
CHAPTER 7

Economic Capabilities

MATERIAL resources affect the capabilities, performances, and goals of the actors in any political system, and the Chinese militarist groupings were no exception. First of all, the important figures in the factions, the commanders of divisions and brigades, had to be paid handsomely for their allegiance. The allocation of resources could be a delicate business, especially in cases where self-interest constituted the cornerstone of a group's solidarity. Second, militarists needed money to maintain vast standing armies, to pay, feed, and equip them. Third, they needed money to meet the mounting cost of fighting wars and replenishing battle losses. Fourth, they needed money as a diplomatic instrument, to buy the cooperation of their rivals or to induce their rivals' subordinates to defect. It was always cheaper to engineer a coup within the enemy camp than to fight it out on the battlefield. And finally, militarists needed money for personal enrichment. Frugality was a virtue rarely found in the military profession during these years. Professionally insecure, military leaders were also anxious to seize any opportunity to accumulate personal wealth as insurance against the loss of office and power. All these needs called for money, and the militarists had to find the means to tap the financial resources of Chinese society.

By and large, a centralized fiscal system operated during much of the nineteenth century. The provinces collected various taxes under the explicit authorization of the central government. After all authorized provincial and local expenditures were deducted, the rest was remitted to the central government or to designated

neighboring provinces as subsidies from the central government. Thus the system made the central and local governments interdependent. After the middle of the century, however, the prolonged internal upheavals denied the central government revenues from the southern provinces; the rise of the Hsiang-chün brought about a further decline in the central government's authority by shifting the financial power to the provinces. As time went on, provincial officials were able not only to increase existing taxes and add new taxes, but also to mint copper coins, collect *likin* (internal transit taxes), circulate currency, and finally to keep the revenues that should have been remitted to the central government. By the beginning of the Hsüan-tung reign (1908), the court had practically lost control of the nation's finances and had to rely heavily on foreign loans.¹

The financial authority of the central government suffered another serious setback when the Ch'ing government was overthrown in 1911. It was slightly improved after the suppression of the Second Revolution in 1913, when Yuan Shih-k'ai dispatched some of his loyal Peiyang troops into southern provinces.² But when the anti-Yuan revolt broke out in 1915, many provinces simply halted their remittances, and some even seized the proceeds of the special taxes that should have belonged exclusively to the central government.³ Order was partially restored after Yuan's death, when some provinces renewed their remittances, but these were mostly token amounts. Even these remittances ceased altogether after 1918, when civil wars engulfed the country.

Therefore, the central government's financial power reached its nadir at the time when the militarists became most powerful. The traditional fiscal relationship between the center and the provinces was destroyed. In order to understand how the militarist regimes were able to survive and flourish, let us turn to a more detailed examination of the sources of their revenues. Their regular sources of income included the revenues yielded by land taxes, the customs service, and the salt gabelle. Special sources of income included bonds, loans, currency manipulation, opium profits, and various forms of emergency exactions. After we have described these revenue sources, we shall then evaluate the impact on political stability and integration of the financial weakness of the Peking government, the rising costs of war, and the financial policies of the militarists.

Regular Sources of Income

Traditionally, the land tax was the single most important source of government revenue. Therefore the withdrawal of this source could hit the central government financially harder than anything else and could facilitate the growth of local power bases. The heavy reliance of the central government on this single item had made it highly vulnerable to challenges emanating from the provinces.⁴ In the twentieth century, almost all militarists realized that in order to strengthen their own position, they had to deny land tax revenues to the central government and exploit these resources to increase their own power.

Almost without exception, land tax rates were among the first to rise, and new taxes were attached to them from time to time. In North China, figures show substantial increases in land taxes during the first several decades of the century.* In some areas in the north, the tax was increased simply by raising the original tax schedules. In other areas, a surcharge was attached to the original land tax and collected at a different time. Over time these surcharges were steadily increased, and particularly large increases were made during the 1920's.[†]

A further means of extracting revenue from the land was to collect taxes for many years in advance. If the militarist who had already collected the current year's tax was driven away, his successor would find that he could support his troops only by taxing the land for future years. When several militarists succeeded each other in quick order, which was by no means uncommon during this period, the peasants might be forced to pay for many future years out of the current year's earnings and savings.

The actual manner of collection in most cases imposed additional burden on the taxpayers. The lack of up-to-date information on landholding, the possibility of collusion between the local gentry and tax officials to shift the tax burden, and the severe lack

* The Japanese survey conducted by Amano Motonosuke estimated that the average land tax per *mou* in Shantung rose from an index of 100 in 1902 to 268 in 1925 and, even more steeply, to 468 in 1927. Myers, *The Chinese Peasant Economy*, p. 264.

† Liu Shih-jen estimated that 673 different kinds of taxes were levied on land throughout the country during this period. See his *Chung-kuo tien fu wen ti*, pp. 172-73.

of qualified and honest magistrates and other functionaries all made the situation worse.

Whenever possible, the militarists converted the existing local bureaucracy into a tool for collecting taxes. If the bureaucrats failed to meet the revenue goals, the militarists appointed tax farmers to do the job. Since profit was their only motive, tax farmers were often extremely arbitrary and corrupt. The actual amount of taxes collected almost always exceeded the terms of their contract, and they pocketed the excess. But the militarists were satisfied so long as they got their share.

Although we know that land taxes increased substantially during the 1910's and 1920's, when militarism was at its height, we do not have any reliable figures for the overall national increase. After 1916, we can only get a glimpse of the increase by looking at individual provinces. In Kiangsu, for example, the land tax rose from \$5,922,000 in 1921 to \$6,981,814 in 1923. In Szechuan in 1925, the tax was \$6,861,394; in the following year, the provincial militarists drew up a plan calling for a total land tax of \$14,000,000 by collecting one year's tax in advance.⁵ Although such drastic increases were not common, substantial increases occurred in all other provinces.

Since 1854, the Maritime Customs had been under foreign management. Over the years, the customs receipts steadily increased until they reached very substantial proportions during the early twentieth century. However, the Chinese government was not able to use these funds freely; by the beginning of the century, the bulk of these revenues had been reserved as securities for the government's obligations to foreign governments and business. After 1912, when the Peking government surrendered to the foreign powers the right to interfere with the internal disposal of customs duties, only the surplus (called *kuan yü*) was turned over to the central government. Consequently, between 1912 and 1927, only HK. Tls 132,441,000 was turned over to the Peking government for its own disposition; this was about 18 percent of the total revenue net of first charges.⁶

Small as the amount of the *kuan yü* was, it was extremely important to the central government because it was the most reliable source of regular income with which the militarists in the provinces could not effectively interfere. (The only significant except-

TABLE 10
Distribution of Salt Gabelle Revenues, 1918-1928
(*Thousand dollars*)

