value of land will have the undoubted effect of low assessments because owners will want to pay less tax. This is self-defeating from the standpoint of the government. If, however, it is accompanied by a regulation that the government can buy back the land at the self-declared price, the tax base will be preserved. Confronted by the two possibilities, the natural tendency, according to Sun, would be not to report the value of the land as too high or too low, but to give a value that reflects the market price. The countervailing forces are integrated and converge in the valuation of a tax base that everyone agrees upon. Thus, neither government nor the landowner will suffer. This is an important principle for modern tax reform. In North America the primary repository of wealth for the middle class is their homes. Any tax proposal that

is perceived to seriously threaten the value of that repository will have no political chance of being adopted.

Sun is very much aware of the role of urban ground rent in the development of civilization. He notes that in most of China land values have scarcely moved for thousands of years. Yet in the modern cities of China they are changing daily. His proposal is futural. He wants to capture all future land increments. This is what he means by the “equalization of landownership.” At the same time he realizes that there must be some maintenance of the status quo. Urban ground rent was for Sun the vast source of public revenue necessary to run a modern, industrialized society. This storehouse of publicly created wealth is there for governments today, if they have the eyes to see it.

HENRY GEORGE

(1839-1897)

He his Lectures on *The Principle of Livelihood* Sun Yat-Sen does not directly mention Henry George. It is clear however that he was deeply influenced by the great American social and economic philosophy, whose book *Progress and Poverty* (1879) created an international sensation in the 1880s. George was also the author of other works, notably *Social Problems*, *Protection or Free Trade*, *A Perplexed Philosopher* and *The Science of Political Economy*, which he did not live to finish.

George sought to establish political economy as a thoroughgoing scientific endeavour. This undertaking would investigate and articulate the laws of economics much the same as chemists and physicists inquire into the operations and processes of nature. Furthermore, George was convinced that economic and social injustice is not, in and of itself, a natural state, but rather a function of poorly designed human institutions and laws – the result of social maladjustments rather than a natural cycle of economic depressions and inequality. Poverty, unemployment, war, human degradation and squalor were curable social diseases. Extreme maldistributions of wealth and income could be subjected to moderating influences through the proper adjustment of social institutions and the moral recognition of certain ineliminable rights with respect to the creation and preservation of wealth. George designed a single, or “sovereign,” remedy, as he liked to call it, which would have multi-faceted social and economic consequences.

In tri-factor classical economics the return to land is called economic rent, while the return to labour is wages and the return to capital is profit (interest). The return to labour and capital is for George, inalienable relative to the individual, while the return to land (nature) ought to be appropriated by society. It is only through such

appropriation that there can be a resolution of the clashing rights of individuals. Equality must be secured in principle among them. The original right to the use of land does not require the hypothetical or actual consent of other individuals or groups or society.

The equal right to life involves the equal right to the use of “natural materials.” In this right to use the world lies the primordial right to property, which is pre-societal. This is George’s articulation of Sun Yat-Sen’s idea of the principle of livelihood as subsistence. This principle can only be sustained if equality is secured by the institutions of society. The payment to the community of economic rent became known under many different guises, the best known being land value taxation and the single tax. The latter phrase is now generally looked upon with disfavor, but the phrase “land value taxation” has maintained a certain longevity, although “nature” is the more inclusive term.

What claims can be made for the theory of land value taxation in modern industrializing and industrialized societies?

There are wide-ranging theoretical and a practical answers to this question. The theoretical answers cover such things as economic and social justice, maximizing liberty and equality, reconciling individual and collective interests, natural versus positive law, equity, efficiency and the role of ethics in economic decision-making, to name only a few. The practical and institutional answers focus on the structure and design of systems of public finance and taxation, the role of government, the efficient use of natural resources, environmentalism, urbanization *et alia*. George’s philosophy is as comprehensive as Sun Yat-Sen’s. Likewise, it is not merely an encyclopedic agglomeration of issues and haphazard policy directives. In its first principles it reconciles such things as individual and collective rights, efficiency and equity.

Land value taxation addresses some perennial problems in public finance systems from both the standpoint of the collection of tax revenues and from the position of individuals. Government collection of taxes must strive to be fair, efficient, transparent, stable, low in compliance costs and not easily avoidable. A century of experience with income and commodity tax systems in the Western world has shown these tax principles to be quite tenuous. Governments are increasingly prone to supplant fairness with ease of collection and to focus on the least resistant sources of revenue generation. Taxable capacity is almost always defined in terms of economic activity or some easily identifiable transaction. Tax systems are exceedingly complex and opaque. Legislators and politicians rarely understand their own tax régimes or the implications of any given tax measure.

It is extremely important that our tax laws be harmonized with sound business practices, environmental enhancement and the efficient use of resources. Complex income and commodity tax systems in the West have a poor record in this regard. While it may be overly simplistic to view the large-scale misallocation of capital as caused solely by aberrant tax policies, it is no secret that those policies rarely inhibit such activities. A good example would be the over-allocation of capital in the housing market in North America because of preferential tax policies with respect to mortgage financing, capital gains on owner-occupied housing and systems of property assessment and taxation which encourage urban sprawl. A micro-engineered tax system, on primarily labour income, cannot by definition advance economic justice and equality since its first principle is wage suppression, not expansion; decreased production, not wealth creation.

CONCLUSION

The Relevance of Sun Yat-Sen and Henry George in Modern Socio-Economic Development

Wealth cannot be created without nature. Nature itself is not wealth, but it becomes so once it is acted upon by the labour of human beings. Much of the twentieth century ignored this simple principle. Wealth became identified solely with capital which became identified solely with money and now we are left with the spectacle of large sums of money floating daily around the globe unconnected to a nation's productive capacity.

Abstractions abound in the world of economics and in programs of economic and social reform. Labour has become disconnected from capital, capital from nature, nature from labour, efficiency from equity, economics from ethics, pricing systems from externalities, cost-benefit analysis from quality of life issues – the list is almost infinite because of the possibilities of abstraction and artificial analysis are almost infinite.

Sun Yat-Sen and Henry George both transcend their time and cultures because they advocated reconciliatory and integrative philosophies aimed at countering the modern, and one might say post-modern, tendency to extreme abstraction, dissolution, fragmentation, subjectivism and relativism. They saw that the advancement of life and civilization, of livelihood and social betterment, required a restatement of the overt and subtle relationships between nature and human beings, between obligations and rights, between value in production and value in exchange, all within the context of certain absolute and inviolable principles. A careful comparative study of both writers would advance considerably the guiding principles for economic and social reform in the East and the West in the twenty-first century.