

integral part of our knowledge of this world; far from being unamendable to scientific knowledge, they constitute the core of it, being objectively demonstrable from our unbiased observation of the reality as it is given to us.

### Notes

- 1) Jonathan Wells, "Reinterpreting the History of Life from a Design Perspective".
- 2) *From Evolution Theory to a New Creation Theory*(Unification Thought Institute, Kogensha, 1997), p.8, p.37, p.47, p.52
- 3) Karl R. Popper, *The Open Universe: An Argument for Indeterminism*(Routledge, 1995), p.174.
- 4) David Bohm, *Wholeness and the Implicate Order*(Arkkdj Paperbacks 1994), p.212.
- 5) Paul Davies, *The Cosmic Blueprint*(Simon & Schuster, 1989), p. 200.

## The Integration of the Socialism and Capitalism

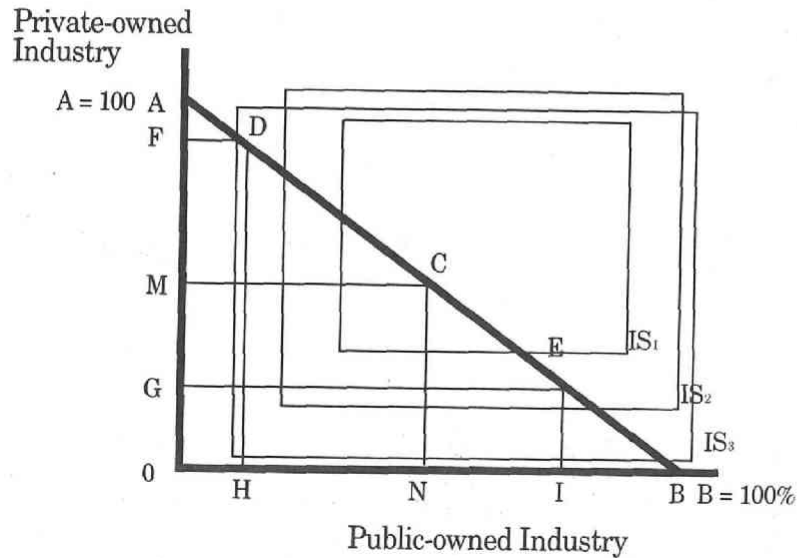
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### I. Integration of the Socialism and Capitalism in Taiwan

The basic philosophy of the orient world is the harmony between the Yin and Yang or the integration between the Heaven and Human nature. This is quite different with the West-Nothing to do with the book of change, i.e.I-ching. If we study the history of economic thought of the Europe, it is clear that Capitalist economic system is mainly based on the political economic philosophy of the Adam Smith (1723~1790), particularly on his *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776). But before that, his book on the *Theory of the Moral Sentiment* (1759) was the fundamental assumptions. On the same token, Friedric Angles (1820~1895), the assumption of his publication in 1845 on English worker during his age was the basic background of Karl Marx (1818~1883) work on *Das Capital* (1876). The Capitalism and Socialism thereby divided. Instead of that, the oriental is somewhat different, i.e. there is no such distinctions.

In fact, it contains capitalism and socialism into a philosophical package, being more pragmatic way in applying whether capitalism or socialism in process of their economic development. It would depend on individual internal and external objective or subjective economic environment, then pick it up the best economic system or economic policy would appropriate for their economic Modernization. Herewith I would like to bring the Taiwan's integration of the socialism and capitalism during the period of 1949~1998 as example. The 50 years experience of the Market economy with the Chinese

Figure 1. The Optimum Mix of Private-owned and Public-owned Industry



Characteristics, i.e. the integration the western capitalism and socialism in a basket.

IS: Social Indifference Curve (social preference curve)  
 AB: Social Budget Line.

Point C: Optimum mix of private-owned industry and public-owned industry, i.e., OM percentage of private-owned industry and ON percentage of public-owned industry. In this situation, social welfare preference is at a maximum; social resource allocation efficiency is at its highest. Therefore, the IS1 social indifference curve represents the highest level of social satisfaction.