Year	(1) Central government share	(2) Local share	(3) Total
1918	\$56,600	\$15,000	\$71,600
1919	49,100	26,000	75,100
1920	40,000	24,000	64,000
1921	52,400	18,000	70,400
1922	47,862	30,000	78,862
1923	unknown	unknown	unknown
1924	31,700	33,000	64,700
1925	32,900	33,000	65,900
1926	8,868	47,672	56,540
1927	2,750	52,557	55,307
1928	0	39,642	39,642

SOURCE: *China Year Book*, 1926-27, pp. 507-10; 1928, p. 641; 1929-30, pp. 672, 674.
North-China Herald, February 3, 1923.

tion was Kwangtung, where the Constitution-Protection government under Sun Yat-sen claimed that it was entitled to the *kuan yü* for the territory under its nominal control; after 1924, it received some of this money.) The central government used this money as security for foreign loans, domestic bonds, or borrowing from domestic banks. By July 1922, the entire customs surplus was pledged for the future payment of the interest and principal of such loans.⁷

In sharp contrast to the customs revenues, the revenues from the salt gabelle had never been an assured source of income for the central government. Traditionally, the actual collection was done by the provinces, and some portion was then remitted to the imperial government. The lack of serious foreign interest in salt taxes and the difficulties of combating smuggling and tax evasion made the salt revenues fair game for either Peking or the local governments, depending on their relative power positions in a particular area.

This rivalry for salt revenues started at the very beginning of the period.⁸ As the tempo of the civil wars increased and the need for funds became more pressing, many militarists came to view the salt taxes collected in their areas as a natural means of increasing their own income.* After 1924, acts of interference and expropriation by militarists affected a large area, including the provinces of Kwangtung, Kwangsi, Szechwan, Yunnan, Hunan, Chekiang, Anhwei, Kiangsu, Hupeh, Shantung, Shansi, Fukien, and the three Manchurian provinces.⁹ As Table 10 shows, the revenues from the salt gabelle increased up to 1922, after which they began to fall steadily, and then more precipitously after 1925. But even more precipitous was the decline in the central government's share. The year 1924 marked the first time that local retention outweighed Peking's share; by 1928 Peking's share had dwindled to nothing.

While the table shows a decline in the total net receipts after 1923, the amount of revenue various militarist regimes extracted

from the production and sale of salt had not declined. Most probably, the producers and distributors of salt had to pay higher taxes than ever. There were cases where the militarists simply collected their own taxes.¹⁰ After 1925, it became increasingly common for militarists in control of some territories not only to collect their own revenues but even to manage the production and sale of salt, thereby making it impossible for the Salt Gabelle even to calculate its revenue losses.¹¹ There is no doubt that during these later years salt revenues became an important source of income for local and regional militarists everywhere in China, while their importance to the Peking government diminished to the vanishing point.

The *likin*, or tax collected on domestic goods in transit, was another important source of revenue. Even during the Ch'ing period, the collection of the *likin* was lodged in the hands of provincial officials.¹² During the 1910's and 1920's, the local militarists obtained full control over the *likin*. The fragmentation of territorial control among the militarists brought about the collapse of the rather well-established *likin* system which had existed under the empire. In many cases, where the provincial military or civil governor's position was weak, the revenues would be collected by whoever was in firm control of the territory, be it a district or a county. The result was a drastic increase in rates and a prolifera-

* Their interference with the salt revenues might take one of several forms: they could refuse to permit the establishment of the salt inspectorate; they could insist that the revenues be paid to them rather than to the Peking government; they could force salt merchants to make loans to them; they could loot banks and intimidate inspectorate personnel; and they could impose additional taxes on salt illegally and independently. See Adshead, p. 197.

tion of new likin taxes. For example, although the number of recognized likin stations (735) in 1921 was about the same as in the late Ch'ing period, the number of substations and barriers where taxes were actually collected had increased significantly.¹³ The stations and barriers were usually set up at railway stops, by waterways, or upon main highways, where most commerce and travel had to pass. On the government-owned railways, for example, in the 1920's there was a likin barrier every 60 or 70 miles.

Local variations and widespread corruption make it difficult to calculate the amount of revenue yielded by the likin, but there are some rough indications of the growing importance of the tax. In the 1890's, the total likin receipts amounted to about 13 million treasury taels, an amount about equal to the salt revenues.¹⁴ Moser's estimates of the likin revenues in the 1916-28 period range from a very conservative figure of 64 million taels (or Mex. \$96 million) to a more realistic figure of 160 million HK. Tls (or Mex. \$240 million).¹⁵ Despite the lack of precise information, there is no doubt that the likin revenues constituted a major source of regular income for many militarists. In some provinces, only the land tax was more productive.

Special Sources of Income

China's financial relations with the outside world changed in several ways after the beginning of the twentieth century. Previously, Western countries had been the chief providers of loans. But with the advent of World War I, these Western countries, including the United States, had no surplus funds to spare for China. Under these altered international conditions, Japan emerged as the most important lender.

There is little doubt that immediately following the collapse of the central government's authority in 1916, it was Japan that provided the principal source of foreign funds to Tuan Ch'i-ju and his Anfu political allies. Although the exact amount is unknown because many of the loans were made secretly, informed sources suggested that before Tuan's downfall in 1920, the Japanese government had extended to the Peking government alone loans that probably reached at least \$350 million.¹⁶ The data presented by the Financial Reorganization Conference of the Peking government shows that, by the end of 1925, China's indebtedness to

Japan in the unsecured loan category was six times larger than its indebtedness to Great Britain.¹⁷

The most comprehensive research into China's borrowing in this period was done by Hsü I-sheng. According to his data, some 319 foreign loans were made to the Peking regimes and their northern militarist allies during 1916-27, totaling Ch. \$742 million.¹⁸ It is very likely that this figure underestimates the actual size of the debt. In order to assess the cumulative effect of China's foreign indebtedness, we need also to look at the amount of debt outstanding in a given year. In 1921, the budget released by the Finance Ministry stated that the foreign loans as of September 1921 amounted to Ch. \$1,269 million. Then, in 1924-25, the Ministries of Finance and Communication of the Peking government were reported to owe foreign debts totaling Ch. \$2,200 million. Finally, according to the *China Year Book*, on January 1, 1929, China's foreign debt still outstanding was Ch. \$1,043,500,000.¹⁹

Of course, these figures should at best be regarded as rough estimates rather than precise accounts. It is also true that the total figure for any given year would include debts incurred long before 1916, such as the war indemnities. But over time, the size of these debts should be decreasing progressively. If the indebtedness actually increased, we can assume that there were new obligations. However, even if there is a certain margin of error in Hsü's figures (given in Table 11), they do show two things. First, the size of the debt was fairly large for a poor country like China. Second, foreign loan obligations remained high from 1920 to 1925, and then declined rather sharply from 1925 onward. Now, as most foreign loans were secured ones, the payments of principal and interest were made quite faithfully. Therefore, the actual increases in foreign indebtedness between 1916 and 1925 were considerably greater than the figures in Table 11, since old loans were being paid off and liquidated in the meantime. On the other hand, the decline after 1925 was certainly partly due to the continued amortization of previous debts. More important, it might have been due to the unavailability of new foreign loans. The Peking government's position had become so untenable that foreign powers simply refused to bet on its continued survival. The cutoff of foreign loans undoubtedly hastened the demise of that government.

