

LE 3 B7  
1949 A8  
T7 P7  
Cap. 1

PROVINCIAL AND LOCAL FINANCIAL SYSTEMS  
OF THE  
REPUBLIC OF CHINA  
1912 to 1946

by

Elbe Tsai

An Essay submitted in partial fulfillment of the  
requirements for the  
Degree of Master of Arts  
in the Department of Economics,  
Political Science, and Sociology.

*Accepted by Economics  
Department*

The University of British Columbia

August, 1949.

## ABSTRACT

An attempt is made in this thesis to describe and analyze the development of municipal and provincial finances in China from 1912 to 1946. The major emphasis is placed upon the financial history of the municipalities. Of these there are five distinct types. The Hsien is by far the most numerous type, and is stressed in accordance with its importance.

In a period of turbulent and often chaotic political conditions such as China has experienced in the last forty years, it was inevitable that political considerations would have a crucial bearing upon efforts to construct a stable system of municipal finance. Naturally, therefore, a considerable portion of the thesis is taken up with the influence of political events upon municipal and provincial finances.

The brief period of extreme centralization under Yuan Shih-kai was followed after his death in 1916 by a decade of civil war. In this period provincial war lords tried to concentrate as much power in their grasp as possible. The municipalities were very hard pressed for adequate independent sources of revenue, and the provincial governments showed scant consideration for their needs.

The Kuomintang party came to power in 1927 after a severe struggle against the provincial war lords. This party remained in power until the present civil war. Partly to aid the municipal governments which urgently needed assistance, and partly to lessen the power of provincial governments, Kuomintang leaders undertook to strengthen the financial position of the municipal governments.

Four national financial conferences were held between 1928 and 1946 with a view to achieving a reasonable division of revenues and expenditures. Among the three levels of government these conferences were held in 1928, 1934, 1941 and 1946. The obstacles to achieving a reasonable solution of the problem were accentuated greatly by the advent of the Sino-Japanese war which began in 1934. The violent inflation which arose during and after this war was a paramount issue at the last two financial Conferences.

Gratifying progress was made at these Conferences. Indeed at the conclusion of the 1946 Conference, it seemed that a satisfactory balance of financial power would be achieved for the National, Provincial and Municipal governments.

The present civil war has obliterated for the time being at least, any prospect for an early and effective solution to the financial problems of China.

Preface

An attempt has been made in this Thesis to describe the political trends that promoted the development of stable provincial and local financial systems in the Republic of China, particularly during the period of Nationalist domination. The chapters are arranged chronologically, starting with the middle of the nineteenth century, under the Ch'ing Dynasty. Consideration of modern Chinese provincial finance begins with 1864, at which time a great revolutionary movement, known in English as the Taiping Rebellion, was utterly defeated; while that of local finance is traced back only to 1934.

Long before the Republic came into being in 1912, the provincial governments had exercised their financial power, legally or illegally, in a confused manner. This state of affairs naturally led to a series of struggles between the Central and the provincial authorities following the founding of the Republic.

When the Republic was founded following the National Revolution, the military leaders of the Ch'ing Government quickly seized power. Among the new rulers, the most capable and powerful was Yuan Shih-kai, the last Premier of the Ch'ing Government. With his military strength, he succeeded Sun Yat-sen, the founder of the Republic, in the Presidency in 1912; and was duly elected President in 1913.

In 1915 Yuan Shih-kai proclaimed himself Emperor of China. Just before this proclamation, early in 1914, he instituted an extremely centralized financial system. The provincial power, which had been expanding since 1864, was brought under central control. Following the death of Yuan in 1916, military leaders in the respective provinces became more and more independent and with the backing of strong armed forces, disregarded the existence of the Central Governments that came and went; and provincial financial affairs were managed by the provinces with complete freedom. Because of the lack of a democratic spirit, the dictatorship of the provincial governors brought about warlordism, and continuous civil war resulted.

Since 1928 the country has been ruled by the National Government which came into power after two years of military campaigning against the warlords. Attempts were made by the Nationalists to build up an effective financial system which was expected to provide means for eliminating the provincial radicalism and for establishing sound local financial systems. Towards this end the principle of Balanced Power, as advocated by Sun Yat-sen, was to be introduced. On the eve of the introduction of Balanced Power in July, 1937, the Eight Years War between China and Japan broke out. This financial project was consequently postponed.

From 1937 to 1945 China was faced with the most perilous foreign threat in her history. Because of the unexpected outbreak of

hostilities, and because from the outset the nation was encumbered with numerous emergency measures, the existing provincial and local financial systems could not be adjusted for war purposes in time, and therefore they developed rather chaotically. In the first years of the war, the country was not only confronted with a series of defeats but also met with extraordinary difficulties in wartime financing. The Financial Conference of 1941 was therefore called to incorporate the provincial finances into a national scheme, in order to concentrate the nation's effort for resistance.

One year after V-J Day, in 1946, the provincial financial system was restored. Both the Central and Hsien financial powers were now greater than those of the provinces: the principle of Balanced Power was actually being experienced for the first time. However, the theory of Balanced Power was never fully realized because of the clashes between the Nationalists and the Communists and because of the critical inflation.

During the period of the Nationalist domination, 1928 to 1949, there were four National Financial Conferences called to discuss various financial problems. Even though the financial aims of the Nationalists were not fully accomplished before the Communist domination in 1949, each of these Conferences did make remarkable progress in the annals of Chinese financial systems.

From 1912 to 1949 China tried several different government financial structures. Under Yuan Shih-kai's dictatorship, extreme financial power was left in the hands of the Central Government. During the period of warlordism, the nation's finances were directed by provincial dictators. After the Nationalists came into power in 1928, the First National Financial Conference provided a "bi-government financial system", a system in which both the Central and provincial governments were to administer the nation's finances. The Financial Conference of 1934 went further, and a "tri-government financial system" was put into force in accordance with the principle of Balanced Power: the Hsien governments joined the Central and provincial governments in managing the financial affairs of the state. The Financial Conference of 1941 converted this "tri-government financial system" to another "bi-government financial system" in which the nation's finances were directed by the Central and local governments only. At the Financial Conference of 1946, a "tri-government financial system" was restored and the principle of Balanced Power was actually realized for the first time.

At present, the writer does not claim to know what will be the attitude of the future Communist Government in the handling of its public finances. But a financial system such as existed under the warlords and of which the state had bitter experience from 1917 to 1926, will not likely reappear; nor is it likely that Yuan's extremely centralized financial policy will reappear, because from the standpoint of administration, it was impracticable.

As instituted in 1927, China has had five different types of local government, namely: the governments of the Special Municipality, Shih Cheng Chiu, provincial municipality, Hsien, and Sheh Chih Chu. In 1937, there were only six Special Municipalities, one Shing Cheng Chiu, seventeen provincial municipalities, forty-two Sheh Chih Chu, while there were one thousand, nine hundred and forty-seven Hsien in the twenty-eight provinces.<sup>1</sup> These figures included those in the Four Eastern Provinces, known in English as Manchuria, occupied by the Japanese at that time.

Though these five types of government were qualified as local governments, their financial power differed greatly. Both the Special Municipality and Shing Cheng Chiu Governments were, like the provincial governments, under the jurisdiction of the Executive Yuan, or the Cabinet, of the Central Government. These municipal governments had political power and obligations similar to those of the provincial governments, and were authorized by the Financial Conference of 1928 to impose taxes within their boundaries, except for central levies. The provincial governments were not to exercise their political and financial powers in these districts. Actually, these Municipal Governments enjoyed greater power to levy taxes than the provinces because the former combined the characteristics of both provincial and local governments. The financial power of the provinces was also defined at that Conference and they were given jurisdiction over their subordinate local governments other than the Special Municipal and Shing Cheng Chiu Governments.

---

1. Chinese Year Book, 1937 issue, Pp 278-9. The Special Municipalities were: Nanking, Peping, Shanghai, Tientsin, Tsintao, and Siking.

The Shing Cheng Chiu was Weihaiwei. The provincial municipalities were not necessarily qualified according to their area, population, and financial ability; but, commonly according to their strategic importance. Other explanations will be given in Chapter IV, infra.

The major part of this study is devoted to discussion of the provincial and Hsien government financial systems since 1912, and the four National Financial Conferences will be stressed in particular. The relationships among the Central, provincial and Hsien governments will be treated as relatively important topics, while the provincial and Hsien taxes and expenditures will be given less emphasis. None of the material in the following chapters refers to the Territories of Mongolia or Tibet. Nor will the discussion cover the Four Eastern Provinces during the period from 1930 to 1945, since they were occupied by the Japanese. The wartime conditions mentioned from 1937 to 1945 indicate only what happened in free China, except for the district around the boundaries of Shensi, Kansu and Ninghsia, where the Communists, under the Central Government, undertook defensive wars against the Japanese. The financial affairs of the other areas under the Japanese or the puppet governments' control during the same period will not be discussed in this Thesis. The financial affairs of the Central Governments will be stressed only as political and financial background in the development of provincial and Hsien finances; they will not be discussed in detail.

This Thesis was first approved by Professor H. F. Angus, Head of the Department of Economics, Political Science and Sociology, the University of British Columbia. Professor Angus has been generous in helping to outline and organize the main topics. Dr. R. M. Clark of the University of British Columbia, as a sponsor, continuously encouraged

me in the untangling of many a knotty problem. One-half of this Thesis was completed under his direction during the spring of 1949. My debt to him I gratefully acknowledge. I wish also to express my appreciation of the courteous assistance of Mr. A. D. Scott who continuously helped me to complete the rest of this Thesis during the summer months of 1949.

Before proceeding with the discussion I would like to recall that the term "local governments" used in the following chapters is applicable to all types of local governments, including the Hsien governments. But the term "Hsien governments" does not refer to the local governments other than the Hsien.

Since 1912 the Republic has experienced a miserable history of political struggle. Financially, as well as politically, the history of the Republic up to the present may be divided into three important phases. The first phase is the period of Yuan's dictatorship, the second is the period of warlordism, and the last is the period in which the Kuomintang was supreme. From 1949 on, although it is too early to say that the Communists will hold sufficient power to rule the state, the Kuomintang has shown by its defeats in various fields, that it is unlikely it will hold the position it held in the past. The term "Nationalist Domination" used in this Thesis is only indicative of the period from 1928 to 1949.

The last attempt of the Kuomintang Government to solve the existing financial difficulties was made in the spring of 1949. This attempt, in fact, did not yield any effective result and will not be described in this Thesis.

E. Tsai.

The University of British Columbia,  
August, 1949.

## C O N T E N T S

Preface.....	i-viii
Analytical Table of Contents.....	xii-xv

### Part I

#### FINANCIAL DEVELOPMENTS FROM 1850 TO 1911 UNDER THE CH'ING DYNASTY AND FINANCIAL REFORMS UP TO 1914 IN THE REPUBLICAN ERA

Chapter I      Introduction.....	1
Summary-Economic background and tax structure in the nineteenth century-Constitutional movement-Growth of financial power of the provincial governors-Conclusion.	
Chapter II     Financial Reforms up to 1914.....	19
Summary-Budget of 1911-Cheng's proposal for separation of provincial finance from central finance-Financial reform of 1913-Conclusion.	

### Part II

Chapt	FINANCIAL DEVELOPMENTS DURING THE PERIOD OF WARLORDISM, 1917 TO 1926 AND THE TEMPORARY ACT OF 1927 OF THE KUOMINTANG
Chapter III	The Temporary Act of 1927.....
	35
	Summary-Finances under the warlords-The Temporary Act of 1927-Conclusion.

### Part III

#### THE FIRST NATIONAL FINANCIAL CONFERENCE IN 1928 AND THE SECOND NATIONAL FINANCIAL CONFERENCE IN 1934 IN NATIONALIST CHINA

Chapter IV	The First National Financial Conference.....
	51
	Introduction-Kuomintang and its system of government-The First National Financial Conference-Enforcement of the Financial Division Act of 1928-Conclusion.

## CONTENTS (Continued)

Chapter V	The Second National Financial Conference.....	79
Summary-Political aspects leading to the Financial Conference of 1934-Economic forces leading to the Financial Conference of 1934 -Resolutions of the Financial Conference of 1934-Failure in enforcing the Demarcation Act-Conclusion.		
Chapter VI	Appendix to Chapter IV and V.....	110
Abolition of the Chuan levies-Adjustment of the farm land taxes- Provincial and Hsien finances in Kiangsi Province, 1928-1937.		

### Part IV

#### WARTIME FINANCING, 1937 to 1945

Chapter VII	Financial Developments Between 1937 and 1941.....	141
Introduction-War areas and financial difficulties-Inefficiency of the central war financing-Developments in the provincial and Hsien finances, 1937 to 1941-Conclusion.		
Chapter VIII	The New Hsien System.....	164
Chapter IX	The Third National Financial Conference.....	173
Summary-Resolutions of the Financial Conference of 1941-Enforcement of the Act of 1941.		

Chapter X	Hsien Autonomy Finance.....	184
Introduction-Autonomy taxes-Other Hsien taxes-Central revenue grants and subsidies-Other Hsien receipts-Conclusion.		

Chapter XI	Hsien Autonomy Finance (Continued).....	214
------------	---	-----

### Part V

#### THE ACT OF 1946 AND THE CONSTITUTION OF 1946 AND THEIR PRACTICES

Chapter XII	The Fourth National Financial Conference.....	222
Introduction-The Act of 1946-Provincial finances-Hsien finances.		
Chapter XIII	Financial Aspects in the Constitution of 1946.....	233

CONTENTS(Continued)

Chapter XIV Enforcement of the Act of 1946.....	240
Introduction-Rehabilitation in provincial and Hsien finances- Enforcement of the Act of 1946-Conclusion.	
Chapter XV Conclusion.....	253
The fluctuations in the financial powers of the three levels of government-Political and financial trends before 1934-Trends in provincial financial power-Trends in Hsien financial develop- ment-The role of the "unsuccessful" Financial Conference of 1934-Conclusion.	
BIBLIOGRAPHY.....	265
INDEX.....	

## ANALYTICAL TABLE OF CONTENTS

## Preface

Part I

## Chapter I - Introduction

In the centuries prior to 1912, China was an extremely centralized country in the fields of financial administration. Neither the provincial nor the local governments were given independent financial power. The years that followed the Taiping Rebellion, 1850-1864, witnessed the rapid rise of the provincial governments, legally or illegally, in exercising their financial power.

## Chapter II - Financial Reforms up to 1914

Since the Republic of China was founded, the Government hesitated to carry out decentralization or centralization so far as financial matters were concerned. Because of President Yuan Shih-kai's ambition, the financial reforms were made towards extreme centralization. The existing provincial financial power was taken over by the Central Government. The local government finances were independent but they were given no important tax sources. The meagre existing local financial power was later appropriated by the Central Government. Not until 1916 did this financial scheme collapse, as one of the results of the downfall of Yuan.

## Chapter III - The Temporary Act of 1927

With the downfall of Yuan, the militarists quickly seized power. The provincial governments under a number of warlords exercised their financial power independently. Though it was the first time that the provincial governments had enjoyed great financial power, the national unity was weakened. The warlords employed their financial means for the purpose of civil war rather than for meeting their administrative obligations. The Central Governments were greatly handicapped in carrying out their financial measures. The local governments were under direct control of the provincial authorities in the field of finance. Not until 1927 did the nation's financial structure become more well defined as the Kuomintang entered upon the War of Unification.

Part III

Chapter IV - The First National Financial Conference

In 1928 the Kuomintang came into power after a series of campaigns against the provincial militarists, and discussion of state finances began immediately. The first step towards the Kuomintang's aim was to distribute the nation's financial powers and obligations between the Central Government and the provinces. The local governments were to be dominated by the provincial authorities. A general subsidy system was well established from the Central Government to the provincial governments.