Point D: Too much private-owned industry and too little public-owned industry, i.e., OF percentage of private-owned industry and OH percentage of public-owned industry. In this situation, social welfare preference is less than maximum. Social resource allocation efficiency is not at its highest. The IS3 social indifference curve represents some social regret.

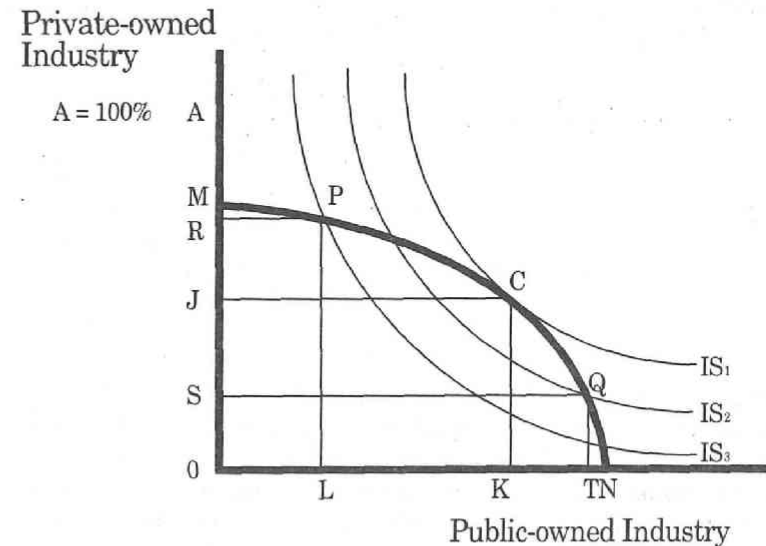
Point E: Too much public-owned industry and too much little private-owned industry, i.e., OI percentage of public-

owned industry and OG percentage of private-owned industry. In this situation, social welfare preference is also less than maximum; social resource allocation efficiency is not at its highest either. Again, the IS2 social indifference curve represents some social regret.

In Figure 1, Point C indicates optimal point of the aggregate division, i.e., optimal allocation mix between public-owned and private-owned corporations (industries) in the economy. This is the "social balance" theory.

At Point C, social balance and actual allocation are synonymous

Figure 2. The Social Balance and Social Welfare Function



and no social balance exists, i.e., society can maintain economic efficiency: economic growth would be at its highest, with both price stability and income distribution equity, automatically attaining social justice. Some capitalist third world societies and some socialist economic societies in Eastern Europe are definitely in a state of social imbalance.

IS: Social Indifference Curve (social preference curve)  
 MN: Social Utility Frontier Curve.

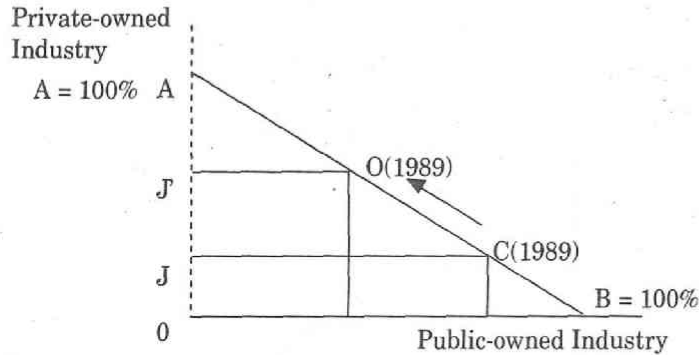
Point C : A social balance of the optimum mix of private-owned and public-owned industry. Also represents the optimum economic efficiency of the social welfare function.

Point P: Represents social imbalance, i.e., too much private-owned industry OR; too little public-owned industry OL.

Point Q: Represents social imbalance also, i.e., too much public-owned industry OT; too much little private-owned industry OS.