It must not be assumed that foreign powers lent money only to

TABLE 11
Foreign Loans to China, 1916-1927
(*Thousand dollars*)

Year	No. of loans	Amount borrowed	Amount actually received
1916	15	Ch.\$39,378	Ch.\$36,195
1917	19	73,485	64,938
1918	50	149,585	127,900
1919	41	47,990	44,520
1920	58	71,224	57,820
1921	49	84,340	67,040
1922	22	52,892	51,050
1923	10	39,697	26,722
1924	20	28,157	15,357
1925	24	136,022	102,389
1926	5	4,651	3,551
1927	6	15,294	11,669
TOTAL	319	Ch.\$742,115	Ch.\$609,151

SOURCE: Hsü I-sheng, *Chung-kuo chin tai wai chih shih tzung chi tsu liao*, 1855-1927, pp. 148-97, 240-41.

the Peking government. From time to time, they did lend money to individual militarists and local regimes as well. Local militarists could contract foreign loans so long as they were prepared to accept exorbitant terms. For instance, between 1916 and 1927, the Manchurian militarists contracted foreign loans totaling Ch. \$23 million, mostly from the Japanese government or banks. Other provinces were also able to find willing lenders. Hsü's data show that some eighty foreign loans had been contracted by local governments and militarists, in the amount of Ch. \$90 million, or roughly one-sixth of the national total for 1916-27.²⁰

Domestic borrowing during the Republican period usually took one of three principal forms. The first was government bonds (*kung chai*). Bonds usually carried long-term obligations, sometimes from five to ten years, and occasionally as long as thirty years.²¹ The second was treasury notes (*kuo k'u cheng chuan*). These notes were usually issued to meet certain specific financial needs in an emergency situation and were redeemable within a shorter period of time.²² The amount of the notes might vary from a million dollars to more than ten million dollars, depending on the nature of the project. The bonds and treasury notes could be either secured or unsecured. The third form was short-term loans

TABLE 12
Revenue Received from Government Bonds,
1912-1926

Year	Revenue	Year	Revenue
1912	Ch.\$6,248,460	1920	121,960,450
1913	6,842,200	1921	115,362,248
1914	24,970,520	1922	83,234,910
1915	25,834,155	1923	5,000,000
1916	8,770,515	1924	5,200,000
1917	10,516,790	1925	15,000,000
1918	130,383,760	1926	15,400,000
1919	28,358,700	TOTAL	Ch.\$612,062,708

SOURCE: Ch'ien Chia-chü, "Chin chung kuo fa hsin kung chia shih ti yen chit," *Li shih yen chiu*, no. 2 (April 1955), pp. 112-13.
from domestic banks. This borrowing usually fell into one of three categories: loans secured by the salt surplus, short-term loans, or advances.²³

During these years, the most important source of the government's domestic borrowing was the urban commercial sector, composed of wealthy individuals, chambers of commerce, and particularly the modern-style banks. Many banks regularly subscribed to governmental bonds and notes as their major or only business operation. Bonds and notes of this kind were profitable, because they were usually obtained at a fraction of their face value and carried interest rates much higher than the market rates, and because their market value fluctuated violently according to the political fortunes of the militarist group ruling Peking. By the same token, of course, they might become totally worthless, if the government defaulted in redemption.

With respect to government bonds, it is estimated that between 1912 and 1926 some 27 domestic bond issues were floated by the Ministry of Finance, with a combined face value of Ch. \$876,792,²⁴ The actual amount received was only Ch. \$612,062,708, probably because some bonds went unsold.²⁴ As the figures in Table 12 show, nearly 90 percent of the bonds (Ch. \$548,167,373 worth) were floated between 1916 and 1926. The figures include only the formally declared bond issues of the various regimes in Peking. There may have been some unannounced issues, but there is no way to ascertain their amount.

It is even more difficult to ascertain the amount of money ob-

tained through treasury notes or short-term loans from the commercial banks. According to the report of the Committee on Financial Reorganization, under the auspices of the Peking government, 73 different kinds of treasury notes were issued between 1912 and 1925, most of them after 1916. These, together with other short-term borrowing, had amounted to an outstanding debt of Ch. \$172,464,454 at the end of 1925.²⁵

Of course, the Peking government was not alone in tapping the domestic sources of loans; local militarists and provincial authorities often floated their own bonds and notes. The position of the central government vis-à-vis the local militarists with respect to domestic borrowing was weakened by several factors. First, internal political realities contradicted the legal fiction that the Peking government was the only legitimate government in China. The militarists were recognized as the de facto supreme political authority in their areas. Second, the profit incentive worked as strongly on the local level as on the national level. When the opportunity for making a quick profit through speculation presented itself, some local bankers and wealthy individuals were bound to take it. Furthermore, the threat of coercion was more likely to be used on the local level than on the national level. The national government floated its bonds primarily by peaceful means; the presence of the international concessions provided a shield for the banks against high-handed treatment by the government. In the provinces, little legal protection existed; the local chambers of commerce, the old-style community banks, and the landed gentry and professional people could not escape the various forms of extortion backed by threats of physical force.

At one time or another, almost all the provincial regimes floated their own bonds during this period.²⁶ The most serious competitor of the central government in domestic borrowing was the military government at Canton, which had its own Ministry of Finance and claimed to be the only legitimate government in China. As early as October 1917, this government announced that it would issue military bonds in the amount of Ch. \$50 million.²⁷ Smaller amounts were issued in subsequent years. After the advent of the Northern Expedition, the Nationalist government also turned to domestic borrowing to meet its mounting expenses. Between 1926 and 1927, the KMT governments at Canton and Wuhan probably issued Ch.

\$36 million worth of bonds. After the KMT government was formally installed in Nanking, it floated two more bond issues, totaling Ch. \$70 million before the end of 1927, and another Ch. \$110 million worth were issued in 1928.²⁸ If these figures are correct, then the KMT had issued about Ch. \$216 million worth of government bonds in less than three years.

The manipulation of currency was another source of revenue for the militarists. This device had several advantages. In the first place, the people usually had no access to information on the quantity of paper currency in circulation, and the impact of the currency on their cost of daily living was not as immediately obvious as the impact of taxes. By the time they realized the unsoundness of the currency, considerable damage had already been done. These factors tended to mitigate the people's dissatisfaction and resistance. Second, even when resistance to the currency occurred, it often took the form of isolated individual acts. Since currency was usually first paid out to armies to buy provisions, in most cases it was the soldiers who introduced the currency into the market. The small shopkeepers and peddlers could refuse to accept it only at their own risk. Moreover, unlike taxes or bonds, currency was a medium of everyday exchange, and the demand for some form of currency was both constant and enormous. When a currency was backed by rifles and bayonets, the average person had little recourse but to accept it as payment for goods and services.