Chapter V - The Second National Financial Conference

According to Sun Yat-sen's "Fundamentals of National Reconstruction", the provinces were to be regarded as intermediaries between the Central and local governments. The characteristic feature in the "Fundamentals" was the theory of Balanced Power. The Financial Conference of 1934 was held in order to realize this purpose. The Resolutions of this Conference were outstanding in that they proposed that for the first time the nation's finances be distributed among the three levels of government, namely, the Central, provincial, and Hsien governments. The introduction of the Resolutions, however, met with difficulties.

Chapter VI - Appendix to Chapters IV and V

China did succeed in reforming several important old taxes. This was the greatest achievement of the Kuomintang.

A typical example of the difficulties of provincial and local financial administration is given. The civil war was the most significant factor that caused financial maladjustments.

Part IV

Chapter VII - Financial Developments Between 1937 and 1945

After the outbreak of the Sino-Japanese War, all the three levels of government were faced with serious financial difficulties. The Central Government financed its resistance through three major means: the wartime bonds, the wartime taxes and the Fapi-inflation. The provinces increased their indebtedness. And, the Hsien developed the "Distribution" method in order to meet a part of their extraordinary cost. In 1940 and 1941, the Central Government would have collapsed financially if it had not relied on Fapi issuing. To remedy this situation, the Financial Conference of 1941 was called.

### Chapter VIII - The New Hsien System

Because the Nationalists were over fearful of the possible revival of warlordism, they referred the militia training to the Hsien instead of to the provinces; and because the Nationalists intended to initiate constitutionalism after the Victory which they expected to come, they promoted the growth of local self-government. In order to make these two plans effective, a new Hsien financial structure was introduced by the New Hsien System, in which a part of the provincial tax-sources was transferred to the Hsien.

### Chapter IX - The Third National Financial Conference

The Conference was held to incorporate the existing provincial finances into a central scheme in order to leave wider revenue sources in the hands of the Central Government for the prolonged hostilities. The nation's finances were now divided between the Central Government and the Hsien. From 1942 on, all the provincial taxes were levied by the Central Government, including the land tax which was to be levied in kind.

### Chapters X and XI - Hsien Autonomy Finance

The Financial Conference of 1941 also proposed the Hsien Autonomy Finance which was put into effect in 1942. The characteristics of the Hsien Autonomy Finance were practically the same as those of the New Hsien System. The striking features of Hsien wartime financing were: (1) The Hsien depended heavily upon one excise tax, the butchering tax; (2) The Hsien farm land surtax, the most significant Hsien tax source before the War, became unimportant in wartime; because the rate was not increased in time before 1941, the rate after 1942 was fixed according to 1941 standard, and the Central Government after it had taken over the entire administration of land taxes reduced the Hsien surtax rate by two-thirds; (3) The Central subsidies to Hsien were increased each year mainly through unconditional revenue grants. But these sources yielded stable revenue only to the richer Hsien. And, (4) The Revenue from Hsien properties, the minor income source before the War, became important after the administrative readjustment.

Part V

## Chapter XII - The Fourth National Financial Conference

This Conference restored a few provincial financial powers from the wartime structure, while the Hsien financial powers were again further strengthened. The characteristics of the Demarcation Act proposed by the Financial Conference of 1934 were fully adopted in the Act of 1946 and the theory of Balanced Power recommended by Sun Yat-sen more than twenty years previous was realized.

## Chapter XIII - Financial Aspects in the Constitution of 1946

The Constitution of 1946 was drawn up in accordance with Sun Yat-sen's tenets and the position of the province was treated as dependent or agency of the Central Government. The Constitution divided the financial power among the three levels of government by their responsibilities instead of by revenue sources. The obligation of education of the three levels of government was vaguely defined.

## Chapter XIV - The Enforcement of the Act of 1946

The political crisis and the Fapi inflation rendered it tremendously difficult to enact the Act of 1946. The greatest cost was the cost-of-living allowances to the government employees. This burden plus the cost of police protection totalled more than 80 per cent of the total provincial and Hsien expenditures.

## Chapter XV - Conclusion

The Chinese Republic, by a series of breaks with financial tradition, had succeeded in redividing the powers of the three levels of government. At the moment of success, however, this accomplishment became a mere digression, for civil war and inflation have destroyed the structure.

PART I

Financial Developments from 1850 to 1911

under the Ch'ing Dynasty

and

Financial Reforms up to 1914

in the Republican Era

## PART I

### Chapter I - Introduction

#### Summary

China has been an agricultural country where a clan system exists. By the political tradition of the past, provincial and local governments were given no independence. As a result, there were no separate provincial and local financial problems except those of the central authorities, the emperors of the dynasties.

The Opium War (1840-42) marks the beginning of recent Chinese history,<sup>1</sup> for following this occurrence China exerted itself to become a modern nation. Accordingly, modern public finance in the central, provincial and local fields was gradually developed. As China lacked a foundation for modern economy before the middle of the nineteenth century, such as large business organizations and large scale industrial production, tax resources were limited.

The development of modern provincial finance in China can be divided into two tendencies. The first is the growth of the financial power of the provincial governors who practically exercised their power independently. The second is the reform in the government system brought about by the Constitution Movement, by which the provincial governments obtained the levying power of taxes. These two tendencies led to a peculiar financial system, never experienced before in China.

---

1. Cf., Li Jan-nung, Vol. 1, p. 12.

A. Economic Background and Tax Structure  
in the Nineteenth Century.

The most outstanding feature of China's economy is the small farming communities where the clan system has existed almost as long as her history. Agricultural products have dominated her economic life throughout thousands of years.

Since the T'sin-Han Period (246 B.C. - 219 A.D.), there ~~has~~ <sup>T</sup> been no significant changes in the methods of production. The national economy, therefore, depended heavily upon the natural productivity of the land. When the population increased to a point at which the demand for food exceeded the land productivity, rebellion or revolution necessarily resulted. This is the periodical "Yih Tze Yih Luan", or cycle of peace and war, which generally occurred every two to three hundred <sup>1</sup> years.

In the century prior to the Opium War (1840-42), the population had increased about 200 per cent while the arable land remained almost unchanged, as shown in Table I. By this Table, we may understand that the national income per capita would be sharply reduced by the rapid increase of population because farming was the major industry and because the method of production had not improved materially. Under such circumstances, the revenue sources of the state had to depend upon the taxes on farm land and excise taxes paid by the mass.

---

1. Ibid., Pp 58-9.

TABLE I  
The Increases in Population  
and Arable Land, 1721-1841<sup>1</sup>

Year	Population	Arable Land (in acres)*
1721		113,965,233
1741	143,411,559	
1749	177,495,039	
1766		123,574,916
1792	307,467,279	
1801	297,501,508	
1812		131,920,850
1821	355,540,258	
1823		122,918,816
1841	413,457,311	

\* Approximately calculated from Mou, the Chinese acreage.

<sup>2</sup>  
The farm land tax and the poll tax were the earliest taxes in China. Prior to the seventeenth century, there had been five major reforms concerning these two taxes since 2278 B.C., when the first successful means of flood control, recorded historically, was set up at <sup>3</sup> the Yellow River. After 1723, there was another reform in which the <sup>4</sup> poll tax was incorporated into the farm land tax, and thereafter no separate poll tax has been levied in China.

- 
1. Li Jan-nung, Vol. I. Pp 57-8. The census is not very reliable because it was estimated according to the poll tax roll.
  2. The poll tax, in many cases, included services (instead of material or money taxation) of the taxpayers. Speaking in general, the poll tax was imposed on the persons who engaged in farming.
  3. Chia Teh-huei, Vol. II. p. 579.
  4. Ibid., p. 580.

A surtax on farm land was first levied at the beginning of the Yuan Dynasty (1277-1367). It was not important until the last quarter of the nineteenth century "when it was to provide properly the expenditures for education and police protection and so on".<sup>1</sup>

A salt tax was collected during the period of San Tai (2205 - 247 B.C.). It was not an important source of government revenue until 119 B.C. when the Government of the Han Dynasty directly operated the salt industry for revenue purposes. In the following dynasties the salt industry was occasionally operated under private controls while the governments obtained revenues through heavy salt tax. During the Sui Dynasty (589-617 A.D.), the salt tax was not imposed. After 713 A.D., the re-collection of the salt tax was resumed under the Tang Dynasty. Since then and until the present time, the salt tax has been one of the most important revenues to the central governing bodies.<sup>2</sup>

In the nineteenth century, the revenue from custom duties, besides the farm land and salt taxes, had also become important to the Treasury of the Ch'ing Government. But this revenue had little relation to the provincial and local finances as compared with the former two taxes which became important political issues, particularly when the Republic of China came into existence.

Since 619 A.D., the tax on brokers, known in Chinese as the Ya Tieh, has been levied under the Tang Dynasty, and by 1644 A.D. a tax on pawnshops was imposed under the Ch'ing Dynasty. These two taxes were comparable to the present license tax and business tax.

1. Ibid., p. 582.

2. Ibid., Vol. I. p. 90, "At the end (1347-67) of the Yuan Dynasty, the salt tax had been so heavily imposed that it directly caused the salt smuggling rebellions which hastened a revolution that eventually overwhelmed the Dynasty."

Taxes had long been imposed on retailers of cotton fabrics and on various other kinds of business including transportation. They were imposed not for revenue purposes but for "an intention to discourage commercial activities and to encourage farming".<sup>1</sup> These kinds of taxation were abolished by the Ch'ing Government after 1644. In the latter years of the nineteenth century, these taxes were reimposed in order to finance modern educational facilities instead of the old, and to meet the expenditures incurred from the increased military training.<sup>2</sup>

Shortly after 1644, a tax on houses was started and it was abolished by 1795.<sup>3</sup> This tax was reimposed in order to meet the indemnities exacted by the Eight Allied Powers as the result of the Boxer Rebellion.<sup>4</sup>

Imposition on transfers of title deeds first appeared during the T'sin Dynasty, 265-419 A.D. After the turn of the twentieth century, the revenue from this tax was used to meet a part of the expenditures of the provincial and local governments for their responsibilities were being expanded.

There were several other levies in the late Ch'ing period, among which the Likin levy, a complex excise tax, was the most important both to the central and provincial finances. The development of the Likin levy will be discussed in Section C of this chapter.

---

1. Cf., Chia Teh-huei, Vol. II, p. 604.

2. Ibid., Pp 605-6.

3. Ibid.

4. Yee Hong-lin, p. 108.

Until the latter part of the nineteenth century, all the revenue sources belonged to the Central Government, the Ch'ing Government. These revenues were sufficient for the simple governmental functions.<sup>1</sup> However, as a result of the successive wars with foreign powers, the Taiping Rebellion (1850-64), and the expanding governmental responsibilities learned from the Western countries, the old taxation system was no longer adequate because the important forms of taxation remained unchanged up to the late nineteenth century.<sup>2</sup>

#### B. Constitutional Movement

In 1874, the Empress Dowager Tze Shi proclaimed her nephew Kuang Chu as the lawful successor of the Ch'ing Dynasty, on the death of the young Emperor Tong Tze. The boy Emperor Kuang Chu was only four years old at that time, and the Empress Dowager dealt with all the matters of the state as Regent, as she had previously done for her son Tong Tze, until 1887 when she herself retired.

Two years later, in 1889, a scholar, Kong You-wei and his followers presented to the Throne a petition concerning political reforms.<sup>3</sup>

1. Li Jan-nung, Vol. I, p. 3: Prior to 1850 the Ch'ing Government had annual revenue surplus, as is shown in the following table:

Year	Surplus in taels	Year	Surplus in taels
1709	50,000,000	1722	8,000,000
1723-35	60,000,000 cit.	1736-8	24,000,000 cit.
1781	70,000,000	1789	60,000,000
1814	12,000,000	1850	8,990,000

1 silver tael is equal to 1.3 ounces of silver.

2. Cheng Shao-Kwan. p. 45.

3. Japan adopted a constitutional monarchy in that same year.

But, there was no response from the Government. After the war with Japan in Korea, 1894- , Kong You-wei again presented proposals leading to a constitutional monarchy. In the same year, 1897, Kong organized a party named Chan Hsueh Huei and established a newspaper in the capital, Peking. Finally, in 1898, the Emperor appointed Kong as an advisor.

In 1898, the Emperor, Kong You-wei, and the reformers undertook the famous "Government Reform". The first step was the abolition of some superfluous departments and some sinecures in the Central Government. In addition, plans were made to study and reform the organization of provincial government. This, however, caused a tremendous reaction from the old high officials and the royal clansmen who had been discharged, or who feared to lose their offices. Moreover, the Emperor did not hold the military power firmly enough at that time, so, the Empress Dowager, who had retired ten years previous was consequently able to return to power. The party Chan Hsueh Huei was then purged, Kong You-wei made his escape abroad, and the Emperor lost his freedom even in his private life. The One Hundred Day Reform thus ended as an historical incident.

Because of the failures in this political reform and in the successive wars with foreign powers, particularly with Japan, the growth of the revolutionary feelings against existing conditions spread throughout the country; and, the Ch'ing Government by 1906 was forced to announce that it was preparing to adopt representative government and a new constitution. A program of preparation for this constitutional reform would be completed in nine years, commencing from 1907. "The fiscal reforms provided in this program were as follows: in the second year of preparation, the provinces were to work out tentative budgets; in the third year,

a new system of provincial taxation was to be adopted; in the fourth year, reformed methods of public accounting were to be introduced and a national budgetary system was to be inaugurated; and in the fifth year,<sup>1</sup> a new system of national taxation was to be promulgated."<sup>2</sup>

One of the most striking features of this program was that the provincial finance was to be separated legally from the central finance. Meanwhile, a new political ethics was to be established: "the rules of self-government were proclaimed by the Ch'ing Government for province and Hsien. A provincial council was to be set up in each provincial government. A Financial Committee to reorganize the fiscal system of the state was created, subordinate to the Department of Finance of the Ch'ing Government. The branch offices of the Committee were set up in each provincial governor's office."<sup>2</sup>

Before necessary reorganizing was completed, both the Empress Dowager and the Emperor died, in 1908. This, however, did not interrupt the program of financial reform. In the following year, the Financial Committee was duly established; and the entire program was already well on the way. These reforms, however, were not completed in time to prevent the spreading revolution, for in October of 1911 the revolutionary armies had already succeeded in controlling China south of the Yangtze, and on 1 January 1912, Sun Yat-sen announced at Nanking the formation of the Republic of China. All the political attempts and financial reforms of the Ch'ing Government were interrupted. Although little financial reform was completed by the Ch'ing Government, the concept and the importance of new provincial and local finance were recognized universally by this time.

---

1. Shaw Kinn-wei, p. 150

2. Yee Hong-lin, p. 107.

C. Growth of Financial Power of  
the Provincial Governors

Before further discussion, the writer feels that it is advisable first to refer briefly to the system of government in the nineteenth century. The Emperor was supreme. The members of the Council of the State were the advisors to the Emperor. The Central Government was organized into different departments with one special department, the Censorate, over and above the other departments. Six of the departments, so far as administration was concerned, were well developed: military, civil-service, financial, judicial, and public works departments. Subordinated to the Department of Finance were fourteen Boards whose chief function was to audit regular revenues from districts under their jurisdiction.

Governors of provinces were appointed by the Emperor to supervise their subordinate governing bodies. Provinces were further divided up into smaller administrative units, each known as a Hsien (or Fu), which was supervised by a magistrate.