As the Taiwan economy becomes more developed, the percentage

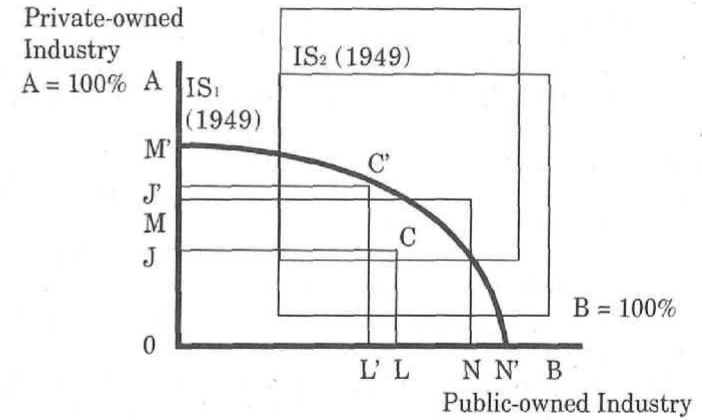
Figure 3. The Change in Optimal Mix of Private-owned and Public-owned Industry in Taiwan(1949-1998)



of private-owned industry increases, and the percentage of public-owned industry decreases proportionally. In the 1949-1998 period under study, percentage of private-owned industry increased from OJ to OJ', while during the same period percentage of public-owned industry decreased from OL to OL'. Optimal point C moving to C' along budget line AB manifests the privatization of Taiwan's economic development process from 1949 to 1989. This is a typical case for the Taiwan economy storing the wealth in the people.

At the same time, the social production possibility curve increased naturally from MN to M'N'. Taiwan's economy developed in the 1950s from a typical underdeveloped economy to become, in the 1980s, an important member of the Asian NICs. See Figure.1) The Taiwan economic society of the 1990s enjoyed increased social welfare, shown as the difference between IS1(1949) and IS2(1998)

Figure 4. The Increase of the Social Welfare Function in Taiwan 1949 ~1998.



### I. Development of State-owned Industries.

After the Sino-British War of 1840, China's Qing dynasty(清朝) realized that state control of certain industries would strengthen the nation. The Qing government's focus on military industrialization marked the first development of state-owned industries in China. Light industry, private industry, and railroad construction appeared in China after the Sino-Japanese War in 1894, yet Japanese, England, and French nationals controlled many of these industries. The Qing government knew the importance of government-owned industry and unfortunately was in no position to establish these industries itself, although it continued to seek the economic autonomy China so badly needed.

At the founding of the Republic of China in 1911, the Chinese economy was backward and the standard of living needed improvement. Sun Yat-sen adopted a mixed economy, a social capitalist economic system that focused on public expenditures and public-owned industries. Sun Yat-sen proposed the government play a significant role in China's economic development. He did not oppose private-owned industry but, in fact, worked to develop China's extremely limited private-owned industries. Sun Yat-sen did not want foreign-owned industries to manipulate Chinese society, and he strived to improve national strengths, developing national-owned industries to maintain economic growth and improve the standard of

living. The importance of public-owned industry was reflected in Sunist theory and Nationalist government policies. China's internal and external politico-economic dilemmas, from the founding of the Republic in 1911 to the victory over Japan in 1945, permitted little national-owned industry to develop, although China's government continued to acknowledge the economic importance of state-owned industry.

In Taiwan the Nationalists took over industries established by the Japanese colonial government. National-owned industry policy was complemented with land-to-the-tiller policy. Stoch was issued to transfer ownership of state-owned industries to the private sector. Many light and heavy industries remained under government control, a source of revenue and foreign reserve for Taiwan's economic development needs.

In the late 1940s, three categories of state-owned industries existed in Taiwan. Industries perviously owned by Japanese nationals, such as the sugar, electric power, fertilizer, cement, paper, gold, and copper mining industries, were operated by the Nationalist government. Industries the nationalist government established before 1949 moved to Taiwan with the Nationalist administration: China Textile Corporation, Chinese Petroleum Corporation, China Engineering Corporation, and China Fisheries Corporation. State-owned industries established after the Nationalist move to Taiwan were adapted from industries previously operated and mismanaged by the private sector. Taiwan Steel Corporation, Taiwan Coal Mineral and Development Corporation, Hsinchu Coal Mining Bureau, and Agricultural Chemical Corporation, were reorganized as state corporations: China Petrochemical Corporation, Central Taiwan Chemical Engineering Corporation, China Steel Corporation, China Shipbuilding Corporation, Taiwan Machinery Corporation, and Taiwan Aluminum Corporation.