Thus, it is no surprise that during the 1920's virtually every province issued its own currency. The mint was considered as important a military objective as the arsenal. Provincial military governors and lesser militarists vied for the control of facilities to issue paper currency. During the period 1916-28, at least nineteen provincial banks were in existence at different times, and seventeen of them issued their own currency, usually of several different kinds.²⁹ However, the provincial banks were not the only agencies that issued currency. On numerous occasions, a so-called *chün-yang p'iao* (or military notes) was issued by militarists without using the banks at all.³⁰

The militarists who issued their own currency almost never had enough credit to back it up. For instance, Hunan printed \$22 million worth of paper currency backed by a reserve of less than \$1 million.³¹ In 1927, Chang Tsung-ch'ang's Shantung provincial

TABLE 13
Volume and Value of Feng-p'iao, 1916-1927

Year	Volume in circulation (<i>Thousand dollars</i>)	Value (no. of feng-p'iao equal to one silver dollar)
1916 (Dec.)	\$15,800	1.27
1917 (Dec.)	16,935	1.61
1918		1.58
1919		1.67
1920		1.51
1921	36,000	1.66
1922 (Dec.)		1.48
1923		1.59
1924 (Feb.)	51,000	223,284
(Nov.)		511,723
1925 (Jan.)		2.21
1926	570,000	4.81
1927		10.61

SOURCE: Chin kuo-pao, *op. cit.*, pp. 145-48. Ch'ao Lin, "Feng p'iao tich chia yu Feng hsi chun fa chih chien tu," *Hsiang tuo*, no. 170, September 10, 1926. *China Year Book*, 1928, p. 638.

the suppression of the internal rebellion of Kuo Sung-lin, the necessity to maintain a sprawling military establishment and territorial control, and the increasing cost of fighting external enemies (like the Kuominchün) caused the volume of the feng-p'iao to skyrocket and its value to plummet. The value continued to deteriorate until in May 1927 one feng-p'iao was quoted as worth only 9 cents to the silver dollar. The rapid depreciation of the Manchurian currency not only made the military presence of the Fengtien faction in North China shaky, but also caused considerable hardship in its home provinces.³⁵

Opium was another important source of revenue for the militarists. During the last year of Yuan's reign the official opium ban broke down completely, and opium profits became an important source of income to finance political activities. After Yuan's death, even the central government could not resist the lucrative profits of the opium trade.³⁶ After 1920, opium became an increasingly important source of income for many militarists, and, indeed, for some the most important source of income. Rough estimates of the opium revenues received by militarists in eleven provinces in the two years for which we have information are given in Table 14. Usually, the militarists' exploitation of the opium trade took

bank printed and circulated about \$55 million in paper currency with a silver reserve of only \$1.5 million.³² Militarists who lacked a stable territorial base usually had greater difficulty issuing paper currency, because it was obvious that they had no capital reserves and because their lack of established channels of economic control made it easier for the people to avoid their currency. On the other hand, these were the militarists who tended to have the greatest need to resort to printing paper currency, since they lacked other regular sources of income. In this respect, Feng Yü-hsiang provides one of the most illuminating examples. In 1927, when his troops were hard-pressed for money, Feng bought \$400 silver worth of printing paper and used stone blocks to hand-print one million dollars' worth of military notes. These notes were then paid to the troops to buy goods and services from the people.³³

Such irresponsible methods eventually led to the collapse of the currency's credibility and thus to its rapid devaluation. In Feng's case, his military notes could circulate only in the area under his tight control, and even there its value gradually dropped to nothing.³⁴ Almost none of the banks were capable of fully redeeming their own currency at par. Even the soundest currency was redeemed at a considerable discount, and at times the discount was so great as to make the currency practically worthless.

The circulation of currency followed closely the shifts in the political arena. Most frequently, militarists inundated the market with new paper currency when they suddenly needed a large amount of money to prepare for or to conduct civil wars. This close relation between the volume of paper currency and the need for arms, and the harm such a relation could do to the economy, was most graphically demonstrated by the steady deterioration of the Manchurian currency, *feng-p'iao*. By all economic yardsticks, Manchuria was unquestionably the most prosperous region in the whole country. As Table 13 shows, prior to 1922, when Chang Tso-lin had contented himself with a regional role, the volume of *feng-p'iao* in circulation was not great, and its value fluctuated within a limited range. After 1922, however, a conspicuous increase in volume took place. The increase became phenomenal between January and November 1924, during which time Chang not only had engaged in a very costly war against the Chihi Li faction, but had extended his territorial domain into the Yangtze area. After 1924,

TABLE 14
*Opium Revenues Paid to Militarists in Eleven Provinces,
 1924 and 1927
 (Thousands dollars)*

Province	1924	1927
Szechwan	Ch.\$10-24,000	Ch.\$10-30,000
Shensi	20,000	12,000
Fukien		50,000
Kwangtung		
Yunnan	15-20,000	10,000
Hupeh		
Kwangsi	20,000	
Kansu	3,000	3,000
Anhwei		
Honan		
Kiangsi		3,000

SOURCE: *Chung kuo ching chi lun wen chi*, 2; 34-37. *China Year Book*, 1924, pp. 572-85; 1928, pp. 528-35. Chou Hsien-wen, "Chung Kuo chih yen ho chi chi'i chiu chi i'se," *Tung fang ts'e chih*, 28, 20 (October 25, 1926); 33-34. Lai Hsin-hsia, "Pei yang chiu fa tui nei shou kua ti chi chung fang shih," *Shih hsieh yueh kan*, no. 3 (March 1927), pp. 8-11. Wu Ling, "Fan Feng, chan cheng chi' chien Shen-hsi ko tang mien chih ching k'uang," *Hsiao tao*, no. 145 (February 10, 1926).

NOTE: The figures in this table are crude estimates based on the scanty evidence available.

one of several forms. The most basic form was taxation on production. Many militarists forced the peasants to grow poppies and then confiscated the crop under the pretext of the official ban and sold it for personal profit. Or they might impose fines that were in reality regular taxes in disguise.