One of the major functions of the Hsien during the Ch'ing period was to collect revenues for the Imperial Treasury. The financial disbursements in the Hsien were to be directly controlled or regulated by the provincial governments, except the money raised through subscriptions from the people for public welfare.<sup>1</sup>

Most of the cost for public works, relief, and military roads was borne by the Imperial Treasury. Education was largely provided by private institutions. The old family or clan system also rendered certain social services, such as the care for the aged and orphans and the provision of some educational facilities for the clansmen. Charities were

---

1. Cf., Chia Teh-huei, Vol. II, p. 640.

usually provided by wealthy people, Buddhist temples, and other private organizations. Moreover, it had become an unwritten law that the Hsien governments could raise money from the people for performing certain services, if the consent of the people was obtained;<sup>1</sup> and actually, the Hsien governments usually resorted to this method when their funds were inadequate. As most of the cost of administration was assumed by the Imperial Treasury, and, as there was no constitution to clearly define the functions of the provincial and the local governments, the Central Government was to determine the appropriation of its revenue to the provinces which in turn apportioned the allotted funds among the Hsien governments.

Communication over the vast territory was not as convenient as it is to-day, and in the absence of a central banking system, the custom developed for the revenues to be delivered to the Imperial Treasury from the local and provincial governments. The provincial and local governments, thereby, could reserve a part of the contribution which was to be delivered, if the permission of the Central Government was obtained. This practice was maintained as long as the Imperial power remained stable.

#### Likin and Provincial Finances

Since 1825, rebellions, floods, droughts on top of the Opium War greatly aggravated the financial difficulties of the Ch'ing Government.<sup>2</sup> To worsen this situation, a great revolution -- known in English

---

1. Ibid., p. 565.

2. Lo Yu-tung, Vol. I, Pp 139-142.

as the Taiping Rebellion -- broke out in 1850 in Kwangsi. Sixteen of the richer provinces were directly effected. This state of affairs continued until 1864 when the Ch'ing Government finally succeeded in crushing the Rebellion.

When the Rebellion broke out in 1850, the Imperial Treasury still had a surplus of 8 million taels of silver. Three years later, the expenditure for military purposes alone amounted to 30 million taels, and by June 1853, the funds of the Treasury fast dwindled to 1 227,000 taels.<sup>1</sup> The state of the Imperial finance, at that time, was described by a report from the Department of Finance to the Throne, which stated that the revenue from the principal sources — the custom duties, the salt tax, and the farm land tax — was so inadequate that it could be said to be a little better than nothing.<sup>2</sup> To remedy this grave circumstance, the Likin was created.

In the autumn of 1853, the Likin was provisionally collected in Kiangsu Province where the result seemed quite promising. This tax in 1854, therefore, was officially made a regular revenue source of the Imperial Treasury.

The rate was first fixed at 1.2 per cent of the prices of various necessities. Later, it was levied either at 1 per cent on paper, textiles, china, medicine, silk, fur, sugar, etc. ad valorem or on food, oil, meat, fabric, tobacco, liquor, etc. ad valorem.<sup>3</sup> Later in the same year, this tax was extended to all provinces including those which had

---

1. Ibid., Pp 9-10.

2. Ibid., p. 9.

3. Ibid., Pp 17-18.

not been effected by the Rebellion.<sup>1</sup> The Likin could, therefore, be said to be a national levy as from 1854.

This tax, at the beginning, could be divided into two categories, namely the "transit Likin" and the "sales Likin". The former was imposed on the commodity when it was in transit, and the latter was imposed at the market where the transaction was made. This tax was in the next stage extended to the firms dealing in food, liquor and oil and also to the financial institutions on their gross receipts with several flat rates which varied according to the classifications. The Central Government permitted dealers on whom the tax was levied in the first instance, to raise the prices to compensate for the cost of <sup>2</sup> Likin.

As there was no uniform rule governing the imposition of Likin among the provinces, extreme confusion arose: in fact, this central levy was administered by the individual provinces independently and standardization was never attempted by the Ch'ing Government. One commodity might be taxed twice or more if it circulated from one province to another, or even within one province.

Soon after the Taiping Rebellion was crushed, there were a series of proposals for the abolition of the Likin. Some ministers and governors, however, "suggested" that it would be better to retain this "temporary" imposition for a few more years, as the military expenditure could not be immediately reduced and there was need of huge funds for

---

1. Ibid., Pp 18-19.

2. Cf., Ibid., p. 23.

relief in the ravaged areas. To this proposal the Ch'ing Government agreed. Henceforth, this temporary tax became a constant levy of the <sup>1</sup> Government.

Previously, the yield from this tax was solely used for military purposes; however, it became one of the important revenue sources for both the Ch'ing and provincial governments who, after 1864, spent it for other purposes, as shown in Table III. Table II shows the total yield from the Likin, which amounted to, on the average, <sup>2</sup> one-third of the total revenues of the Ch'ing Government.

TABLE II

Classification and Percentage of the Likin  
<sup>3</sup>  
 Collected by Provinces

(Amount in taels)

Year	Tea	Imported Medicine	Medicine Mfd in China	Salt	Other Commodities	Total
1869	281,229	559,970	62,981	215,575	12,301,087	13,420,842
1870	255,454	543,438	61,330	238,151	13,234,491	14,332,684
1871	280,606	484,052	54,271	90,629	13,237,264	14,256,822
1872	304,364	479,363	52,702	162,150	13,089,543	14,088,122
1873	285,857	493,253	55,836	147,368	13,659,483	14,641,797
1888	246,370	495,725	625,609	90,020	12,143,009	13,600,733
1889	205,971	954,053	632,997	88,424	11,857,650	13,739,095
1890	183,215	758,278	688,369	90,120	11,923,125	13,643,107
1891	178,630	823,566	589,959	87,503	11,901,384	13,581,042
1892	170,246	671,968	483,177	84,170	12,242,104	13,641,665
1904		2,752	551,259	89,309	15,962,709	16,606,029
1905		3,968	622,997	78,233	15,246,949	15,952,137
1906		2,287	176,269	84,896	16,026,818	16,290,270
1907				85,771	16,623,199	16,708,890
1908				302,865	17,457,322	17,760,187
%	0, or, % .87-2.3	0, or .01-6.9	0, or .19-5.1	.45-1.8	86.3-99.5	100.

1. Lo Yu-tung, Vol. I, p. 138.

2. Pao Chao-Hsieh, p. 213. By 1885, the total revenue to the Ch'ing Government was 48,258,070 taels, of which the tax from the Likin amounted to 16,548,199 taels.

3. Lo Yu-tung, Vol. II, pp. 470-1.

TABLE III  
 Distribution of the Likin  
<sup>1</sup>  
 Collected in Kiangsu Province  
 (Unit - 000 taels of silver)

Year	Central Functions									Prov. Functions			Total
	1	2	3	4	5	6	7	8	9	1	2	3	
1869	40	10	88				392		652	1284	112	10	2,589
1870	100	8	100				415		530	1462	182	10	2,795
1881	239	10	34			30	467	30	256	1000	197		2,401
1882	268	70	30			30	562	40	268	902	160		2,330
1899	99	35	24	8	130		128	80		462		50	1,006
1900	99	15	13	8	2247		139	70		663	97	80	3,432
1907	65	19			2433	40	121	80	132	422	195	130	3,640
1908	65	20			2421	40	120	80	138	371	170	337	3,761
Aver-	221	45	66	9	575	24	294	126	261	754	151	58	2,584*
age													
%	8.5	1.7	2.2	.4	22.4	.9	11.4	4.9	102	29.2	5.9	2.3	100*

\* Average per year, approximately calculated.

#### Explanation of Table III:

The Central Government appropriations for:

- 1) the Department of Finance;
- 2) the national administration expenditure;
- 3) the expenses of the Imperial Household (including the expenditure for maintenance of the Royal Silk Factories);
- 4) the railway construction;
- 5) the repayments (including interest charges) of the domestic and foreign debts;
- 6) the Central Government's subsidy funds to poorer provinces;
- 7) the indemnities to foreign powers;
- 8) the naval and coastal defence;
- 9) the inland navy (particularly for the Yangtze River).

The Provincial appropriations for:

- 1) the provincial army;
- 2) the provincial administrative expenditure;
- 3) Remainder, reserve, miscellaneous appropriations, unidentified expenditure, etc.

---

1. Ibid., Pp 490-1.

In the post-Rebellion period, the Likin was first utilized for both relief and army maintenance. In time, when the cost of both the items was decreasing, the Likin was maintained, and, more and more a larger proportion of the Likin was devoted to the expenditures of the provincial administration. The significant feature of this increasing provincial expenditure was that it accompanied the expanding power of the provincial governments. The expanded provincial power was a result of two major causes, namely, the more independent provincial administration of military affairs, and the tendency on the part of the Ch'ing Government to shift an increasing portion of its responsibilities to the provinces, particularly in the field of education.

In the wake of the failure of the war with Japan in Korea (1894-95), the Ch'ing Government ordered the provinces to provide new educational facilities. However, the Government, being short of funds,<sup>1</sup> referred this new obligation to the provincial governments, without providing an additional fund which was necessary for education. In the case of Kiangsu, the Provincial Government had to appropriate a part of<sup>2</sup> the collection from Likin to meet this additional cost.

Though the Ch'ing Government did not explain whether this obligation of provincial governments was a national or a provincial affair, the provincial governments actually dealt with education on a provincial basis. There was neither interference from the Ch'ing Government with policies of education, nor was there a standard system of educational service set up. About the same time, in addition, the provincial governments were required to improve the police system because the old one was too incompetent. This additional obligation was referred

---

1. Cheng Shao-kwan, p. 42, "The financial history of the Tsing (Ch'ing) Dynasty, 1644 to 1911, may be divided into two periods by the Chino-

to the provinces also without additional funds. These two examples illustrate the fact that when a government was obliged to perform more services, its needs for revenues also expanded. The increased responsibilities and expenditures were in time accompanied by the enlarging of the sources of revenue, which led to an improved state of provincial finances in later years.

In the early Ch'ing period, the taxes imposed on the transfers of title deeds was levied at a rate of 0.3 per cent. Steadily, the rates were raised by individual provinces. For instance, in Hupeh, the rate was once fixed at 9 per cent of the selling price of real estate, and in Hunan, 6 per cent was levied on the face value of mortgages. Since the precedents were established by the two provinces, the Ch'ing Government later in 1911 ordered the provinces, through an Imperial decree, to adopt the uniform rates of 9 and 6 per cent on real estate and mortgages respectively.<sup>1</sup> No further increase in rates was allowed.

This decree was highly significant in that the Ch'ing Government did not impose limits on the rates on the title deeds taxes until several years after the rates were greatly advanced; the provinces had first levied the taxes and determined the rates independently. In

Continued from previous page...

Japanese War, 1894-95, ... Then we pass to the latter period, 1894-1911, which is abnormal in the sense that the government of the Tsing Dynasty would have become bankrupt before the Revolution of 1911 were it not for foreign loans."

2. Lo Yu-tung, Vol. II, p. 502. The appropriation from Likin alone for education was 70,000 taels in 1906, 16,015 taels in 1907, and 20,419 taels in 1908.

1. Chia Teh-huei, Vol. II, p.593.

short, the provincial governments themselves were actually exercising more control over their own finances. This precedent was later repeated in connection with other taxes.

After the war with the Eight Allied Powers in 1900, the Ch'ing Government ordered the provinces to contribute funds to pay for part of the resultant indemnity.<sup>1</sup> The housing tax was reimposed, now, in 1901 by the provinces. "The local leaders, the provincial governors, however, did not always send all their tax contribution to the Central Government, but often unlawfully used some or all of it for local needs; because the power of the Central Government was becoming weaker and weaker in the first decade of the twentieth century. The provincial finances were, therefore, really expanded illegally and gradually strengthened."<sup>2</sup>"

In the preceding pages, it has been pointed out that the Likin was a levy belonging to both the Central and provincial governments, but the levying power was left in the hands of provinces which were in turn to deliver the collection to the Imperial Treasury. However, concealment of the Likin revenue by the provinces was quite open.

#### Conclusion

Besides the major taxes mentioned above, there were a few minor impositions concerning the provincial finances towards the end of the Ch'ing Empire. Speaking generally, from 1864 onward, the provinces enlarged their power legally as well as illegally through expanding functions, and intercepting the central revenues.

---

1. Yee Hong-lin, p. 107.

2. Ibid., p. 108.

After 1850, the Ch'ing Government ordered the provincial governors to organize militia as the old army had proved too incompetent to cope with the Rebellion. The rise of provincial armies enhanced the power of the governors to directly supervise and even to intercept central revenue in later years. Despite the repeated decrees from the Ch'ing Government, the provinces did not submit punctually the records concerning the collection of revenues, particularly the Likin.<sup>1</sup> Moreover, the "deficient provincial governments eagerly request the support of the Department of Finance (of the Ch'ing Government), which in turn must depend entirely upon the aid furnished by the richer provincial governments ..., there is a concealment of revenue which arises from the fact that the governors of the richer provinces are unwilling to share their revenues with the Department of Finance. Such concealment is possible because the Department is ignorant of the local conditions. Therefore, the Department's powers of appropriation and supervision are merely nominal."<sup>1</sup>

The tendency for decentralization in military administration had appeared before the promulgation of the constitutional program in 1906 when the National Revolution was about to break out. In all cases, the financial power of the governors was greatly strengthened by military forces, unknown before 1850. Under such circumstances of conflict between the strong provinces and a weak Ch'ing Government, the Hsien governments could not be independent in both political and financial fields. Furthermore, the Hsien finance was still directly controlled by provinces, just as the latter had been previously conducted by the Ch'ing Government. Thus, the years from 1864 to 1911 could be considered as a period of struggle between the Ch'ing Government and provincial governors in finance, while the Hsien finances were ignored by the state.

---

1. Cheng Shao-kwan, Pp 106-7.

## Chapter II - Financial Reforms up to 1914

Summary

The provincial and local governments under the tradition of the Ch'ing Empire were given no independence in finance. But, during the last few decades of the Empire, the provincial power so expanded that supervision by the Ch'ing Government had become nominal and the position of local governments was practically ignored. Writing in 1912, Mr. S. K. Cheng said, "the (financial) administration is decentralized, because the governors within their respective provinces are almost independent in the exercise of their powers."<sup>1</sup> Moreover, the Ch'ing Government lacked sincere intent concerning the desirability of a constitutional form. This attitude eventually hastened the explosion of the Revolution of 1911 and the ultimate downfall of the Dynasty which had ruled the nation since 1644.

Looking closely at the whole financial program, one thing is worthy of mention, at least in the sense of legislation, and that is that the Hsien governments were to have a relatively great degree of independence in finance. This last attempt of the Ch'ing Government was expressed in the Budget of 1911. This Budget incorporated the provincial finances into the central finances while a separate fund in it was to be assigned to the Hsien for their needs. In other words, the Ch'ing Government endeavored to control the provinces on the one hand, and to bring about better local finance on the other. This attempt, however, was interrupted by the Revolution in the same year.

---

1. Cheng Shao-kwan, p. 106.

The year 1912 witnessed the beginning of a new era, that of the Republic of China. But, the Republic inherited the financial difficulties of the Ch'ing Government because the Revolution of 1911 contributed little to the nation's finances.<sup>1</sup> In 1914, the Central Government of the new Republic enforced a financial measure, akin to that expressed in the Budget of 1911, which enabled the Central Government to control the provinces in finances and granted financial independence to the Hsien.

President Yuan Shih-kai, in 1915, took a further step to incorporate the Hsien finances into the central finances. This extremely centralized financial administration finally collapsed in 1916 on Yuan Shih's death, after which a period of civil war ensued and the nation's finances were thrown into disorganization.