State-owned industries initiated Taiwan's early agricultural development and contributed an improved standard of living. During the 1950s, state industries contributed to national economic stability and economic growth and development. Inefficient national-owned industries in the 1960s detracted from previous contributions, but state-owned industries continued an important role in Taiwan's 50 year economic development history. Data through 1998 showed that state-owned industries contributed less than 20 percent of national industrial economic development.<sup>2)</sup>

In public-owned industries, product prices are determined by government influence over the price levels of the general economy.

By controlling production quantities, the government adjusts to economic supply and demand. Government ownership prevents excess profit for private capitalist monopolies and directs toward beneficial contributions to economic equality. Most important is the use of government investment to upgrade the economy toward capital- and technology-intensive projects, leading to an advanced national economy and contributing to economic growth. Public-owned industry can provide government revenue, benefitting public operating finances.

Figures 1 and 2 illustrate the optimality of public-owned industry. Please note the four definitions of state industry, the parameters for state industry in Taiwan. One, products the people want and need but cannot provide for themselves. The private sector lacks the ability, and, although the industry may lose money, the government comes forward and produces the product, considering only the people's need.

Two, industrial products the people need and are able to produce themselves but are reluctant to do so. The government controls production, because the people will not, providing for the people's demands. Three, potential monopolies that bring owners many benefits and excess profits. In these cases, the government operates the industry, because the individual owner's excess profits could create social inequity. Potentially monopolistic, high-profit industries belong to the government not the people.

Four, industrial products the people can produce and want to produce, but private sector manufacturing could lead to market disorder, destroying the market mechanism and harming the free economy. In this situation, the government controls production, enters the marketplace, participates in the competition, and guides the market to a free economy. In the four categories above, category one industries, products the people need but cannot provide themselves, do not remain public owned. This type of public-owned industries should return to the private sector, so in 1953 Taiwan's cement industry, paper industry, industrial mining industry, and forestry industry returned to private sector control.

### III. Economic Development Orientation

State-owned industries are defined as enterprises in which more than 50 percent of capital or more than 50 percent of corporate stock

is owned by the state. All industries of this nature, except for public utilities, are considered state owned. Refer to Table 1 for breakdown of state-owned industries. The following characteristics describe state industries in Taiwan.

**Economic development orientation:** Public-owned Industries sometimes sacrifice profits to attain social and economic development goals. Public-owned Industry guides strategic industries to achieve increased employment and Improved social welfare. Public industries focus on social responsibility, not just profit, as industrial development strives for economic growth and social welfare, along with improved resource allocation and a more efficient national economy. Public-owned industries focus on commercial profit and national economic development.

**Economy of scale or technology-intensive product orientation:** Often only state industries have available large capital funds to accomplish economies of scale and attain large-scale efficiency. National-owned industries facilitate technology transfer, economies of scale, and technology-intensive production.

**National Accessibility:** Certain businesses must reach the entire nation: every city, every village, and every rural area. Private-owned industries do not have the accessibility the government can provide. The Bank of Taiwan is everywhere; every street corner has a branch office. Every city has Taiwan Power, and the Taiwan Sugar Corporation has offices throughout Taiwan.

State-owned industries provide needed infrastructure. Long-term benefits include energy development and communications networks, and these industries are aligned with mid-range and long-term national economic goals.

**Management:** Although many national-owned industries adopt the management style of private-owned industries, national-owned industries can provide a systematic model for private industrial competition, serving as an industry standard for the private sector. All corporations must obey government regulations. The national accounting or taxation guidance system is one such standard exemplified by government industrial practice.

**Monopolies:** Many national-owned industries achieve high, monopolistic profits. High-profit industries such as the tobacco and wine industries should belong to the government. The private sector could manipulate consumers and influence social stability, income distribution, and politics.

State-owned industries have diverse responsibilities: economic development, income distribution equity, government revenues, and

national economic growth issues. State corporations play an essential role in developing countries to guide economic development. Developed countries need state-owned industries to maintain a healthy economy. For 50 years of economic development, state-owned industries facilitated Taiwan's miraculous economic growth.