According to the reports published by the International Anti-Opium Association (Peking), the provinces of Fukien, Anhwei, Kweichow, Yunnan, Honan, Shensi, Kansu, Suiyuan, and Shantung were identified as places where opium was "cultivated extensively."³⁷ The total national production, according to one source, was 15,000 tons in 1921.³⁸ By the mid-1920's, possibly more than 5 million mu of land were used to cultivate poppies.³⁹

When the opium was shipped to domestic and international markets, the provinces that controlled the main trading routes could also levy exorbitant transit taxes. As most of the opium from Szechwan, Shensi, and Kweichow had to be shipped on the Yangtze River, the province of Hupch became a pivotal point for its distribution to other provinces down the river. In fact, the opium traffic became a monopoly under the military authorities in Hu-

peh.⁴⁰ A similar situation existed in Kwangsi, through which most opium from Yunnan (and to a lesser extent from Kweichow and Szechwan as well) had to pass to reach Kwangtung, Hong Kong, and eventually Southeast Asia. Consequently, opium taxes constituted the single most important source of revenue for the Kwangsi militarists; the amount usually exceeded \$10 million a year.⁴¹

Finally, the provinces could tax the consumers. During the 1920's, opium was smoked extensively. Public opium dens were taxed; opium lamps were taxed; and opium smokers sometimes were required to pay a monthly tax. Consequently, militarists in almost every province, with the exception of Shansi, could count on the opium consumption taxes as regular income. Opium smoking was in fact so pervasive that even the Nationalists could not resist taking advantage of it. In 1927, the Nationalist opium monopoly in Kwangtung was reported to be raising about a million dollars a month through opium taxes.⁴²

There were several other sources of revenue that militarists could tap when their territorial bases were conveniently located. Chief among these was the railways. For instance, during the first six months of 1924, Wu Pei-fu confiscated Ch. \$6 million from the Peking-Hankow railway (out of its gross income of Ch. \$14 million).⁴³ According to an official report issued by the Ministry of Communications in September 1926, some \$180 million had been plundered by the militarists from China's railways up to the end of 1924.⁴⁴

The exploitation of the railways by the militarists went beyond the confiscation of funds. Soldiers seldom had to pay for rides, and militarists regularly commandeered the rolling stock to move troops and supplies free of charge. The military use of railway service (which represented a net loss of revenue for the railways) was always substantial, and became particularly heavy when political tensions rose.*

Another important form of raising revenue was gambling taxes, in areas where gambling was a popular pastime. The usual practice was to set up a monopoly over gambling dens. A typical example is found in Kwangsi, where in 1915 the civil governor and

* In 1925, for example, the percentage of total freight and passenger volume used by the military was 34 percent on the Peking-Hankow line and 25.8 percent on the Peking-Fengtien line. Yen Chung-p'ing et al., p. 210.

his finance commissioner granted gambling licenses to syndicates in return for a fee of nearly \$2.5 million.⁴⁵ Gambling taxes continued to be important to Kwangsi militarists throughout the entire period regardless of their political orientation.* In Kwangtung, although gambling was nominally banned for some time, when Sun Yat-sen was elected president of the Canton government in April 1923, he immediately lifted the ban and devoted the revenues from this source to military expenses.⁴⁶

The last major source of irregular income was the so-called *ping ch'ai* or *tan k'uan*. While *ping-ch'ai* could assume many different forms under different names, they were all associated with a supposed emergency situation. When the militarists found their normal tax revenues insufficient to meet the emergency, they would turn to the population for additional funds or services. Most frequently, money was demanded, but sometimes carts, draft animals, food and fuel, and even human labor were commandeered. Many villages and hsien were required to make large payments for being "protected" from enemy troops, or for being "saved" from the troops driven out by the new conquerors.

When provincial or local administrators were presented with such demands, they apportioned the burden among the hsien and villages. If an area was hit by a number of such emergencies, the financial burden could be extraordinarily heavy. This was especially true in areas (such as North China) where the militarists' regimes were unstable and were under the constant threat of being overthrown by neighboring militarists.[†]

When a large sum of money had to be raised quickly, the militarist usually turned to the local chamber of commerce as an easy prey, because the business community was especially vulnerable to extortion. During the 1920's, it was common practice for militarists to assess cities sums of money. If the full amount was not raised in time, then the militarists would allow the soldiers to loot.

* Although Li Tsung-jen was considered a "progressive" militarist, gambling proceeds made up about one-third of his income in 1922. See Huang Hsü-ch'u, "I Kuang-hsi tzu chih chüan yü ch'in hsüng ko chii chih chu," *Ch'un chiu*, no. 244, (Sept. 1, 1927), p. 19; Huang Shao-hung, I: 77-78.

[†] For instance, in 1925, when Shantung was engaged in war with Feng Yu-hsiang, Chang Tsung-ch'ang added four new kinds of taxes in connection with the land taxes. These amounted to about four times the original land tax. S-sheng, "Chang Tsung-ch'ang t'ung chih hsia ti Shan-tung," *Hsiang tao*, no. 131 (Sept. 25, 1925).

Defeated troops refused to depart until they had obtained their traveling expenses. New conquerors professed their inability to restrain their soldiers unless a "welcome fee" was presented. And the helpless small businessmen and residents had no alternative but to comply.

Evaluating the Financial Policies of the Militarists

It is clear that the financial resources at the disposal of the local militarist regimes far exceeded those of the central government at Peking. The crux of the matter was territorial control. With the exception of the surplus from the customs service, and to a lesser extent the salt gabelle, the central government held no visible advantage over the local regimes.

The central government's financial position was never very strong after the 1911 revolution, partly because of increased expenditures and partly because of suspended contributions from some provinces, but the critical point was probably not reached until Yuan's death. According to Finance Minister Ts'a Ju-lin, the annual receipts of the central government in 1917 amounted to merely Ch. \$144 million. Consequently, the government was forced to resort to large-scale borrowing to meet the deficit of some Ch. \$250 million.⁴⁷

After 1920, the Chihli faction became the new master of a government in financial crisis. Although Chihli's military power overshadowed all other rivals for nearly four years, the financial position of the Peking government was never improved. Chihli militarists continued to run their territories as financially independent satrapies. Not only did they not surrender fiscal control to Peking; they even asked Peking for subsidies.*

Thus, even when the Peking government was controlled by a fairly strong military faction, its financial position remained shaky. The militarists had accepted financial decentralization as a way of life and were reluctant to reverse it at the risk of antagonizing their friends and followers. They wanted to use the Peking government as an additional source of income, but they could hardly conceive

* For instance, although Wu Pei-fu already controlled the revenue from Honan and the Peking-Hankow railway, he still asked the Peking government in December 1923 for \$3,540,000 to meet fifteen months' pay in arrears to his troops. As usual, the Finance Minister had no way of meeting this demand, and Wu had to settle for the meager sum of \$200,000. *CWR*, Dec. 15, 1923.

giving up their own authority in order to strengthen Peking's position. So long as this mentality prevailed, the Peking government was doomed. Thus, during Chihli's reign, no serious attempt was ever made to reassert the central government's authority to collect and dispose of the taxes in the Chihli-controlled territories. Rather, whenever a financial crisis surfaced, a new finance minister was installed to search for some yet unexplored sources of funds.⁴⁸ Once these funds were exhausted, as they always quickly were, another financial crisis, another finance minister, and another set of stop-gap solutions followed. After Chihli's downfall in 1924, the subsequent regimes in Peking were even less able to make the necessary changes. Given such political realities, the financial position of the central government was destined to remain precarious to the end.