#### A. Budget of 1911

In 1906, the Ch'ing Government decided that a program of preparation for adopting a constitution should be undertaken. It was further decided that such a program was to be set up in 1907 and a constitution would be completely drawn up by the end of the ensuing nine years. In the field of financial reforms, the program provided was as follows: in the second preparatory year, 1908, the working out of a tentative budget by the provinces; in the third year, 1909, the revision and the trial of the provincial budgets and the tentative allocation of separate funds for local governments; in the fourth year, 1910, the final choice of a method of public accounting, the formulation

---

1. Cheng Shao-kwan, p. 47.

of a national budget, the formulation of a final scheme of local taxation, and the determination of the legal basis for national taxation; and in the fifth year, 1911, the promulgation of the laws of national taxation.

In January 1909, a Committee for reorganizing the financial affairs of the state was set up, subordinate to the Department of Finance. Twelve branch offices of the Committee were established in each governor's or governor-general's office. The power of the branch offices was limited to "hear opinions" regarding the financial reform from the provinces. Many reports and recommendations were presented from all provinces to the Committee. "The views set forth in these reports can readily be guessed. They were almost without a single exception prompted by an irresistible desire to please the Throne. None of these reports dared to suggest that the land tax should be local."<sup>1</sup>

In fact, the revenues belonging to the Imperial Treasury were still largely in the hands of the provinces. The governors only pretended to agree that all the taxes be left in the hands of the Ch'ing Government. Furthermore, "the final decision on the increase or reduction of certain items of government expenditure as specified in the so-called national budget rested not with the central government as should be the case, but with the provincial authorities. Such fiscal disorders as these could only arouse dissatisfaction among the people and lead the government to its ultimate downfall."<sup>2</sup>

---

1. Li Chuan-shih, p. 72.

2. Cheng Shao-kwan, Pp 43-4.

In 1910, the first budget was drawn up according to the recommendations of the Financial Reorganization Committee. It was prepared for the calendar year of 1911. This budget was drawn up on the estimated expenditures of the Ch'ing and provincial governments, and on the average sum of annual income of 1908 and 1909. It was named the "National Budget" which included the provincial revenues and expenditures. Though the operation of this budget was interfered with by the Revolution of 1911, it furnishes us with some information concerning the fiscal conditions of the Ch'ing Government on the eve of the Republic. The balance sheet at that time read as follows:

<u>Public Revenues for 1911</u>		
Land Tax		48,101,346.273 taels
Ordinary	46,312,355.022	taels (cit.)
Incidental	1,936,656.421	" "
Salt taxes		46,312,355.022
Maritime Customs Duties		35,139,917.965
Regular Customs Duties		6,999,369.966
Ordinary	6,990,845.925	"
Incidental	8,524.041	"
Miscellaneous taxes		26,163,842.177
Likin Levies		43,187,907.099
Public Industries		46,600,899.753
Incidental Contributions		5,652,333.117
Internal Debt		3,560,000.000
Miscellaneous Incomes		35,244,750.650
Total		296,962,722.022 taels

---

1. Cheng Shao-kwan, Pp 43-4.

Public Expenditures for 1911

Foreign intercourse	3,544,732.977	taels
Police administration	4,227,563.742	
Public ceremonies	792,127.940	
Financial administration	28,130,434.754	
Palace and Imperial household	6,144,877.170	
The Council of the State and other departments (the Central Government)	6,348,826.170	
Provincial administration	19,822,730.489	
National Assembly (1)	786,666.666	
Public debt redemption and interest	56,413,576.498	
Public industries	5,600,435.211	
Public education	3,375,474.756	
Army and its supplies	126,743,333.389	
Navy and its supplies	10,503,202.765	
Administration of justice	7,716,016.765	
Administration of agriculture, industry and commerce	2,040,003.373	
Public works	4,515,271.832	
Administration of railways and telegraphs	55,141,906.832	
Government of dependencies	1,705,103.877	
Total national expenditures	338,652,295.073	taels
Local expenditures	37,703,362.170	
Grand Total	376,703,362.170	taels

- (1) This budget was submitted by the Department of Finance to the National Assembly which was created in 1910. It represented the actual needs of the governments rather than the final appropriations. The final budget passed by the Assembly was:  
total revenue amounted to 301,910,000 taels  
while the total expenditures amounted to more than 298,440,000 taels.  
Cf., Chia Teh-huei, Vol. I, p. 10.

In 1909 the first Chinese laws were made for local self-government which was charged with the responsibility for taking a census and estimating provincial expenditures. Thus, the item of "local expenditures" which appeared in the budget of 1911 might include the expenditures of both the Hsien administration and local self-government. It was the first time that the Hsien governments could receive a proper fund. This phase could be said to be one of the achievements in finances during

the late Ch'ing period. The budget deficit, equivalent to one third of the total revenue, was indicative of the critical financial conditions of the Ch'ing Empire on the eve of the Revolution. Enforcement of this budget was interrupted by the Revolution which broke out on 10 October, 1911; and it was inevitable that the new Republic would naturally be confronted with the same financial difficulties which the Ch'ing Government had experienced.

B. Cheng's Proposal for Separation of Provincial Finance from Central Finance

With the sudden explosion of the National Revolution, the evolutionary constitutional development and financial reform were interrupted. On 1 January 1912, President Sun Yat-sen, of the Provisional Government, proclaimed at Nanking the formation of the Republic. In the following month, Yuan Shih-hai who was the last Premier of the Ch'ing Empire forced the boy Emperor, Hsuen Tung, to abdicate and to announce the termination of the Ch'ing Dynasty. In the same month, Yuan Shih-kai succeeded Sun Yat-sen to the presidency of the Provisional Government after the latter resigned.

This radical change in politics from the absolute Ch'ing Government to a newly founded Republican Provisional Government necessarily brought about discussion of the financial difficulties which had been awaiting solution. Looking beyond the immediate conditions and having regard to the fiscal failure of the former Empire, one would find that the worst defect in the Imperial financial system was the lack of a proper division of responsibilities and revenues between the Central and

provincial governments. As a result, revenues were largely under the control of the provincial governors of the richer provinces. Those provinces which had an annual deficit asked for a subsidy from the Imperial Treasury, whereas those with annual revenue surplus were required to hand the funds in to the Treasury. The latter provinces, however, tried in every possible way to avoid meeting this obligation. In short, co-operation and mutual confidence were lacking between the <sup>1</sup> Ch'ing Government and the provinces.

In 1912, Governor Cheng Teh-chuan of Kiangsu presented the first proposal regarding the separation of central and provincial financial powers and responsibilities to the Central Government. Governor Cheng proposed that such expenditures as those of the interest charges on the foreign loans, the military affairs, the judicial administration should be central, and those of the industrial, educational, and civil administration should be provincial or local; that such revenues as those from the custom duties, the salt tax, and the other indirect taxes should be central, and that those from the land tax and other direct taxes should be provincial or local. This proposal was strongly supported by many famous Chinese reformers and scholars, most of whom had been the staunch <sup>2</sup> advocates of local self-government.

---

1. Shaw Kinn-wei, p. 152.

2. Li Chuan-shih, p. 73.

C. Financial Reform of 1913

In 1912 and 1913, China was in a state of disorganization, an inevitable result of the Revolution. "The provincial revolutionary leaders were in favour of a system of political as well as fiscal decentralization, the provincial treasuries were in most cases empty and therefore unable to remit money to the central government."<sup>1</sup> The state of finances of the new Republic had become more critical than ever before.

The unsolved financial difficulties, the present fiscal handicaps, and the proposal recommended by Governor Cheng prompted Yuan Shih-kai to undertake a financial reform. According to the budget of 1911 and the Proposal suggested by Governor Cheng, the central revenue (from custom duties, the salt tax, Likin levies, etc.) would be conservatively estimated at 150 million taels, and the central expenditure (for army and navy, national administrations, etc.) would be 230 million taels; the provincial and local revenue (from land and public industries, etc.) would be 150 million taels, and the expenditures (for education, industry, civil administration, etc.) would be 150 million taels.

At that moment, however, a considerable portion of the military forces was not directly commanded by the ambitious Yuan Shih-kai, but by the provincial revolutionary leaders, the supporters of local self-government and decentralization in finance. Cheng's Proposal and Yuan's ambition were not the same thing, decentralization versus centralization. Learning from the collapse of the Ch'ing Empire, Yuan Shih-kai, its last Premier, attempted to unify the country by force with foreign loans on the one hand, and tried to concentrate the nation's financial strength in his hands on the other to further his own desire to become a dictatorial emperor of the nation.

---

1. Shaw Kinn-wei, p. 153.

In the winter of 1912, a special Committee of Investigation "was appointed" by the Ministry of Finance to "consider and investigate"<sup>1</sup> Cheng's Proposal. The characteristic features in the Report completed by the Committee can be summarized in the following points:

1. Expanding the power of the Central Government.

The first step of this Report was to transfer the power from the provincial government to the Central Government. The definition of the words "national" and "local" was as follows:

"the term 'local authorities' should mean the authorities of the self-governing localities alone, and should not include the local agencies of the central or national administration. Thus the expenses incurred by the latter should be, without fail, excluded from the list of local expenditures, and the local revenues should be exclusively appropriated for purely local purposes."<sup>2</sup> The position of provinces was undoubtedly considered by the Report as the "local agencies of the central or national administration".

2. Distributing responsibilities between the national and local authorities.

The terms "national" and "local" having been defined, the responsibilities were distributed. The Report then worked out a "distribution" which enabled the Central Government to control all the governmental functions, even those of the "local governments".

---

1. Li Chuan-shih, p. 73.

2. Ibid.

The recommendation reads as follows: "Those things which are beyond the power of the local administration, such as foreign affairs, national defence, administration of justice, etc., should belong to the national administration; and such things as police, education, communication, agriculture and commerce, etc., should partly belong to the national administration and partly to the local administration."<sup>1</sup>

### 3. Large supervision power of the Central Government.

Abuses in financial administration during the late Ch'ing Dynasty were largely due to the method of delivery of revenues, and the fact that the governors exercised their financial power independently. In order to avoid these abuses, the Report recommended that, "a National Revenue Board should be created with as many branches in the provinces as necessary to take charge of the national revenues ..., a financial commissioner (appointed by the Ministry of Finance) should be created in each province to take charge of the general and specified national revenues and to supervise"<sup>2</sup> the provincial finances.

In the winter of 1913, according to this Report, the Ministry of Finance drew up a revenue separate bill. Before this bill became an act in 1913, the first Parliament, soon after it had elected Yuan Shih-kai the first President of the Republic, was dissolved by Yuan. As a result, in July, 1913, the Kuomintang united a few revolutionary governors and undertook a military campaign against Yuan known as the

1. Ibid., p. 74.

2. Ibid.

Second Revolution. This Revolution, however, was soon crushed in September of the same year. The Kuomintang was therefore outlawed, and there arose no military opposition to Yuan's powerful troops in each province. Also, the laws of the local self-government were outrightly abolished. Due to the absence of the Parliament, the "revenue separate bill" was revised by the Ministry of Finance alone and it was put into effect by Yuan's decree in 1914. The Bill of 1914 read as follows:<sup>1</sup>

### I. Sources of Revenue

#### (a) The National Revenues:

- 1) The land tax;
- 2) The salt tax;
- 3) The custom duties;
- 4) The Likin levies;
- 5) The mining royalties;
- 6) The title deeds tax;
- 7) The license fees and taxes;
- 8) The tobacco tax;
- 9) The wine tax;
- 10) The tea tax;
- 11) The sugar tax;
- 12) The fishery tax.

#### (b) Hsien (or local) Revenues:

- 1) The land surtax;
- 2) The trade tax;
- 3) The livestock tax;
- 4) The rice and cereal Chuan;
- 5) The opium Chuan;
- 6) The oil and sauce Chuan;
- 7) The vessel Chuan;
- 8) The miscellaneous commodity Chuan;
- 9) The business shop Chuan;
- 10) The rental Chuan;
- 11) The theatre Chuan;
- 12) The carriage Chuan;
- 13) The prostitution license Chuan;
- 14) The restaurant Chuan;
- 15) The tea house Chuan;
- 16) The meat Chuan;
- 17) The fish Chuan;
- 18) The butchering Chuan;
- 19) The carriage-bearer license Chuan;
- 20) Miscellaneous Chuan.

---

1. Ibid., Pp 76-9.

II. Separation of the possible future revenues:

(a) For National Purposes:

- 1) Fiscal stamp tax;
- 2) The recording tax;
- 3) The succession duty;
- 4) The income tax;
- 5) The production tax;
- 6) The business tax;
- 7) The note-issue tax.

(b) For Hsien (or local) Purposes:

1) Special taxes or levies

- i. The house tax, or habitation tax;
- ii. The business tax on those businesses which are free from the national business tax;
- iii. The consumption tax on those commodities which are free from the national consumption tax;
- iv. The admission charges to market places;
- v. The personal property tax;
- vi. The servant tax.

2) Surtaxes

- i. The business surtax;
- ii. The income surtax.

The Bill of 1914, moreover, set limitations to the power of the Hsien in order to protect the central sources of revenue. The limitations were:

- (a) The Ministry of Finance may prohibit any local tax when it interferes with the national taxes or is regarded as unpolitical by the Ministry.
- (b) The maximum rates of the surtaxes:
  - 1) On the land tax, at most 30 per cent of the central levy;
  - 2) On the future business tax, at most 20 per cent of the central levy;
  - 3) On the future income tax, at most 15 per cent of the central levy.
- (c) If occasion demands any increase of the rates of the surtaxes over and above the maximum rates, the local governing body concerned must first secure permission from the Ministry for the increase of the rate. 1

---

1. Ibid.

By the Bill of 1914 the provincial finance was incorporated into the national finance. Thus, there were only two levels of finances, the national and the Hsien (or local). All the important revenue sources were allotted to the Central Treasury. The only reliable revenue source of the Hsien was the "Chuan".

The word "Chuan" is both a verb and a noun: as a verb, it means "to contribute money to, or for"; as a noun, it means a forced levy. The custom developed that the Chuan levies, in many cases, were named according to the taxpayers or the objects of the levies, such as the restaurant Chuan, opium Chuán. In other cases, the Chuan levies were named after the purposes, such as the police protection Chuan, public health Chuan. The methods of taxation and the amounts collected of the Chuan differed from one place to another and varied from time to time. In common, the Chuan were imposed on the firms according to their capital value or gross receipts; on buildings, according to appraised value, number of rooms, or rental receipts; and in most cases, the Chuan were levied per head and per family. In short, the Chuan was a forced levy — the amounts and the purposes, the taxpayers and the tax-objects were decided and chosen by the levying authorities.

In the last budget of the Ch'ing Government in 1911, there was a separate fund allotted for local expenditure. This fund amounted to 37 million taels. Whether this fund was adequate for all the Hsien or not is questionable because it was interrupted in the first year it was put into practice. But, the Bill of 1914 provided only one proper revenue to the Hsien. This was the land surtax with a maximum rate of

30 per cent of the central levy. The amount of this surtax was estimated at 18 million yuan (one yuan was 72 per cent of one tael).<sup>1</sup> Besides the surtax on land, the Chuan was the major revenue source of the Hsien. This practice in Hsien finance invited many abuses. The annual yield of the Chuan levies could hardly be estimated; the overlapping burdens of the taxpayers were ignored. Moreover, it formed a bad custom that whenever the Hsien governments needed funds, they could legally resort to this sort of financing. Furthermore, the functions of the Hsien were far beyond their ability to carry, such as police protection, education, communication, agriculture and commerce. On the other hand, in 1914, the Central Government had no funds for these responsibilities though it was supposed to bear part of them, because the Government could barely balance its own budget in which the expenditure for military purposes and debts were the greatest. As a result, the present financial system had to be changed or adjusted in order to overcome the existing financial difficulties.