A general problem in public-owned corporations is lack of economic imperative, and this phenomenon is present in the public corporations of both socialist and capitalist in the public corporations of both socialist and capitalist economies. The result is poor management, waste and inefficiency, personnel errors (the wrong person in the wrong position), and even investment errors (the wrong investment at the wrong time). Solutions include management methods and personnel training, control and supervision by the Legislative and Control Yuans and parliamentary is not resolved, then perhaps the private sector can make the business profitable.

### 1. Privatization of Public Industries.

Sun Yat-sen's theory of Confucian capitalism describes a social capitalism different from Western social capitalism. Sun Yat-sen emphasizes public expenditures and state-owned industry in the economic development process. In domestic and foreign monopolies, the economy of scale is too large. The private sector cannot always operate large-scale businesses such as banking, railroads, and aviation, and these industries should be owned by the government.<sup>3)</sup> Monopolistic industries owned by private individuals can easily manipulate production quantity and price, causing disorder and economic harm to society. Sunist theory proposes constraints to private-owned businesses and suggests they be government owned.

Sunist theory first sets the economic targets. If the people cannot achieve these targets the government should do so. The government primes the private sector to perform functions previously performed by the state. Policy is necessary to sector, and, in addition, contribute to the dynamic process of upgrading Taiwan's economic development.

Sun Yat-sen's published theory specifies that a country's industry be divided into two parts: individual-owned industries and state-owned industries. Industries free of monopolistic tendencies can be operated by the private sector, and, in fact, the state should foster industrial incentives for non-monopolistic industries and provide protection under the law.<sup>4)</sup> Sun Yat-sen's national-owned industry theory should be examined in its historical context. China in the 1920s was an agricultural economy with a very limited modern

industrial sector. Many industries were foreign owned. Sun Yat-sen observed a private sector not yet ready to engage in national economic development. Private industry was monopolistic by nature and the scale was too large. Because the private sector was not properly equipped, Sun Yat-sen decreed major industries be public owned.<sup>5)</sup> His concept of national-owned industry encompassed a range of industries for the following natural resources: coal, iron, water power, electric power, and petroleum. The government should also own and control banking, railroad, shipbuilding, and navigational enterprises.

#### IV. Market Economy with Chinese Characteristics

It is important to correctly interpret Sun Yat-sen and his intentions for state-owned industry. Products and services that prove monopolistic and adversely influence social well-being should be owned by the government. Military, treasury, postal service, and electric power functions should be government operated. Infrastructures the people need but cannot provide themselves, such as shipbuilding, steel mills, highways, and bridge building, are also state industries. The government should provide needed educational and research institutional services that the private sector is unwilling to own and operate. Industries with high costs and low revenues, Taiwan's aluminum industry, for example, are also government operated.

In industries that, under the market mechanism, could hurt the free economy, government participation directs competition and eventually benefits the market economy. Industries not specifically requiring government ownership should be owned and operated by the private sector. Public-owned industries that prove successful should transfer to the private sector. An industry's designation as public or private owned depends not on ideology but on current economic trends and the objective economic environment. The decision is then made to place a particular industry under government or private sector ownership. Government policy follows national economic objectives: income distribution equity, price stability, economic development, and employment goals. Economic efficiency and national goals form the basis of Sun Yat-sen's public-owned industry ideology. The private sector plays an increasingly important role in modernization and economic development. Private -owned industries increase in number to become key to the nation's economic development.<sup>6)</sup>

Although private sector businesses have proven more effective, government-owned industries still have a place in developing and developed countries. In Taiwan, public-owned industries contributed to economic development, particularly during a recession, improving price stability, employment, and income distribution conditions. Gradual transfer of public-owned industries to the private sector increases economic modernization and efficiency. As private-owned industries gain prominence, government-owned industries remain a positive influence. With privatization, the government receives capital and the private sector gains stock, an investment in Taiwan's economic future. The government uses this available capital to start new public-owned industries. The economy always has public-owned industries, but no public-owned industry lasts forever. The Chinese Petroleum Corporation, China Steel Corporation, and Taiwan Power Company are all public-owned industries whose policies and objectives had a strategic function in Taiwan's past economic development.