Although the militarists were in a stronger position than the central government, they faced the problem of rising demands for revenue. After 1916, there was a sharp increase in expenditures in all the provinces; the sharpest increase was in military expenses. More soldiers were being mobilized and more arms and ammunition were being deployed and consumed.

It is unfortunate that most militarists did not leave records of their war costs. Our available data, though incomplete, seem to show a clear trend of escalation. According to Ts'aо Ju-lin's testimony, Tuan Ch'i-ju's Anfu government borrowed 105 million yen (or Ch. \$84 million) from Japan to finance the Hunan campaign during a ten-month period. Thus, the Peking government was spending an average of about \$8 million a month for the war in 1918.⁴⁹

The first Chihli-Fengtien war lasted one week. After his defeat, Chang Tso-lin conceded that the war had cost him about \$24 million.⁵⁰ In other words, one day's fighting in 1922 cost about as much as one month's fighting in 1918. In the 1924 rematch between the same factions, the cost of war increased further. That war cost Fengtien some \$50-60 million.⁵¹ When the Rehabilitation Conference convened in 1924, it reported that the total military expenditures of the major conflicts of 1924 had been staggering \$350 million.⁵²

The year 1924 marked a watershed in war costs, as it did in many other respects. Before 1924, a war was more easily defined. At least in the major wars, there was a small number of participants

and hostilities were usually concluded within a relatively short period of time. Furthermore, a long period of peace followed before the next war began. But after 1924, it would be accurate to say that wars were taking place continuously, with only occasional brief intermissions. Therefore, the calculation of war costs becomes more difficult.

One thing, however, is clear: the cost of war continued to soar with each passing year between 1925 and 1928. The established factions like Fengtien, Chihli, and Feng Yü-hsiang's Kuomintang continued to spend millions of dollars every month in fighting each other. After mid-1926, even the previously dormant KMT began to demonstrate its prowess, which forced a further increase in the pace as well as the cost of war. The KMT's Finance Minister, T. V. Soong, reported in 1928 that he had been required to provide \$1,600,000 to the military every five days during the entire duration of the Northern Expedition.⁵³ Soong's figures would indicate that the KMT's military expenditures amounted to about \$115 million per year. This is indeed astounding, especially in view of the fact that only a few National Revolutionary Armies were directly financed by the party.

Thus there had been an unmistakable trend. During the late Manchu years, the annual military expenditures for the whole empire were usually under \$100 million.⁵⁴ In 1916, when the anti-Yuan rebellion broke out, the total military expenditures were about \$142 million. By 1928 military costs had soared to \$800 million.⁵⁵

Since the traditional fiscal system was incapable of absorbing the mounting costs, militarists everywhere were forced to resort to deficit spending.⁵⁶ The situation in the wealthier provinces was no better, even though their revenues were larger. On the contrary, the militarists in these provinces usually took advantage of the provincial wealth to build larger armies. Szechwan, for example, was a wealthy province, and its military expenditures were also among the largest of all provinces.*

The militarists thus overextended themselves financially. Their military expenditures kept rising, but the fiscal system they in-

* According to the Committee on Local Financial Reorganization of the Ministry of Finance of the Peking government, the budgeted gross tax receipts of Szechuan in 1924 were \$15,340,000, but the military expenditures were \$26,510,000. Chang Hsiao-mei, *Ch'17-18,*

herited was too loosely structured to respond to measures of rapid expansion. Consequently, most militarists found it necessary to go beyond the traditional tax structure in search of additional funds. We have described how these additional funds were acquired. Our task now is to analyze the rationality of the militarists' entire financial process.

As a rule, militarists gave the highest priority to the preservation of their power and position in the national political system. This goal required control of a definite piece of territory. A territorial base meant not only a better defense position but also a guaranteed source of financial support. Yet it was precisely this goal of controlling territory that engaged the typical militarist in a vicious circle. To protect the newly acquired territory, the militarist needed to increase the size of his army. But he also had to reward the subordinates who had contributed to his acquisition of the territory. He usually rewarded the subordinates with a portion of the territory, or money, or permission to expand their own units. To meet these needs, the militarist needed new resources.

Thus, the militarists were usually driven to pursue expansionist policies. The stronger their forces became, the more assured they were of their place in the political system. But the stronger they became, the greater the rewards they had to give out to satisfy their subordinates' rising expectations. Therefore, defense requirements always begot new demands for more resources and more territory, which in turn begot more defense requirements.

The rational course for the militarists would have been to strive for economic self-sufficiency. To achieve such a goal, the least they needed to do was to erect an economic wall to shield them from any adverse influence from their competitors. But more fundamentally, to develop their political and military power on a sound basis, they needed to enhance the economic well-being of their own territory, to explore new resources, to institute more efficient ways of mobilizing and utilizing existing resources so as to strengthen the general economy in the long run. In fact, however, the militarists' economic policies hindered the realization of these goals.

Upon examining the economic policies of the militarists' regimes, we are struck by the fact that land taxes constituted the major source of regular revenue for most of them. The major tax

burden was inescapably placed on the shoulders of the peasants. High taxes, high rent, high interest rates, together with mounting population pressures on land and the flight of the rural leadership—the scholars and gentry—into urban centers, conspired to disrupt beyond repair the social fabric and economic equilibrium of traditional agrarian China. Under these adverse conditions, the deterioration of the rural economy was bound to be severe. As Myers points out, if high taxes were continued and further increased, "the peasants might be discouraged from investing and replacing their farm capital," which would bring about a decline in productivity and output.⁵⁷ This seems to have been the case in the areas hardest hit by militarism.

In addition to basic land taxes, the other revenue-raising devices used by the militarists also had an adverse impact on the economy. The likin created numerous barriers to commerce. It also created disincentives for peasants, because agricultural products, usually bulky and heavy, were the best targets for extortion. Delays at the checkpoints could be disastrous for perishable goods. The adverse effects of the exploitative tax system were compounded by the inadequate and expensive transportation system. And the limited railway facilities were frequently disrupted or damaged by civil wars. When a military crisis approached, much of the rolling stock was mobilized for military use, while the agricultural products were left on the landings to rot. As Myers describes it, "The rural staples such as cotton, wheat, and peanuts which normally flowed from villages into the main markets . . . declined. This forced manufacturing enterprises to operate at only one third or half capacity. Employment declined, and many villages which depended upon this wage income suffered."⁵⁸

The unscrupulous currency policies of the militarists further reduced the credibility of the money economy and pauperized the common people, among whom the bulk of the currency circulated. The effects on commerce and industry were equally devastating. Since each territory had its own currency with unpredictable stability, the exchange of goods between territories was naturally impeded. In Manchuria, for instance, all transactions were conducted in feng-piao. But when Manchuria traded with Shanghai, they had to use bullion or a reputable foreign currency.⁵⁹ But more fundamentally, political unrest and civil wars made

any long-range investment extremely precarious. The lack of guarantee of property rights discouraged even the most enterprising investors. Industries owned by Chinese on Chinese soil not infrequently became the hapless victims of militarists' extortion.* And even when the industrialists were able to cope with the militarists' exactions and survive the many "bureaucratic corruptions," they were still vulnerable to the chaotic monetary system, which made long-range industrial investment on Chinese soil inadvisable. Such policies inevitably caused the flight of Chinese capital and investment into the International Settlement in the treaty ports, beyond the militarists' jurisdiction.†

Considering China as a whole, our discussion should have made clear that the financial policies of most militarists were by no means conducive to strengthening their territorial regimes in the long run. As a matter of fact, eventually they could only lead to bankruptcy.