In 1915, the meagre existing sources of revenue of the Hsien were incorporated into the national finance by Yuan Shih-kai's decree. From then on, there was no Hsien finance at all, but an extremely centralized central finance. In the same year, as his financial project had been accomplished, Yuan Shih-kai declared himself the Emperor of China.

"During the dark days of the Yuan's monarchical plot, all revenues and expenditures, whether national, provincial or local, were consolidated so that the dictator's grip on the whole nation and people might be tightened and strengthened."<sup>2</sup> This would-be Emperor was only

---

1. Cf. Chia Teh-huei, Vol. II, p. 582.

2. Li Chuan-shih, p. 84.

in power for one hundred days and abdicated in 1916 because strong factions opposing him had openly taken up arms from Yunan.

### Conclusion

In Chinese financial history, Hsien governments had no independent sources of revenue until 1911 when the Ch'ing Government provided a separate fund for them. Though this financial adjustment was interrupted by the Revolution, the importance of separation of Hsien finance from the other levels of finances was realized for the first time.

Following the emergence of the new Republic, a policy of extreme financial centralization was worked out under Yuan Shih-kai's dictatorship. Hsien finance, therefore, had to depend upon the uncertain and onerous Chuan levies; nevertheless, these forced levies were still an independent source of income of the Hsien. However, partly because of the belief in an extreme centralization in finance on the part of the Central Government, and partly because of the financial difficulties caused by the central military expansion, the meagre independent source of revenue of the Hsien was finally taken over by the Central Government. But, this adjustment in finance did not provide means of solution for the existing difficulties of the nation.

Selected References

## CHAPTERS I and II

Chinese

Chia Teh-huei, Financial History of the Republic of China, Chungking, the Commercial Press. First edition, November, 1941; Shanghai, the Commercial Press, Shanghai, first edition, August, 1946; Shanghai-second edition, July, 1947.

Li Jan-nung, Chinese Political History in the Last One Hundred Years, Shanghai, Commercial Press, first edition - August, 1947; second edition - January, 1948.

Lo Yu-tung, The History of Likin in China, Department of Social Sciences, Academia Cinica Mono. series No. 6, Shanghai, Commercial Press

English

Cheng Shaw-kwan, The System of Taxation in China in the Tsing Dynasty, 1644 - 1911, New York, Columbia University, Longmans, Green & Co.,; agents, London, P.S. King & Son, 1914.

Li Chuan-shih, Central and Local Finance in China, New York, Columbia University, 1922.

Pao Chao-hsieh, The Government of China, 1644-1911, Baltimore, The Johns Hopkins Press, 1925.

Shaw Kinn-wei, Democracy and Finance in China, New York, Columbia University Press, 1926.

Periodicals (Chinese)

Yee Hong-lin, An Outline of Local Finance of Our Country, Chungking, Financial Review; April, 1945, Vol. 13, No. 4, Pp 107-17.

PART II

Financial Developments During  
the Period of Warlordism, 1917 to 1926

and

The Temporary Act of 1927  
of the Kuomintang

PART II

## Chapter III - The Temporary Act of 1927

Summary

With the downfall of Yuan Shih-kai and his subsequent death in 1916, China entered into a new phase of her history, a decade of warlordism. At the beginning, the military leaders in Northern China, formerly headed by Yuan Shih-kai, split into several factions, and chronic civil wars broke out. During this stirring decade, the state of financial affairs of the new Republic was so chaotic that no real statements or budgets were presented by the warlords. Moreover, the instable political conditions brought about two Central Governments, namely the Peking and the Military Governments. The former was formed by a group of northern warlords each of whom had his own ambition, and the latter was headed by Sun Yat-sen, supported by the Kuomintang, and backed by southern warlords whom, nevertheless, Sun Yat-sen could not command. Neither of the two Governments could introduce a practicable financial system for the country within their respective provinces, nor did they receive their revenues from the rest of the provinces who, pretending neutrality between the two Governments, were under the control of the warlords other than those of the North and South. All financial matters were considered under the military strength. Such practices lasted until 1927 when the Nationalists were about to be supreme and a Temporary Act was outlined to separate the provincial finances from the central finances.

#### A. Finances under the Warlords.

In January 1916, Yuan Shih-kai had to abdicate his emperorship because of the spreading of the armed opposition. But, Yuan himself still retained his position in the office as President until his death in February of the same year. The Vice-President, Li Yuan-hong, succeeded to the presidency. However, he could not command Yuan's troops and a decade of warlordism ensued.

Shortly after Yuan's death, General Tuan Chi-jui headed the Northern Warlords, Yuan's handiwork during the late Ch'ing period. ? Meanwhile, General Tuan formed a cabinet; and the old Parliament, dissolved by Yuan in 1913, reconvened in Peking. The existing financial policy, the Bill of 1914, was to be studied by the Parliament. This Parliament, however, was again dissolved in 1917 by Premier Tuan Chi-jui because he would not let his power be curbed by the law-makers, and no attempts to form a new Parliament followed. Due to the absence of the Parliament, the Peking Government still enforced the Bill of 1914. Nevertheless a political and military decentralization had quickly emerged as soon as Yuan Shih-kai died, and so the Bill of 1914 was never realized. The nation's finances were therefore dominated by the warlords, with no regard to the legislation.

Later in 1917, President Li Yuan-hong discharged Tuan Chi-jui and the latter led his troops out of Peking. The result was that General Chang-hsuen restored the abdicated Emperor to the throne and

announced the return of the Ch'ing Dynasty. This attempt to return the monarchy was soon crushed when ex-Premier Tuan came back to Peking with his troops. The chaotic situation in Peking led to a new development in Canton. When the old Parliament had been dissolved in 1917, the Kuomintang members of the Parliament assembled in Canton. This assembly set up a Military Government, presided over by Sun Yat-sen, to oppose the Peking Government. But the Military Government had no army, nor was this Government able to control even the Southern War-lords who pretended to support Sun Yat-sen. Thus, the Military Government actually performed no governmental functions at that time.

In 1918 in Peking, a new Parliament was held and a new President of the Peking Government, Hsu Shih-chang, was elected. When there was no cooperation found among the Northern Warlords, they split into several factions. The Peking Government was now repeating the history of the late Ch'ing Government, and, in fact China was ruled by a number of military governors. Civil wars, large and small, followed one after another without interruption.

On the eve of the Revolution, there at least existed a financial system even though it was unsatisfactory. During the dark days under Yuan's dictatorship, there was an extremely centralized fiscal policy even though it did not solve the financial difficulties. But, the Republic now faced even more chaotic finances for there was no proper legislation to deal with the finance of the state.

Writing in 1922, Dr. Li Chuan-shih, a well known Chinese professor of economics, said,

"To be sure, (according to the Bill of 1914) a distinction has been made between the national and the local revenues, but when money is needed for provincial expenses, the military governors always retain the installments and quotas due the central government for their own requirements. Attempts have been made to appoint officials direct from Peking to collect the national revenues in the provinces, but without success. The military governors usually issue no budget, and the annual receipts and expenditures in the provinces are open to no inspection of the central government. Taxes and imposts are collected as usual and new charges often made, but there is no account of the expenditure. Worse still, liquid assets of the provinces have been hypothecated by them in order to pay the soldiers, and worthless paper money has been issued by them in abundant quantity. In a word, the military governors are a law to themselves." 1

Because of this uncertain political situation, some provinces, professing neutrality among the civil wars or between the Peking and Military Governments, proclaimed provincial constitutions.

"In 1919, Hunan and Chekiang Provinces first proclaimed provincial constitutions, in which it was stated that: 'The Provincial Government, hereafter, shall impose taxation as determined by the Provincial  
2  
(People's) Council'". But, one thing should not be ignored -- that, at that time, the provincial governments were put under the control of the warlords and the people's councils were created by the warlords instead of by the people. In short, the provincial constitution was a means through which all the revenues of the state were taken by the

1. Li Chuan-shih, p. 83.

2. Yee Hong-lin, p. 107.

provincial governments within their territories. "This was the first time, however, that a relatively proper provincial financial system appeared in China (after 1912). Since the death of Yuan Shih-kai, each province collected the salt tax for local purposes following the precedent which was set by Kwangtung in 1917.<sup>1</sup> Szechwan retained the salt tax and its surtax, formerly paid to the Peking Government because of its neutrality in the 'struggle' between the Peking and the Military Governments".<sup>2</sup> At the same time, Kiangsu was in the process of framing and adopting a provincial constitution too.<sup>3</sup>

From the provinces which had adopted provincial constitutions and those which pretended neutrality, there was neither revenue contributed to the Peking and Military Governments, nor did these provinces receive subsidies from the two Governments. Nevertheless, the provinces now financed their governmental responsibilities as well as military affairs by themselves.

In 1922, President Hsu Shih-chang of the Peking Government resigned and the ex-President Li Yuan-hong succeeded him. One year later, General Tsiao-qung became the President of this Government. His "own" Parliament adopted a constitution in the same year, in which a new division in taxation was laid down;<sup>4</sup> the nation's finances were to be

1. In 1917, the Kuomintang founded the Military Government at Canton, the capital of Kwangtung. The warlords pretending to support the Military Government intercepted all the revenues, including those from customs duties, of the Peking Government.
2. Yee Hong-lin, p. 108.
3. Li Chuan-shih, p. 88.
4. Cf., Chia Teh-huei, Vol. I, Pp 21-2.

divided into two levels, the national and the provincial, which read as follows:

### I. Taxes and Levies

#### (a) National taxes:

- i. The custom duties;
- ii. The salt tax;
- iii. The fiscal stamp tax;
- iv. The tobacco and liquor tax;
- v. Other excise taxes;
- vi. The tax or taxes better fitted to national administration; and the tax or taxes better levied at a uniform rate on a national basis.

#### (b) Provincial taxes:

- i. The farm land tax;
- ii. The title deeds tax;
- iii. Other provincial taxes and imposts:<sup>1</sup>
  - The personal property tax;
  - The animal tax;
  - The food tax;
  - The butchering tax.

### II. Functions and Expenditures

#### (a) National expenditures for:

- i. Foreign affairs;
- ii. National defence;
- iii. Judicial administration;
- iv. Reform of the system of measure, weight and capacity;
- v. Monetary system and national banking;
- vi. Post, telegraph, railway, highway, and aerial navigation;
- vii. Reorganization of national and provincial finance;
- viii. Government monopoly enterprises;
- ix. Inter-province water works;
- x. Development of barren land;
- xi. Mining administration;
- xii. Other matters defined by law.

---

1. Yee Hong-lin, p. 108.

## (b) Provincial expenditures for:

- i. Education;
- ii. Industry and communication;
- iii. Provincial water works and other works;
- iv. Administration of provincial properties;
- v. Provincial financial expenses;
- vi. Provincial debts;
- vii. Public welfare;
- viii. Expenses of the subordinate (Hsien) governments;
- ix. Other matters defined by law.

So far as financial legislation was concerned since the end of the Ch'ing Dynasty, the Constitution of 1923 could be said to be the best yet. The Financial Reform of 1911 ignored the division of government functions and revenues between the central and provincial finances, and no fair results would have followed even if the operation of the Budget of 1911 had not been interrupted by the Revolution. Yuan's Bill of 1914 ignored Hsien ability and allocated a heavy burden of expenditure to Hsien governments without adequate revenue sources, which led to the impracticable Bill of 1914 and the incorporation of the Hsien finances into the national finances. But, Tsiao-qung's constitution realized the position of the provinces and granted the power to them in order to win support from each province. However, Tisao-qung could not convince even the warlords of the North, and therefore, "no province put this financial measure into effect. This Legislation, like the Peking Government,<sup>1</sup> existed in name only."

9v.

---

1. Yee Hong-lin, P 107.

B. The Temporary Act of 1927.

In 1917, the Kuomintang members of the old Parliament organized the Military Government in Canton, but it performed little governmental responsibility because its territory was in fact limited to the City of Canton, outside of which the Southern Warlords were the supreme power. The financial and political handicaps of the Military Government were so heavy that it also existed in name only.

After 1920, however, two great influences made themselves felt at home as well as abroad. The domestic influence was the New Literature Movement, or Pai Hua, as it was called, which provided means to the student from fifteen years of age up, to understand the Sanminchuyi, the Three People's Principles,<sup>1</sup> by Sun Yat-sen. The other influence was the success of the revolution in Russia, which influenced Sun Yat-sen in deciding to adopt direct action against the warlords.<sup>2</sup>

During the years from 1919 to 1923, the Kuomintang had secured the support and sympathy of most students, workers, and merchants.<sup>3</sup> Moreover, the Chinese Communist Party was created in 1920, and, in 1923, through reforming the old Kuomintang, a progressive Kuomintang

1. The Three People's Principles was the guiding principle of the Kuomintang. "The Principle of Nationalism is directed toward securing the liberation of the Chinese nation and the equality of all racial groups within the nation. The Principle of People's Rights aims at the people's realization of their direct political rights in addition to their indirect rights. The Principle of People's Livelihood aims at the equalization of land ownership and the restriction of capitalistic monopoly." Chiang Kai-shek's speech in 1944 on the occasion of the birthday anniversary of Sun Yat-sen, Cit., China Handbook, p.37.
2. Cf., Li Jan-nung, Vol. II, pp 604-5.
3. Ibid.

*3t.*

eventually emerged. The reformed Kuomintang permitted the individual Communists to affiliate with itself.

In January 1924, the first National Congress of the reformed Kuomintang was held at Canton. The platform of the Kuomintang was stated in the Declaration of this Congress. The characteristic features laid down in this Declaration can be summarized under two points. Politically, it aimed at the unification of the country through military campaigns against the warlords, and also at the enforcing of a period of Political Tutelage in which the Kuomintang was to direct the governing bodies of the state, before a formal constitution would be adopted. Economically, it aimed at a sound Hsien financial system to meet the needs of the people, wherein the Likin levies were to be made national, and then abolished; the tenant farmers were to be protected from paying exorbitant rents, and most of the government revenues and obligations were to be distributed between the central and Hsien governing bodies. In brief, this platform attempted to realize Sun Yat-sen's Sanminchuyi.

More significantly, in the same year, 1924, the famous Whampo Military Academy was established. The President of the Academy was Chiang Kai-shek who had recently returned from Russia where he had investigated the Soviet Government system and the Red Army. Hereafter, the Kuomintang trained its own army, which successfully crushed the Southern Warlords by 1926 and subsequently became the mainstay of the military force that carried on wars with the Northern Warlords, and, in recent years, with Japan and with the Communists.

From 1919 to 1924, the Kuomintang had gradually strengthened its political position and its military force. On the other hand, the warlords in the rest of the country carried on civil wars among themselves, and the Peking Government existed in name as usual.

The one-time Premier Tuan Chi-jui ousted President Tsiao-qung in 1923 and organized another governing body in the following year. Because the Kuomintang had gradually strengthened its political position in the South, Tuan invited Sun Yat-sen to come to Peking in order to discuss the future system of government and a national assembly. Tuan and Sun, however, could never reconcile their opinions on a future national assembly. Tuan and his followers suggested that the future assembly should have the majority of the delegates drawn from present military leaders and provincial authorities because Tuan, at that time, was still able to command a number of military provincial governors; while Sun and his Party proposed that the majority of the delegates must come directly from people's organizations, such as trade unions, chambers of commerce, industrial associations, educational organizations, farm associations, as well as political parties, because Sun had won support directly from these people's organizations.

