

Remarks on Professor Wu Tsong-min's *A 400-Year History of Taiwanese Economy*

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Professor Wu has spent most of his adult life trying to understand Taiwan's long-run economic development. His research is voluminous and far-ranging. He has done work on the early Dutch period in Taiwan and the present period and almost every period in between. Large parts of this book are based on Professor Wu's own original research. Reading parts of the book, I could not help but remember the workshops I had sat in listening to Professor Wu present many of the results contained within these covers. But Professor Wu has also digested much of the work of other researchers and presented their findings in an easily understandable form. Anyone reading Professor Wu's work will come away with a better understanding of Taiwan's economic development and will be stimulated by Professor Wu's presentation.

Some years ago, Professor Wu invited me to cooperate with him in teaching a new course: the Market and Taiwan's Economic Development. The course name was his and I think it reflects well his approach to Taiwan's economic history. First, he is not interested in history simply as history. He wants to understand how economic development occurs—particularly within Taiwan. Second, his focus is on markets. Economic policy plays a role in development and Professor Wu certainly has his opinions concerning this, but he never loses sight of the market activity that drives economic development, and underlies development policy.

Taiwan itself is not only a collection of markets, but it is an important part of the world market. An important aspect of Professor Wu's thought is his understanding of the close economic relationship between Taiwan and the world. Taiwan's development has been greatly affected—sometimes indeed been driven—by outsiders. Professor Wu makes that clear in his approach to each period in Taiwan's economic history, from the Dutch period to the modern era. One example of this is Professor Wu's coverage of foreign direct investment in the postwar electronics industry. For me, this section of the book was most enlightening, and will affect how I myself teach Taiwan economic history. A second example is the section covering the American aid program of the 1950s. This section most challenged my way of thinking. Again and again, Professor Wu shows how outsiders have changed Taiwan, most of the time for the better. Taiwan is a small open economy and Taiwanese, throughout their history, have been especially good at learning from others, and then often times surpassing their teachers.

I think one reason Professor Wu emphasizes the importance of markets is that history shows—and Professor Wu shows in this book—how often the best-intentioned plans of intelligent people can go wrong. The Dutch lost money on their Taiwan venture. Qing policy failed to protect aborigines. The Japanese promotion of the sugar industry hurt the Japanese consumers, and led the Taiwan economy away from its comparative advantage.

Attempts by the KMT government to protect Taiwan's currency in the 1950s crippled Taiwan's exporters. And more recently, the government's attempts to improve university education in Taiwan have often led to the opposite results. Real-world markets are imperfect; but we need market competition to weed out impractical well-meant schemes before they choke off all economic development. The great economist Joseph Schumpeter argued that the root of all economic development was creative destruction. Markets must be allowed to destroy unworkable (or no longer working) plans, no matter how attractive they appear. Only in this way, can space be created for plans that do work. Markets can seem cruel and unreasonable since what is old and familiar is usually more appealing to us than the new and strange. Yet, casting off the familiar and coming to grips with the new is the very basis of economic development. Market-less economies may begin in revolution, but always end in conservatism and stagnation.

In spite of some significant policy failures, Taiwan is clearly a success story. As Professor Wu immediately points out, now life is very good. No informed sane person could wish to have been born a hundred years ago, much less two hundred years ago. If you doubt this, then you should definitely read Professor Wu's book. Market competition has propelled the world forward and Taiwan is among the greatest beneficiaries.

Now life is good, but the road here was hard. Economists sometimes seem to view the world from an airplane, seeing only the outline of things, and overlooking the struggle. When many people think of the cost of economic development, they focus on the hard labor and the consumption foregone in order to build capital. But in a stagnant economy, such costs are also high, and sometimes higher. I think perhaps the greatest cost of economic development is the psychic cost. Old folks sometimes claim the past was better than the present. And for them, in a sense, it was. They understood the world of their youth, and have not quite figured this new world out. It is tempting to try to put a harness on market change and keep the world a comfortable place. We can let future generations pay the price of living in a stagnant society. However, this was not the choice of previous generations of Taiwanese. They made great sacrifices to raise Taiwan to the position in which it is today.

Taiwan now faces a number of dangers. Professor Wu focuses on the problem of low, very slowly growing wages. As he clearly explains, globalization and automation now offer more choices to Taiwanese entrepreneurs and consumers. Taiwanese entrepreneurs are no longer forced to work with Taiwanese labor: they can use foreign labor or machines to do the work. They do this because Taiwanese consumers are usually happy to purchase cheaper goods made with machines or foreign labor. From a global perspective, the benefit to consumers, foreign laborers and investors in machinery are greater than the cost to Taiwanese labor. But growing gaps between the rich and poor in a country is commonly a source of social problems. All developed economies face trouble of this type. Some people have come to see economic growth and development as naturally occurring phenomena, and think the growing gap between rich and poor can be closed through redistribution of Taiwan's naturally-occurring wealth. Professor Wu suggests that a reform of education along market lines might be a better way to address the problem. It has, at least, become obvious that printing more diplomas and redirecting professor's efforts toward international publication has not produced very good results. I am not sure what type of education

system Taiwan really needs, but if the system could be thrown open to more competition, we may eventually find a better direction. A static understanding of inequality leads to an emphasis on redistribution, but a dynamic analysis, such as Professor Wu offers, tries to find ways to solve problems through growth.

What I have always admired most about Taiwan is its dynamism. Although some people may resist, the system here has always seemed to tilt in favor of the ambitious. Now I am not as sure as I was back in 1994 when I came to NTU that Taiwan is the future center of the world. Economic forces are always rearranging the importance of factors and markets and the future is always a surprise. Yet, Taiwanese flexibility, perhaps even opportunism, still makes Taiwan a horse worth betting on.

Not only is economic development difficult, but understanding and explaining economic development is also difficult. Professor Wu has labored in this field longer than I and the mass and quality of his work is evident in this book. Professor Wu has toiled diligently in the field and deserves rest and retirement, but I will be disappointed if I do not see more of Professor Wu's work in the future. As Professor Wu notes in this book, an important aspect of economic development is an ever-increasing life expectancy. I hope Professor Wu's tree of knowledge will be bearing fruit for many more years.