How can we explain the apparent contradictions between the ends and the means of the militarists' economic policies? Were they oblivious to these contradictions? In order to answer these questions, we need to probe a little deeper into the political characteristics of the militarists' regimes.

The essential reason for the militarists' economic policies lay in their exclusive preoccupation with their physical force in being. The militarists were compelled to adopt a war-oriented policy that required maximum effort to keep their force at the highest state of combat readiness and efficiency. Emotional attachment to

* The Chung-hsin Coal Mine could be considered a typical case. Chung-hsin was the third largest Chinese-owned and Chinese-managed coal mine in the country and before 1925 showed an annual profit of Ch. \$2 million. In 1926, when Chang Tsung-chang ruled over Shantung, where the mine was located, he demanded a large contribution from the mine, and the net profit plummeted to Ch. \$5000. After Chang was driven out by the KMT, the latter also demanded about Ch. \$1 million from the management. Consequently, in 1927-28, the industry suffered a net loss of over Ch. \$1.5 million annually, which nearly brought it to the brink of bankruptcy. Chu Chi-hua, pp. 340-41; Yen Chung-p'ing et al., p. 155.

† In Shanghai, for example, there were 3,421 factories located in the International Settlement employing 170,704 workers, as contrasted with 2,676 factories in the Chinese municipality employing 245,664 workers. This certainly represented an inordinately large concentration of capital investment in the foreign section of the city. Murphrey, pp. 168-69.

the territorial base was unrealistic, since their jurisdiction could be terminated at any time. Furthermore, since there were limits on the resources that could be extracted from a given territory, civilian economic development programs had to compete for funds with military uses. A more rational and balanced development of the general economy might produce both more guns and more butter in the long run. But time was a luxury these militarists could not afford. The militarists had to be perpetually wary about the slightest portent of alteration in their relative power relationship and to exert full effort to make up any discrepancy. If they engaged in long-term economic construction, there was a genuine possibility that they might be outdistanced by their opponents in the immediate military build-up, and thus be prevented from reaping the fruits of their labor. The ever-shifting constellation of power made it hazardous to become too tied to long-term objectives.

Thus, instead of devoting energies and resources to the creation of real capital gains and accumulation through providing conditions favorable to industrialization, commerce, educational improvement, and agricultural development, which in the long run would yield more liquid capital to finance their armies, the militarists in general resorted to exploitative policies that would yield the largest sums in the short run but which would exhaust the general economy before long. After a war was over, the matériel that had been so painstakingly acquired was either demolished or greatly diminished, even in the case of the victors. War-making was a luxury item of direct and compulsory consumption for a reluctant people, who were so squeezed of their last resources that they had no more to spare for economically constructive purposes. And eventually, even their ability to support the civil wars diminished.

There was yet another politically significant consequence of these economic facts. We described how political disintegration had caused economic disintegration in the first place. As time went by, however, economic disintegration in turn retarded political reintegration. Attempts by leading militarists to consolidate the internal organization of their factions often met insurmountable economic obstacles. The faction was composed of smaller military units which controlled their own territories. Under normal circumstances, these smaller units had virtual control over the local

taxing agencies, the communication routes, or the banks. When their territory grew large enough to have a fairly comprehensive economic system, they were quite capable of going their own way. Probably the only plausible threat was the use of physical coercion. But this went against the law of expansion. For in order to expand, a militarist had to delegate authority and divide labor. But once victory was achieved and old enemies were eliminated, new enemies would be created within one's own ranks as one's subordinates were rewarded, often with territories. In this case, the old pattern of rivalry was simply replaced by a new one, while the economic power inherent in the respective territories was hardly diminished. This is not to argue, however, that economic integration was impossible. There were several occasions in which strong centralized economic control was exercised by the factions over their components. These cases tended to occur at the height of military success and tended to be short-lived. Force was the necessary ingredient of successful economic integration, but force alone was not sufficient. The economic relationship between the faction and the components could change only if the economic position of the latter was undercut. Component units were loyal to the faction only when they were stripped of their independent sources of income and had to rely on the faction for pay, provisions, arms, and ammunition. In this sense, economic problems could not be solved in isolation; they could be solved only in conjunction with other military and political problems.

The KMT presents a unique and fascinating case of how economic integration could be achieved through a combination of ingenious military and administrative devices.

Prior to 1923, the KMT government existed in name only. The local revenues were jealously guarded by the local militarists. Nor did the KMT dare to send its own tax collectors into the country-side, for they would have been driven away, imprisoned, or killed.*

The establishment of the Whampoa Military Academy and the suppression of the Canton Chamber of Commerce revolt marked the starting point in eliminating the economic barriers. In the next two years this new military force succeeded in overthrowing

* *KMWH*, 7: 18-19. For a while the main source of the KMT's income came from contributions by overseas Chinese. During this time, the government was so poor that all bureaucrats from ministerial rank down to desk clerks got a flat salary of Ch. \$20 a month.

the local militarists and in extending direct rule from above. Among the many novel features introduced by this party force was the strict separation of military and administrative functions in local affairs. The management of administrative and economic affairs of a conquered territory was immediately turned over to the party functionaries.⁶⁰ The military was thus deprived of the chance to acquire a territorial base and was compelled to rely on the party for supplies. This was indeed a revolutionary change in the relationship between the military government and its armies. The KMT instituted a few other economic measures that merit special attention. First, the Ministry of Finance became the only government department responsible for handling economic matters and the sole recipient of income after the suppression of the Yunnan and Kwangsi forces in June 1925.

Second, the government tried to cut drastically the number of extra taxes and to reduce waste and corruption. A system of checks and an anti-smuggling bureau were established. The tax-farm system was abolished. A budget system was instituted in which it was necessary for all appropriations to be cleared through a budget committee.⁶¹

Third, the government simplified the transit tax by taxing commodities only once instead of many times at different stations.

Fourth, supported initially by a Soviet loan, the KMT bank issued a unified currency with no reservations on redemption. The bank honored its pledges and firmly established its credit. Its notes were even accepted by the Customs, a rare sign of trust denied to all other currencies. The demand for the KMT's currency increased with the success of its military expansion, and the money even circulated in territories beyond the KMT's effective control, by voluntary acceptance. The bank's credit was so good that private savings deposited in the bank increased six times by 1926.⁶²

These measures represented the first attempt to pursue a coherent policy of economic integration on a provincial basis. Although military expenditures were still the top priority—about 80 percent of the total expenditures—the KMT government was beginning to show an awareness of the connection between military objectives and the civilian economic structure.