In 1925, Tuan Chi-jui, ignoring Sun Yat-sen's proposal, held a conference to further his own views; and, therefore, the Kuomintang reacted by issuing a circular telegram vehemently objecting to this conference. In the same year, Sun Yat-sen died in Peking. And, after

Sun's death, the Kuomintang reformed its existing Military Government and then established the National Government in Canton. But this caused little attention from Peking, and Tuan still would not make any concession regarding his political views. In May 1926, the Kuomintang headed by Chiang Kai-shek, therefore started a large scale military campaign against the Northern Warlords to unify the country. In one province after another, in 1926 and 1927, the strength of the warlords was successively destroyed by Chiang Kai-shek.

In October, 1926, the Second National Congress of the Kuomintang convened. The Resolutions of this Congress, insofar as government finance was concerned (Hsien finance was considered under <sup>1</sup> the provinces) read as follows:

- A. All affairs relating to the province were to be dealt with by the provincial government;
- B. All affairs relating to more than two provinces or to the whole country were to be dealt with by the National Government;
- C. The finances of both the National and the provincial governments were to be distinctly defined;
- D. After being defined, finance concerning the province would be controlled by the provincial government, while finance concerning the country would be controlled by the National Government;
- E. Establishment of uniform control of finance of the country;
- F. Abolition of Likin under the control of the National Government;
- G. A uniform land tax.

---

1. Cf., China Year Book, 1928, Pp 1343-7.

Following the military campaigns, the National Government moved to Nanking in 1927. In the same year, the Minister of Finance, Ku Ying-feng, of the National Government drafted a Temporary Act separating the provincial finance from the central finance according to the above decisions. This Act was soon put into effect in the provinces where the Nationalist's had control. The articles relating to the provincial finance were as follows:

I. Provincial Taxation:

- a. The farm land tax;
- b. The title deeds tax;
- c. The broker tax;
- d. The commerce tax;
- e. The shipping tax;
- f. The housing tax;
- g. The butchering tax;
- h. The fishing tax.

II. Provincial Expenditures for:

1

- a. The Kuomintang;
- b. Legislation and local self-government;
- c. Provincial and Hsien administration;
- d. Provincial police protection;
- e. Provincial farming and industrial administration;
- f. Provincial public works;
- g. Provincial health services;
- h. Provincial relief;
- i. Provincial debts.

---

1. The provincial branch offices of the Kuomintang performed the functions of a "local government".

This Act was not drawn up in accordance with the platform laid down in the Declaration in 1924, which recommended a sound local financial system rather than a provincial one. Instead, it was planned to make easy the War of Unification because the National Government itself was too involved in warfare, and its responsibility was increased when its territory was extended; and, because the provincial governors were still powerful rulers of the state although they had just surrendered their military administration to the Nationalists.

This Act also decided that the provinces would be granted a part of some new taxes in future, such as the business, land value, personal property and trademark taxes.

#### Conclusion

The years from 1917 to 1926 composed a regretful chapter in the history of the Republic. Due to the lack of a democratic spirit, the radical provincialism backed by provincial armies split the nation's unity into several factions, and the provincial governors carried civil wars throughout the country, which contributed to serious disorder in the nation's finances. The stage from 1926 to 1928 was a period of the struggle of the radical provincialism against the extreme nationalism of the Kuomintang, and a great War of Unification followed.

At any rate, a practicable financial system could never be effective under such critical political crises. The Temporary Act of 1927 was no exception. The overall situation was still chaotic and it was not possible for the war torn areas to adopt the Temporary Act.

Meanwhile, beginning from 1927 the Kuomintang and the Communist Party split and the Communists rose in revolt in Canton against the National Government in Nanking. The result of this on the implementation of the financial Act can well be imagined. Therefore, this Act was left to the First National Conference which was held in 1928, when a unified China was being realized under the Kuomintang.

The most significant feature of the Temporary Act was that it proposed a strong provincial financial system rather than a sound local financial system. This was because the Nationalists would meet tremendous difficulties if they reduced the power of the provincial governments in addition to the military administration, for the provinces had become the most powerful rulers of the state since 1864.

Selected References

CHAPTERS III and IV

Chinese

Chia Teh-huei, Financial History of the Republic of China,  
Shanghai - second edition, 1947.

English

Li Chuan-shih, Central and Local Finance in China, New York,  
Columbia University, 1922.

Periodicals (Chinese)

Yee Hong-lin, An Outline of Local Finance of our Country,  
Financial Review, April, 1945.

Periodicals (English)

China Handbook, 1937 - 1945;

China Year Book, 1928; Tientsin, the Tientsin Press, Ltd.

China Year Book, 1931; Shanghai, the North China Daily News &  
Herald, Ltd.

International Year Book for 1928.

Selected References

## Chapter III

Chinese

Chia Teh-huei, Financial History of the Republic of China,  
Shanghai- secondition, 1947.  
edition

Li Jan-mung, Chinese Political History in the Last One Hundred Years,  
Shanghai- second edition, 1948.

English

Li Chuan-shih, Central and Local Finance in China, New York,  
Columbia University, 1922.

Periodicals (Chinese)

Yee Hong-lin, An Outline of Local Finance of Our Country,  
Financial Review, April, 1945.

Periodicals (English)

China Handbook, 1937-1945.

China Year Book, 1928; Tientsin, the Tientsin Press, Ltd.

PART III

The First National Financial  
Conference in 1928

and

The Second National Financial  
Conference in 1934  
in  
Nationalist China

PART III

## Chapter IV - The First National Financial Conference

Introduction

Before 1924, the Kuomintang was still endeavoring to establish a democratic political system through negotiation with the warlords. These attempts failed. Due largely to the success of the Russian Revolution, Sun Yat-sen and his followers were convinced that it was both necessary and desirable to give up cooperation with the warlords. In 1924 the Kuomintang undertook two remarkable projects, namely, the convening of the First National Congress of Kuomintang and the establishment of the Whampoa Military Academy.

Two periods were foreseen in a future constitutional government system as proposed by this Congress. They were the Period of Military Administration which was the period of the war of unification, and the Period of Political Tutelage, which was the period of teaching the people to prepare for a constitutional government.

One year after the death of Sun Yat-sen, in May of 1926, the great War of Unification officially broke out. By 1927, the National Government had moved to Nanking, and of the Northern Warlords, only Chang Tsö-lin was able to resist Chiang Kai-shek. In the following year, Chang Taö-lin sent a cease-fire order, paving the path for peace. Chang Tsö-lin gave up the struggle against the National Government and

1

shortly after was murdered by the Japanese. As a result of this incident, the Three Northeastern Provinces, which together made up the territory known as Manchuria (governed by a young Marshal, Chang Hsueh-liang, the son of Chang Tsō-lin), joined the National Government in the winter of 1928. A unified China had finally emerged.

Before the unification was fully realized, in June 1928, the National Government summoned the First National Financial Conference in order to preserve a stabilized condition in finance for the immediate needs in the post-war period. Plans were thus made that allowed the Hsien finance to be put under the control of each provincial government. One of the Resolutions of this Conference, later known as the Financial Division Act of 1928, governed the financial affairs of both the Central and provincial governments from 1929 onwards.

Since all the warlords who fought against the National Government were crushed and there was no more military threat from the provincial governors to the National Government, the Division Act of 1928 was gradually carried out without interruption. As there was no provincial obligation with regard to the army defined under the Division Act, the military expenditure which had been a highly controversial matter since 1850, was for the first time successfully settled by being brought under the direct control of the National Government. This enabled the funds of the provincial governments to be spent for non-military purposes, and hereafter a stable financial system in the provinces was made possible for the first time since the Republic was founded.

1. The New International Year Book for 1928, p. 167, "Previously he (Chang Tsō-lin) had been a mere tool of the Japanese Foreign Office, but in recent years, ... he had chafed under Japan's political and military guidance and had shown signs of ultimately breaking completely."

A. Kuomintang and its System of Government.

Before proceeding to discuss changes in the financial system, it is advisable to consider first the system of government under the National Government. Following the Period of Military Administration came the Period of Political Tutelage and from 1928 on, China was ruled by the National Government. As constituted since the unification of the country under the Kuomintang, the National Government was the creation of, and therefore subordinate to, the Kuomintang. The National Government derived its mandate from the Central Executive Committee and the Central Supervisory Committee elected by the National Congress of the Kuomintang. For the purposes of political administration, the authority of the Kuomintang was exercised by the Central Political Council, which formulated government policies to be executed by the National Government.

In order to establish the Republic of China on the basis of the Constitution of Five Powers, Sun Yat-sen's proposal regarding the system of central government, the National Government was organized into five Yuans: the Executive Yuan, the Legislative Yuan, the Judicial Yuan, the Examination Yuan, and the Control Yuan.

According to the Organic Law of the National Government promulgated in October, 1928, "there shall be a President (the chairman of the Government), and from twelve to sixteen State Councillors of the National Government. The Presidents and Vice-Presidents of the five

---

Continued from previous page ....

with Tokyo .... Chang's death was kept a secret for almost three weeks. It was thought that had not Japan known the opinion of the world it would have seized Manchuria then and there."

Yuan shall be appointed from among the State Councillors of the National Government." So far as general administration was concerned, the Executive Yuan was the highest executive organ and had direct supervision and general direction over various executive Ministries and Commissions. The component Ministries and Commissions of the Executive Yuan were:

The Ministry of Interior;  
The Ministry of Foreign Affairs;  
The Ministry of Military Affairs;  
The Ministry of Communications;  
The Ministry of Education;  
The Ministry of Industry;  
The Ministry of Railways;  
The Ministry of Finance;  
And other Commissions. 1

The administration of each province, known as the provincial government was composed of from seven to nine members appointed by the National Government. One of them was designated as the Chairman, or the governor. The executive organization included a Secretariat and

---

Note: Some minor changes in the system of government in later years will not be discussed in this Thesis.

1. The Commissions were set up for special purposes not affecting the administration of the whole country, such as the Commission on Mongolian and Tibetan Affairs, the Commission on Overseas Chinese Affairs; Commissions were also set up for occasional purposes, such as the National Opium Suppression Commission, Famine Relief Commission.

the following main Departments:

The Department of Civil Affairs;  
 The Department of Finance;  
 The Department of Education;  
 The Department of Reconstruction or public works;  
 The Department of Agriculture, Industry, and Commerce;  
 The Department of Public Health;  
 The Department of Social Affairs;  
 And other Committees.

The provincial governments were under the direct jurisdiction of the Executive Yuan.

Equivalent to the provincial government and under the direct jurisdiction of the Executive Yuan were the Special Municipal Governments.<sup>1</sup>

The Provinces were divided into about 2000 Hsien. To each Hsien was appointed a Magistrate.<sup>2</sup> The administrative organizations of each Hsien Government were mainly classified into several Bureaus:

The Bureau of Finance;  
 The Bureau of Police;  
 The Bureau of Reconstruction and public works;  
 The Bureau of Education;  
 The Bureau of Civil Affairs;  
 And other Committees.

All Hsien were divided into three classes according to their size, population, and financial ability. If a Hsien had a population of 300,000 or more, it would be classified as a Provincial Municipality

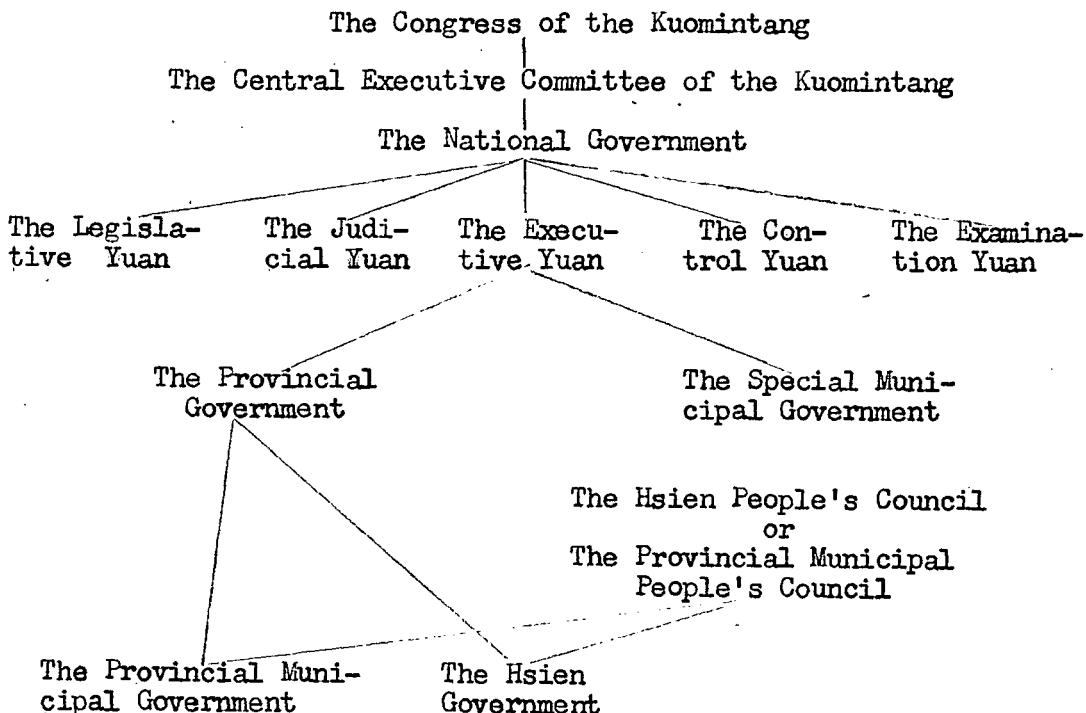
1. There were only six Special Municipal Governments before 1937, namely, the Municipal Governments of Nanking, Peking (the former name was Peking), Shanghai, Tientsin, Tsingtao, and Siking.
2. During the Period of Political Tutelage, all the Magistrates were first examined and then qualified for appointment by the Central Government.

<sup>1</sup> under the direct jurisdiction of the provincial government. The organization of the Provincial Municipal Government was, in general, akin to that of the other Hsien governments. The financial power of the former was relatively greater, in a few cases, than the latter.

Each Hsien was composed of a number of districts under which were towns or villages or cities. The delegates of each district, elected by the people, formed a Hsien Assembly. The power of this Assembly was to discuss and to approve the budget of the Hsien government, and to consider suggestions regarding the improvement of the Hsien, and other matters referred to it by the Magistrate.

To sum up, the system of government under the National Government was designed as follows:

#### The System of Government under the National Government



1. There were sixteen Provincial Municipal Governments before 1937.

The chief subject of this Thesis is the development of the financial system of the provincial and Hsien governments; therefore, the National, the Special Municipal and the Provincial <sup>Municipal</sup> Governments will not be treated as an important topic.

#### B. The First National Financial Conference

A chaotic financial system had been bitterly experienced by this nation for <sup>ten</sup> eight years. When unification was, through a series of painful military campaigns, at the point of being realized, the First National Financial Conference convened at Nanking in July, 1928.

For the purpose of this Conference the Minister of Finance, T. V. Soong, explained, "The first and most important matter of this Conference is to deal with 'unification' in finance. The premise of our discussion shall not be based on the 'regionalism', which should be entirely discarded, but on the concept of the 'unified China'". This statement was extremely significant in that the standpoint of this conference was neither based on the concept of warlordism, nor federalism, but on the basis of nationalism.

At this Conference, there were three important Resolutions worked out. They were put into effect in 1929. The first Resolution which defined a budgetary procedure concerning the Central and provincial governments, can be summarized as follows:

- (a) After this Conference has divided the government revenues and obligations between the National and provincial governments, both the latter governments should strictly observe this financial division. Each of the said governments should formulate its budget accordingly.

- (b) The Ministry of Finance of the Executive Yuan should submit the central and provincial budgets to the National Government for promulgation and enforcement.
- (c) Once every three months both the Ministry of Finance and the provincial authorities should report in detail on the actual workings of their respective revenues and expenditures to the Central Government.