William J. Baumol theorizes that needed public-owned industries satisfy private sector requirement and participate in the market competition. Developing countries rely on public-owned industries to generate government revenues, rely on public-owned industries to generate government revenues, serve the government's economic mission, and guide private businesses toward social responsibility.<sup>7)</sup> Public-owned industries serve a democratizing function for other industries. Baumol's argument shows that public-owned industries are vital to developed countries, and Taiwan's public-owned industries play a similarly strategic role.

The privatization process, how public-owned industry transfers to the private sector, is very important. The government issues stock for the public-owned industry and the private sector buys the stock, gradually transferring ownership from the government to the people. With privatization of public-owned industry, the government receives needed capital and the people receive stock in the nation's economic development.

The Taiwan government constantly monitors the economy to select industrial sectors suited for public ownership. The process is dynamic. Public-owned industry is transformed into private-owned industry, while the government keeps watch for new public-owned industries. The presence of public-owned industries benefits the economy. Risks arise in transferring ownership to the private sector, but the transfer is vital to economic growth.<sup>8)</sup> Taiwan's economy will always have a need for national-owned industry, but no one national-owned industry exists forever(永遠有國營事業·但沒有永遠的國營事業).

Figures 3 and 4 illustrate the economic theory of the dynamic optimal mix of public- and private-owned industry in the 1949-1998 Taiwan economy.

The difficulty lies in determining the optimal mix of state and private industry. How much state-owned industry does Taiwan need? Too much and the economy becomes inefficient. State industries compete with the private sector for profits, not a good economic scenario. Too little state industry and the private sector amasses large, monopolistic profits, leading to social injustice and income distribution inequity. The optimal mix of state and private industry depends on the internal and external economies. Appropriate size and characteristics of state-owned industries must be established, keeping in mind that, as the economy grows, private-owned industries become key to modernization. In Taiwan, state industries gradually turn into private-owned industries. Private sector assets totaled 84.38 percent of the Taiwan economy in 1996. Privatization and the private sector are key to Taiwan's economic development; success achieved after 50 years continues and assures a healthy economic future.<sup>9)</sup>

## V. Conclusion

In 50 years of economic development history, Taiwan's private industry was key. Privatization of public-owned industries facilitated economic growths, income distribution, price stability, and employment objectives. As time goes on, state industries decline in importance, allowing the private sector a larger role in the Taiwan economy.

※ Types of Industries That Are National-owned own or under Government Supervision.

1) *industries with monopolistic profits*: electric power, coal, cement, communications, transportation, postal or telegram service, and water.

2) *industries key but not monopolistic*: shipbuilding, steel mills, energy, minerals and metals, and automobiles

3) *industries with national security concerns*: the national defense industry

4) *industries related to the public welfare*: hospitals and schools.

5) *industries with fiscal revenue purposes*: Differs from category

one, which comprises industries monopolistic as a result of their large size: the monopolistic tobacco and wine industries.

6) *industries that contribute to the external economy, for instance, research and development functions the private sector cannot perform that the government steps in and performs*: includes industries beneficial to economic development, research and development, financial and insurance corporations.

## Notes

1) Han Shen Chuan, *Economic History of China* (Hong Kong: New Asian Institute of Advanced Chinese Studies, 1976), pp.651-663

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3) Sun Yat-sen, "Industrial Plan," in *Collected Works of Dr. Sun Yat-sen* (Vol.1) (Taipei: Party History Commission, Kuomintang Central Committee, 1983), p.517

4) *Ibid.*

5) *Ibid.*

6) Council for Economic Planning and Development, Taiwan Statistical Data Book 1990 (Taipei: CEPD, 1990), p.89

7) William J. Baumol, *Some Principles for the Operation of Public Enterprises*, *Chung-hua Series of Lecture by Invited Eminent Economists*, no. 2, January 1981. And *Public and Private Enterprise in a Mixed Economy*, proceedings of a conference held by the International Economics Association in Mexico City (New York: St. Martin's Press, 1982), p.10

8) Sun Yat-sen, "Promoting State Socialism," in *Collected Works of Dr. Sun Yat-sen* (Vo. II) (Taipei: Party History Commission, Kuomintang Central Committee, 1983), p.261

9) Council for Economic Planning and Development, Taiwan Statistical Data Book 1990 (Taipei: CEPD, 1997), p.89