The results achieved by these measures were quite encouraging. The most conspicuous gain was the rapid increase in income, which rose ten times within two years, from Ch. \$8 million in 1924 to

Ch. \$80 million in 1926.⁶³ Equally important was the redistribution of the various taxes. Land taxes, previously the most important source of income, had fallen to seventh place by 1926, bringing in a mere Ch. \$3 million, or about 4 percent of the total income. Transit taxes moved to first place among the taxes, constituting a little less than 15 percent of total income. The largest proportion of income came from government bonds and bank stocks; together they constituted about 30 percent of the total income.⁶⁴ These figures indicate a more equitable redistribution of the financial burden among the different classes. The burden on the peasants was apparently lessened. The burden upon the ordinary consumers remained roughly unchanged, while that on the wealthier class was greatly increased in both proportional and absolute terms.

An important factor that made possible the remarkable resurgence of the KMT was Soviet aid. Although the existence of close economic ties between the two countries has been common knowledge for a long time, details have been shrouded in great secrecy because both sides are reluctant to talk about it. Evidence indicates that the Soviet Union gave more than Ch. \$2.5 million to finance the Whampoa program and another \$10 million to put the KMT Central Bank in business.⁶⁵ At the time, when the KMT was struggling to stand on its own feet, these funds were important contributions.

From our description of the economic conditions that prevailed in the factions, it is easy to see that, with the exception of the KMT, most factions were pursuing self-defeating policies. If regional self-sufficiency was the objective, then logic required that militarists should spare no effort in developing a healthy economic structure by promoting commerce, building up industries, and establishing a sound fiscal policy; that is, they should create wealth instead of draining it. Yet, in general, the militarists engaged in acts that would produce precisely the opposite effect.

This contradiction cannot be explained away simply by saying that the militarists acted contrary to common sense. The problem was not that they failed to see the contradiction in logic, but rather that they were powerless to pursue any other alternative. They were under the perennial threat of being overthrown, either by subordinates or by hostile neighbors. This being the case, it is easy to see

why militarists allocated such a large portion of their available resources to defense requirements. Furthermore, the precariousness of their territorial bases made it seem futile to plan long-range economic development. Without territorial stability, there was no incentive to develop a bureaucracy. Without a clean and efficient bureaucracy, there was no machinery for the management of the economy and utilization of resources. Without a sound economy, militarists could not successfully defend their territories. Thus, even though the contradiction between the need for self-sufficiency and an exploitative policy probably did not escape the scrutiny of the more thoughtful militarists, the vicious circle was not easy to break. As soon as they acquired a piece of new territory, they had to exact all they could from it in order to consolidate their military position and to be prepared to cope with the external dangers that were never slow in coming.

Thus, the economic problems that most militarists faced were not solvable by economic means; they were fundamentally political problems. Only a few militarists were fortunate enough to control a definite piece of territory for a long period of time: Yen Hsi-shan in Shansi, Chang Tso-lin in Manchuria, and the KMT in the south. (Other areas, like Hunan, Yunnan, Szechwan, and Kweichow, were more or less free from external aggression, but they were not free from constant shifts of power among internal groups and therefore were no less precarious than their northern counterparts.) Only the territorially secure regimes had any incentive to devote a significant portion of their resources to economic development. For only these regimes could feel confident that their efforts would not be cut short by the loss of the territory and could enhance their security by building a strong economy capable of absorbing the mounting costs of war. It is not surprising, then, that of all the northern militarist regimes, only Shansi and the Fengtien faction survived to the last days of the system.

Among the northern militarists, an instructive point is provided by comparing Feng Yü-hsiang and Yen Hsi-shan, both of whom were enthusiastic supporters of economic construction. On many practical matters, Feng's approaches were quite similar to Yen's. The fundamental factor that contributed to Yen's success and Feng's failure was Feng's lack of territorial security. By 1926-27, when Yen was about to plunge into action, Feng was already bat-

tered, exhausted, and on the verge of collapse, and was only saved by his decision to collaborate with the KMT and the injection of a considerable amount of external aid. The simple fact was that Feng, having been without a base he could call his own for so long, simply could not afford to play a big role any longer.

Feng's plight was of course shared by most other militarists. The wars of annihilation and attrition could only be sustained by a sound economy achieved through either self-development or massive foreign aid. The territorially and economically vulnerable militarists were eliminated early in the game. Even the territorially secure militarists were quite exhausted after twelve years of fighting, during which every thinkable (and unthinkable) way of milking the people had been tried. Yet, in 1927–28, they were forced to do battle on an increasing scale with an enemy (the KMT) that had hitherto been spared deep involvement in the system and that was just beginning to flex its muscles. That they should suffer in such a confrontation is simple to understand in view of their comparative economic conditions.

Thus, there seems to have been a direct relationship between the cost of war and the stability of the system. When the cost of war was low, and when war damage could be repaired within a short period of recuperation, the system was favorable to the existence of a larger number of participants. When the costs and damage of war became too high, many participants either were eliminated or surrendered.

The example of the KMT suggests a more rational alternative to the other militarists' economic policies. The KMT started with far less favorable conditions. Its success was largely the result of its ability to strike a reasonable balance between long-range objectives and immediate needs. In assessing its success, however, we must not neglect the peculiar circumstances under which it occurred. That success might well have been impossible had not the northern militarists given the KMT a relatively long period of isolation. This isolation enabled the KMT to eliminate internal obstacles one by one and to institute a series of policies that eventually strengthened its economic position while the economic resources of other militarists were being exhausted.

Normative Aspects of Military Politics

Up to this point, our effort has been to describe the major institutional aspects of military regimes. Inevitably, we have to come to grips with the sources and basic structure of the average militarist's value system, because a man's political behavior is ultimately guided by his values. In any political system there must be a basic body of norms and principles that the actors share, if only to provide a minimal measure of orderliness in their political transactions. In this chapter we will inquire into the norms, values, and principles that shaped the militarists' political behavior. We will begin with a description of the militarists' personal values and characteristics and then outline their code of behavior, the rules that governed the militarists' interactions with each other. Finally, we will analyze the basic political values that shaped the militarists' behavior in their attempts to establish their political legitimacy.

Although there have been a few recent studies of the political culture of the Chinese people, they have all been concerned with the general political attributes of the people as a whole. So far there has been no systematic effort to investigate whether these attributes are shared by all political elites and to what extent they can explain the political conduct of any particular elite. Needless to say, we do not yet have the resources to undertake a study of such depth. What we can do here is make a preliminary effort to identify a few of the shared values that exerted a strong influence in shaping the militarists' political perceptions and in guiding their political behavior.