The second Resolution defined the power of the Ministry of Finance of the Executive Yuan. It can be summarized as follows:

- (a) All affairs relating to the procedure, staff members and administration of the central revenue should be directly administered by the Ministry of Finance.
- (b) The Ministry of Finance should ensure that all the central revenue be remitted direct to the Central Treasury without being detained.
- (c) Receipts, disbursements, deposits, and auditing of the governments' finance should be strictly under the control of the Ministry of Finance.

The third Resolution was the demarcation between the central and the provincial finances, known in later years as the Financial Division Act of 1928. This Financial Division Act dealt with important issues among which were:

Article 2. The division of the power of the Central and provincial governments to levy taxes is determined by this Conference as follows:

- (a) The Central revenues and receipts from:

The salt tax;  
 The custom duties;  
 The tobacco and liquor taxes;  
 The cigarette tax;  
 The kerosene and gasoline tax;  
 The Likin and its similar impositions;  
 The fiscal stamp tax;  
 The corporation and trade mark registration fees;  
 The maritime fishing tax;  
 The receipts from Government operating enterprises;  
 Other revenues and receipts defined by law.

## (b) The Provincial revenues and receipts from:

The farm land tax;  
The title deeds tax;  
The broker tax;  
The pawnshop tax;  
The butchery tax;  
The inland fishing tax;  
The ship, boat, and vehicle duties;  
The house duty;  
Other revenues and receipts defined by law.

Several additional taxes were recommended by this Conference with the expectation that they would be actually levied within a few years. Article 3 defined that:

The power to levy the additional taxes shall be distributed between the Central and provincial governments as follows:

## (a) The Central taxes:

The income tax;  
The succession duty;  
The special excise tax;  
The commodity tax;

## (b) The Provincial taxes:

The business tax;  
The land tax; 1  
The income surtax.

Article 5 empowers the provincial government to dominate its subordinate governments. It stated that:

The receipts and disbursements of the Provincial, Municipal and Hsien Governments shall be regulated by each respective Provincial Government; the Provincial Government is to report all the

- 
1. The Conference proposed that the existing taxes on land be improved. After the land taxation was reformed, the provincial governments were to share the new land taxes instead of the old levies.

financial statements of its subordinate governments to the Ministry of Finance (of the Executive Yuan) for approval or revision.

Articles 4, 6, 7 and 10 dealt with the possible problems arising out of the execution of the Financial Division. These Articles can be summarized in the following points:

The province, having introduced the Financial Division, shall not levy or impose any new tax without permission from the Central Government.

The province shall not collect the old taxes which are in conflict with those under the Financial Division.

The province shall be prohibited from collecting the old tax or taxes which are not stated in the Financial Division.

Any deficit arising from the adoption of the Financial Division shall be subsidized by the Central Government.

Before this Conference was held, the levying power of the Likin was in the hands of the provincial governments. As proposed by the First and Second Congress of the Kuomintang, the Likin was to be abolished. Article 8 thus stated that:

The Central Government shall be in charge of the abolition of Likin and all domestic transit impositions within six months after the Financial Division is in effect.

This Article also decided that the Central Government was first to take over the administration of Likin levies from the provincial governments for the ultimate abolition. 1

---

1. The Likin levies were abolished late in December 1930.

The latter part of the Financial Division dealt with the government obligations. The provincial obligations and expenditures were defined as follows:

The provincial expenditures were to be for:

Party (Kuomintang);  
Local legislation;  
Jurisdiction;  
The cost of the Financial Department of the Provincial Government;  
Relief and pensions;  
Provincial and local administration;  
Police protection;  
Education;  
Local agriculture, mining, industry and commerce;  
Local public enterprises;  
Public works;  
Public health;  
Provincial debts;  
Other matters defined by law.

The provincial revenues and functions in the Financial Division were akin to those in the temporary Act of 1927. The differences between these two financial measures can be summarized as follows:

- (a) The fishing tax -- the Temporary Act of 1927 defined that a fishing tax belonged to the provincial governments, while the Financial Division defined that the maritime fishing tax belonged to the Central Government and the inland fishing tax belonged to the provincial governments.
- (b) The income tax -- the Act of 1927 did not specify that the provincial governments could share the income tax in the future, while the Financial Division defined that the provincial governments would enjoy an income surtax.

- (c) The provincial defence — the Act of 1927 defined the provincial defence as one of the functions of the provincial governments, while the Financial Division did not entitle the provincial governments to carry this function.

The Division Act of 1928 was to be in effect in 1929. In the preceding chapters, it has been pointed out that the military leaders were one of the factors causing a chaotic administration in finance. A Military Reorganization Conference was then held in January 1929 in order to make the enforcement of the Division Act effective. At this Conference some measures were proposed. They can be summarized as follows:

- (a) All central taxes shall be collected only by the agents of the Ministry of Finance of the Executive Yuan. The military and local authorities shall be strictly forbidden to retain any portion, or impose surtaxes, on any pretext whatsoever.
- (b) The Ministry of Finance shall have undivided control over the appointment of financial officers and the administrative policy in the field of central finances.
- (c) Only the Central Treasury shall be responsible for payment of all military expenses.
- (d) The expenses of the old provincial reserve army being organized for police services shall be paid out of the provincial revenues.

---

1. Cf., The China Year Book, 1931, The North China Daily News and Herald Ltd., Shanghai, p. 336.

C. Enforcement of the Financial Division Act of 1928

Provincial Finance

The first fiscal year for the Division Act was supposed to commence from July 1929 to June 1930. In actuality, however, the war torn provinces were unable to work out their budgets; some provinces did not issue their financial statements; and in some cases the provincial governments still carried on their finances according to the Temporary Act of 1927.<sup>1</sup> It was not until the latter months of 1929 that the Division Act was gradually and fully carried out.<sup>2</sup> The general conditions in financial and political situation during the transition from the War of Unification to peace were described in the T.V. Soong's Report.<sup>3</sup> Part of the Report stated that, "To understand the (central financial) situation we must remember that: (1) at the beginning of the fiscal year (July, 1929 - June, 1930), and during a considerable part of the twelve months, although the (National) Government had to undertake the responsibilities of the entire country, it had at its actual disposal the revenues of only five Provinces, except for the maritime customs revenue; (2) during the fiscal year it had to bear three major military campaigns to prevent internal disruption (the Communist Revolts)."

1. Cf., Chia Teh-huei, Vol. I., p. 25.

2. Cf., T.V. Soong's Report submitted to the Fourth Central Executive Committee of the Kuomintang, The China Year Book, 1931, p. 336.

3. Ibid., Pp 337-39.

In 1930, only the Kiangsu Provincial Government published a statement of its expenditures for the fiscal year of 1929 (July, 1929 - June, 1930), and an estimated budget for the next fiscal year. The <sup>1</sup> statement and the budget read as follows:

**Estimated Statement of the Expenditures of  
the Kiangsu Provincial Government for 1929's Fiscal Year**

Party expenses	200,000 yuan	1.0%
Administration expenses	6,500,000 yuan	32.5%
Judicial expenses	1,500,000 yuan	7.5%
Financial administration	1,500,000 yuan	7.5%
Education & Culture	500,000 yuan	2.5%
Agriculture and Mining	2,200,000 yuan	11.0%
Construction	4,000,000 yuan	20.0%
Land reorganization	1,500,000 yuan	7.5%
Provincial debts	2,000,000 yuan	10.0%
Contingency fund	<u>100,000 yuan</u>	0.5%
 Total	20,000,000 yuan	100.0%

**Kiangsu Provincial Budget  
for the 1930's Fiscal Year**

Revenues and Receipts from:

Land tax	7,222,719 yuan	30.1%
Inland fishing dues	20,482	0.1
Shipping dues	30,079	0.2
Business tax	4,000,000	16.5
Special appropriations for education from the Central Government	4,596,552	18.8
Receipts from Enterprises	82,746	0.3
Construction loan pro- ceeds	4,000,000	16.5
Subsidies from the Central Government	3,600,000	14.4
Other receipts	765,544	3.1
 Total	24,319,122	100.0%

1. Source: The China Year Book, 1931, p. 344.

## Kiangsu Provincial Budget Continued.

Expenditures for

Party expenses	276,000 yuan	1.1%
Administration	3,469,653	14.2
Judicial administration	2,513,909	10.3
Police protection	4,560,138	18.7
Education	5,508,785	22.7
Agriculture and mining	925,604	3.5
Public health	54,120	0.2
Construction	4,942,544	20.3
Subsidies to the subordinate governments	824,371	3.4
Contingency fund	1,011,794	4.1
 Total	24,319,122 (cit.)	98.8% <sup>1</sup>

For securing further improvement of nation-wide supervision the National Government in November 1930 set up a Financial Control Department. This Department was directly subordinated to the Chairman, or the President, of the National Government, and, was to audit both the central and provincial finances before the latter were passed at the Legislative Yuan. With this special power it was hoped that the new Department would carry out its function more effectively. And, in effect, by the establishment of this Department, the military leaders and the provincial governors were no longer the comptrollers in finance, because the new Department was in charge of preparing all central and provincial preliminary budgets.

In the following year, this Department collected and published figures to show the revenues and disbursements of some provinces for the fiscal years of 1930 and 1931, as shown in the following Tables.

---

1. Calculated from the sum 24,319,122 yuan.

TABLE IV

The Revenues and Disbursements of the  
 Twenty Provincial Governments in the Fiscal Years  
 1930 and 1931 (1)

(Unit: 000 yuan)

Provincial Governments	Total Revenue		Total Expend- iture		Increase (+) or Decrease (-) in Revenue in 1931	
	in 1931	1930	in 1931	1930	Amount	Percentage
Anhwei	15,856	16,170	15,856	16,170	-	584 0.03
Chahar	2,348	2,270	2,348	2,066	+	78 0.01
Chekiang	25,195	21,675	25,195	21,009	+	3,521 16.24
Ch'inghai	1,976	--	1,045	--	--	--
Fukien	27,510	--	30,839	--	--	--
Honan	17,849	14,480	17,849	14,680	+	3,164 21.85
Hopei	33,223	15,565	33,223	15,764	+	17,659 113.45
Hunan	17,124	10,713	17,124	17,015	+	6,410 59.84
Hupei	23,600	13,024	28,007	23,764	+	10,576 81.20
Jehol	1,714	1,603	2,359	2,197	+	111 0.07
Kiangsu #	26,176	24,319	26,176	24,319	+	1,757 0.07
Kwangsi	13,744	--	11,016	--	--	--
Kwangtung	34,170	--	43,095	--	--	--
Kweichow	2,623	--	3,125	--	--	--
Ninghsia	1,105	--	3,125	--	--	--
Shangtuung	24,575	21,883	24,575	19,442	+	2,692 12.30
Shansi	11,350	--	10,832	--	--	--
Shensi	13,995	--	20,781	--	--	--
Sinkiang	3,205	3,548	8,947	8,402	-	342 0.09
Yunan	3,125	--	5,431	--	--	--

# The revenue and expenditure of the Kiangsu Provincial Government for 1930's fiscal year are cited from Pp 66-7, supra.

Details of some provincial budgets are shown in Table V.

1. Source: The China Year Book, 1934, Pp 502-16.

TABLE V

The Budgets of Seven Selected Provincial Governments  
July, 1931 - June, 1932 (1)

(Unit: 000 yuan)

ITEMS	PROVINCES							Per- cent- age
	Shan- tung	Kiang- su	Chec- kiang	Honan	Hopei	Hunan	Jehol	
Revenues and Receipts								
Land Title Deeds	14958	11926	9391	8156	4867	2374	510	52182
House	1010		680	1677	1197	360	73	4997
Ship			235			184		184
Pawnshop	6				5	70		305
Wholesale	349	650		300	4051	160	6	5516
General								
Business	1898	3600	4755	600	2000	1400		14075
Butchery	270	650		200	921	314	49	2404
Administration	1908	380	700		1132	146	13	3469
Judicial		469			186			655
Properties	70	210	34		846	50		1210
Enterprises	3682	88	1996	522				6288
Credits and								
Loans		3000	4000			3000		10000
Subsidies		2064	1800	6000	17013	3567	120	30564
Others	1234	3139	1782	394	1005	5499	943	13996
Deficit							645	
Total	24575	26176	25195	17849	33223	17124	1714	145865
Expenditures								
Party	948	192	297	717	433	725	73	3385
Administration	3990	3255	2102	2911	2535	3674	889	19356
Police Protection	3817	4192	5258	2700	795	1748	721	19231
Health	54	104				167		325
Education	3091	5123	2959	1955	3534	3232	148	20042
Financial	2150	1119	1358	741	858	1899	103	8129
Administration								
Industries	827	767	567	362	538	534	7	3602
Reconstruction	2619	5080	889	611	1066	100	110	10475
Communication			577		264	1561	4	2416
Debts	622	1344	5592	4927	7587			20072
Enterprises	1093		1641	429	130			4103
Judicial	2242	2611	2063	1094	2862	1240	216	12328
Contribution	465	1302	1354		12220	332	4	15677
Reserve	2000	1106	84	1402	400	500	84	5576
Others	31	350		1	1412			1794
Total	24575	26176	25195	17849	33223	18124	2359	146501

1. Source: The China Year Book, 1934, Pp 502-510.

The largest revenue of the provincial governments was the land tax which made up 35.7 per cent of the total in the fiscal year of 1931.<sup>1</sup> This tax was imposed on the farm land. Some provinces mentioned in Table V put the revenue from the house tax into the land tax; and the others granted the house tax to the Hsien governments.<sup>2</sup> The business tax defined by the Business Tax Act, included the taxes on the wholesalers, retailers, pawnshops, butchers, and the license taxes. This tax yielded 14.9 per cent of the total revenue in the fiscal year of 1931. The assessment rates on title deeds tax were not uniformly levied, varying from 2 to 9 per cent (including the surtaxes of the Hsien governments) among the provinces. This tax provided 31.4 per cent of the total revenue in 1931.

Among all the expenditures, those for education and debts were the largest, both adding up to 13.7 per cent of the total. The expenditures for administration (in some provinces, it included the expenditures for public health, etc.) and police protection came next, each accounting for 13.2 per cent of the total. The expenditures for

1. Chia Teh-huei, Vol. II, p. 592, "In January, 1927, the Central Executive Committee of the Kuomintang decided to adopt a general land tax. This proposal was later passed by the Legislative Yuan as the Land Act and the Central Government promulgated this Act in June 1930." Thus, in many provinces, the taxes on improvements, unimproved land were included in the land tax.
2. In March, 1931, the provincial governments were to enforce the business tax according to their own provisional by-law. The results of this enforcement were to be reported to the Central Government in order to draw up an official Business Tax Act. In June, 1931, the Business Tax Act was promulgated by the Central Government. Cf., Chia Teh-huei, Vol. II, p. 602.

industrial administration, reconstruction, communication, and public enterprises were, in some cases, incorporated under different headings. These expenditures amounted to 12.3 per cent of the total. When the unification of China had been accomplished, the Kuomintang initiated the Period of Political Tutelage in preparation for the introduction of a constitutional system throughout the nation. During this Period, the Central, provincial, and local governments were to support the expenses of the Kuomintang. In 1931, the fund contributed by the provinces for the Kuomintang was 2.4 per cent of their total expenditures.

Since the enforcement of the Financial Division Act the Central Government later also adopted two measures in an effort to prevent many of the provinces from suffering deficits. It supervised the provincial expenditures, requiring in some instances that expenditures be reduced, and subsidized the provincial government to meet their deficits.

Prior to the Division Act, China did not have a proper subsidy system. During the early Ch'ing period, the provincial governments had no power to levy taxes, but their cost of government was entirely assumed by the Central Government; and in the late Ch'ing period, as the provincial expenditures were being expanded from time to time, the deficits incurred in the provincial governments was assumed by the Central Government. Since the Republic came into existence, chaotic

---

1. See Table IV, p. 67, *infra*.

financial administration followed, and as a result there was no subsidy system at all. The Division Act was the first measure the Republic adopted to effect a proper taxation and disbursement system for both the Central and provincial governments. Because it was for the first time, the result of this practice was difficult to anticipate at the time of the First Financial Conference. But the Division Act laid down a clause specifying that the Central Government was responsible for the deficit incurred in adopting the said Act.

On the other hand, since the Department of Financial Control was set up by, and directly subordinated to the Chairman of the National Government, the final decision of increase or decrease in provincial budgetary figures was left in the hands of the Department. Under such practice, the subsidy system of the National Government could be termed a general subsidy system. All the subsidies granted from the Central Government to, and all the budgetary proceeds of the provincial finances were decided upon by the Department of Financial Control.

Table VI on page 71 is indicative of conditions of the provincial finance in the fiscal year of 1936. In this year there was no significant change in the expenditures compared with those in 1931. But by 1936 it was apparent that in most of the provinces the revenues from the business tax and from public properties and enterprises were increasing more rapidly than those from the land tax and other revenues.

TABLE VI

The Budgets of Nineteen Provincial Governments  
for the Fiscal Years of 1936 (1)

Revenues and Receipts	Amount: 000 yuan			Percentage	
	Range	Total	Range	Average	
Land tax	302-14,600	101,211	5.14-54.61	29.27	
Title deeds tax	11-2,305	15,209	0.24- 9.69	4.40	
House tax	0, or 15-480	1,950	0.47- 2.49	0.56	
Ship tax	0, or 7-527	1,486	0.12- 1.95	0.43	
Business taxes	330-9,124	52,634	3.45-36.40	15.22	
Administration fees	1-5,096	15,743	0.05-11.66	4.55	
Provincial Properties	0, or 3-950	4,119	0.11- 4.79	1.19	
Provincial Enterprises	0, or 28-3,905	14,973	0.45-13.50	4.33	
Credits & Loans	0, or 800-3,800	30,316	3.01-45.73	9.64	
Subsidies from the Central Government	122-6,725	54,325	6.29-31.67	15.71	
Others	68-8,481	50,809	0.27-46.84	14.70	
<b>Total</b>		<b>345,755</b>		<b>100.00</b>	
<b>Expenditures</b>					
Party #	0, or 48-812	3,703	0.44- 4.24	1.07	
Administration	330-6,009	47,081	7.14-30.57	13.62	
Police Protection	81-6,409	51,149	3.42-27.04	14.79	
Public Health #	0, or 13-600	2,568	0.20- 3.52	0.74	
Education	152-5,743	46,731	7.87-20.59	13.52	
Financial Administration	147-4,067	18,799	3.35-13.04	5.44	
Industries	0, or 3-4,067	9,694	0.12-11.65	2.80	
Reconstruction	0, or 39-6,019	29,853	1.81-19.87	8.63	
Communication	0, or 8-2,606	5,768	0.25- 6.19	1.67	
Debts	0, or 10-23,280	58,822	0.19-53.23	17.01	
Enterprises	0, or 80-2,840	6,024	0.29-10.67	1.74	
Judicial Administration	51-2,932	23,457	2.15-11.43	6.78	
Pensions #	0, or 5-204	812	0.04- 1.02	0.24	
Reserve	87-3,756	14,614	0.20-15.32	4.23	
Others	0, or 16-2,000	4,789	0.15- 6.82	1.38	
Subsidies to the Local Governments	12-4,113	21,911	0.23-54.06	6.34	
<b>Total</b>		<b>345,755</b>		<b>100.00</b>	

# In some cases this item was incorporated into the expenditures for administration.

1. Source: Chia Teh-huei, Vol. II, Pp 575-79, 610-13.

Table VII shows in detail the increase in the provincial revenues in the fiscal year of 1936 as compared with those of 1931. This Table also indicates that the provincial finances were becoming more stable.

TABLE VII

Increases and Decreases of the Provincial Revenues 1  
in Four Selected Provinces for 1936 compared with 1931

Revenue Sources	Total in 1931	PROVINCES					Increase: + and - in 1936	Decrease: - %
		Shang-tung	Kiang-su	Che-kaing	Honan	Hunan		
Land Title Deeds	46805 3727	1340+ 358-	816+ 1379+	1080+ 400+	2761+ 573+	1468+ 506+	5767+ 4198+	112.3 212.7
House Ship	184 305	470+ 0	0 0	0 3+	0 0	93+ 22-	563+ 19-	402.7 93.7
Business Administration	14964 2793	1438+ 1221-	305- 1+	911+ 333+	1314+ 614+	1817+ 78+	5175+ 195-	134.6 92.6
Properties	364	267+	296+	576+	93+	290+	1522+	518.2
Enterprises	62888	3107-	1233+	3544+	334-	907+	2243+	135.7
Loans	10000	0	0	2806-	2400+	3000-	3406-	65.9
Subsidies	13431	2767+	657+	2769+	2913-	202-	3078+	122.8
Others	12048	24+	2877-	1704-	78-	2575+	1676-	86.1
Total	110929	1620+	1200+	5106+	4430+	4894+	17250+	115.6

# Including the receipts from the judicial administration

Since the Republic, the provincial governments often resorted to borrowing when their ordinary revenue was felt to be inadequate.<sup>2</sup> Until 1925, the provincial net debts of thirteen provinces from bonds and loans amounted to about 51,120,000 yuan, 7,367,762 Japanese Yen, and 972,164 pounds sterling.<sup>3</sup> Most of the proceeds of the loan issues were,

1. Source: Chia Teh-huei, Vol.II, Pp 575-77, and p. 69 supra.
2. The first provincial bond was issued by the Hopei Provincial Government in 1904 for military expansion. Cf., Chia, Vol.II, p. 618.
3. Ibid., p. 621.

directly or indirectly, used for military expansion of the provincial governments.<sup>1</sup> From 1927 on, the provincial debts were carried out for reconstruction, relief, as well as for circulation and banking purposes.<sup>2</sup> The details are shown in Table VIII. These figures include the bonds outstanding, the bonds that had not been fully issued, and in some cases, the bonds that had been paid off.

TABLE VIII

The Provincial Bonds in Fifteen Provinces  
1927 - 1937 inclusive.<sup>3</sup>

(Amount: 000 Yuan)

Year	PURPOSES						Total
	Banking <sup>4</sup>	Reconstruction	Relief #	Old Debts	Enterprises	Others *	
1927			3000				3000
1928	8000						8000
1929	20000					7400	27400
1930	49000	7000	3000				59000
1931		10000	26000			8738	44738
1932		500	4500	3000		6200	14200
1933		1000				1000	2000
1934	4000	20000				6000	30000
1935	2000	24800		60000		2000	88800
1936		30000	3000				33000
1937				900	10000		10900
Total	83000	93300	39500	60000	3900	41338	321038
%	25.7	29.1	12.3	18.7	1.3	12.9	100.0

# Includes rehabilitation, etc.

\* The bonds issued for more than one purpose under the first five headings.

1. Cf., Ibid., p. 618.
2. Since the beginning of this century most of the provincial governments issued coins and banknotes through their respective provincial banks. Inflation appeared critical during the period of warlordism prior to 1926. As a result of this, some provincial governments issued bonds. In order to maintain the value of the provincial currency, from 1934 onwards, the provincial governments surrendered their control of currency.
3. Source: Chia Teh-huei, Vol. II, Pp. 622-24.
4. Op. cit.

Hsien Finance

As instituted by the Financial Division Act of 1928, the Hsien finance was to be directed by the provincial government. Not until 1929 was the "Organic Law of the Hsien Government" put into effect. According to this Law, the Hsien finance was to be directed by the magistrate of the Hsien government.

Before the Law was enacted, the custom had developed that the Hsien governments were granted by their respective provincial governments, a few sources of provincial revenue for their functions. Because these sources of revenue were granted by each individual provincial government, there was no uniform standard in Hsien finance. After the Law was enacted, the major source of the Hsien revenues was the surtaxes on the provincial levies, in which the farm land surtax was the most important. Speaking generally, the importance of each individual surtax in the total Hsien governments' receipts differed from one province to another.

By the Organic Law, the magistrate and the bureau of finance, which was under his direction, were empowered to deal with:

1. Enforcement of the budget passed by the Hsien Assembly;
2. Collection of the Hsien revenues and receipts;
3. Disbursement of Hsien revenues and receipts;
4. Hsien debts; and,
5. Management of public properties and enterprises.

This Law, however, neither provided new taxes for, nor defined the old taxes which should belong to the Hsien governments. But it authorized the Hsien Governments to collect revenues in a vague sense.

The result was that the Hsien government developed a surtax system in which the major sources of their income were derived from the surtaxes on provincial levies, such as the surtaxes on farm land, title deeds, and business firms. Because the provincial governments were still the super-visors to the Hsien governments, the latter could not exercise freely their power over the surtaxes on the provincial levies. The Hsien governments, therefore, resorted to the undesirable Chuan levies in order to meet their obligations which were referred to them from the Hsien people's assemblies. Table IX shows the Hsien budgets in sixteen provinces for the fiscal year of 1936.

In many cases the provincial governments granted the entire levying power over the taxes on houses and butchers to the Hsien governments. In some cases they could even enjoy some surtaxes. In others, the provincial authorities allotted annually certain amounts of funds to their subordinate governing bodies instead of other devices. In 1936 the largest source of Hsien income was the surtax on farm land, on the average, 54.6 per cent of the total. The various Chuan levies came next, classified under the headings of "miscellaneous levies" and "other receipts" in Table IX. On the average they made up 23.4 per cent of the total. The subsidies from the provincial governments varied from 1 to 63 per cent among the provinces and on the average amounted to 5 per cent of the total Hsien income.

Among all the expenditures, that for education was the largest, averaging 28.54 per cent of the total. Police protection accounted for 20.41 per cent and administration 19.43 per cent. Expenditure for reserve funds was 6.28 per cent. In that year, the Hsien finance in only two provinces showed deficits. These two provinces were Shensi and Kwangtung, and the deficits were 338,017 yuan and 2,079,698 yuan respectively.

TABLE IX

Budgets of the Hsien Governments in Sixteen Provinces  
for the Fiscal Year of 1936<sup>1</sup>

Revenues and Receipts	Amount: 000 Yuan		Percentage	
	Range	Total	Range	Average
Surtaxes on:				(61.56)
Land	30-22378	76558	11.30-87.93	54.60
Title Deeds	28-903	2593	0.33-10.13	1.85
Butchery *a	112-3077	4861	1.30-23.29	3.47
Business *b	4-63	196	0.06- 0.77	0.12
Other provincial levies	70-441	2126	0.80-22.01	1.52
House tax	279-2855	3544	3.35-38.70	2.53
Public properties *c	15-1436	7411	1.01-37.10	5.28
Tuitions and fees from the public schools	4-484	966	0.05-20.92	0.69
Administration fees	21-1568	2244	0.44-11.87	1.60
Subsidies from the provincial governments	27-2364	6926	1.16-62.90	4.94
Miscellaneous levies	3-2775	18017	1.01-46.62	12.85
Other receipts *d	8-3231	14799	1.01-35.31	10.55
Total		140214		100.00
Expenditures				
Party *e	458-845	1303	2.76-2.79	0.92
Administration	19-4755	27647	9.17-49.68	19.43
Local self-government	479-2760	8132	12.48-24.15	5.71
Police protection	85-6334	29048	5.31-52.19	20.41
Public health	1-543	1411	0.03- 3.29	0.99
Financial administration	1-1587	4378	0.45- 9.34	3.33
Education	72-9814	40615	15.51-64.04	28.54
Industrial administration	20-319	673	0.59- 2.72	0.47
Communication *g	23-481	599	0.64- 3.64	0.42
Construction	4-2422	6683	0.79- 8.02	4.70
Relief and Pension	2-1121	3017	0.28- 4.12	2.12
Subsidies to the subordinate bodies *h	2-1518	3168	0.24-13.04	2.23
Reserve fund	77-3742	8933	0.87-12.39	6.28
Others	4-1062	6326	1.82-16.28	4.45
Total		142293		100.00

PROVINCES: Anhwei, Chahar, Chekiang, Ch'inghai, Fukien, Honan, Hupei, Kansu, Kiangsu, Kiangsi, Kwangsi, Kwangtung, Ninghsia, Shansi, Shantung, Shensi,

\*a. In some cases this item included the business surtaxes.

\*b. In some cases this item included the butchery surtax. \*c. Largely formed by the public farm land. \*d. In some cases this item included temporary loans, etc. \*e. Chekiang and Kiangsu only. \*f. Chekiang, Honan, Kiangsi, Kansu and Kwangtung inclusive. \*g. Jehol, Kwangsi and Kwangtung only. \*h. In some cases this item included the expenditures for local self-governments, etc.

1. Source: Chia Teh-huei, Vol. II, Pp 642-8.

The financial ability among the Hsien differed greatly from Hsien to Hsien and from province to province, as can be seen from the following Table:

TABLE X

Hsien Budgetary Expenditures in Sixteen Provinces  
in 1936.<sup>1</sup>

(Unit: yuan)

Ranges	Kiangsu	Number of Hsien						Kiang si	Hupeh
		Che kiang	Kwang tung	Kwang si	Fu kien	Shen si			
1,600,000 and above	1								
1,500,000 - 1,600,000	1								
1,400,000 - 1,500,000		1							
1,300,000 - 1,400,000									
1,200,000 - 1,300,000									
1,100,000 - 1,200,000									
1,000,000 - 1,100,000	3			1			1		
900,000 - 1,000,000	1			1			1		
800,000 - 900,000	1			2					
700,000 - 800,000	4			1					
600,000 - 700,000	6		2				1		
500,000 - 600,000	5		4	1					
400,000 - 500,000	9		2		2	2			
300,000 - 400,000	15		8	5	1	1	1	2	2
200,000 - 300,000	9		9	9	8	4	1	8	8
150,000 - 200,000	4		8	11	9	6	5	5	10
100,000 - 150,000	1		13	20	19	17	11	20	22
50,000 - 100,000		23	27	32	24	23	23	29	21
10,000 - 50,000		4	17	23	8	28	19		
5,000 - 10,000			1			2			
1,000 - 5,000									
1,000 and less									
Total Hsien	60	75	95	99	62	71	83	70	

1. Ben Yu-sing, p. 31.

Number of Hsien								
Man su	An wei	Honan	Shan tung	Ch'ing hai	Cha har	Shansi	Ningsia	TOTAL
								1
								1
								1
								0
								0
								1 (cit.)
								4
								2
								3
								5
								9
								10
								15
								40
								70
2								
9		2						
			3					
1		10		18				87
1		24	17	51				218
15		17	70	36		25		347
41			22					265
6				3	3	80	10	13
1				4				5
				4				1
				1				
65	62	111	108	12	10	105	10	1098

Conclusion

From 1929 the provincial finances were moving in the right direction. The by-product of the Financial Division Act was a general subsidy system which was to play an important role between the Central and provincial governments.

The nation had suffered so much during the decade of the civil wars prior to 192<sup>8</sup> that it seemed desirable to have a general subsidy system with the Central Government having control over the provincial budgetary proceeds, in order that the country as a whole could be rehabilitated. However, it was probable that the Central Government feared a possible expansion of provincial power, since the Central Government itself had attained power through painful civil wars with the provincial warlords. The "Organic Law of Hsien Government" was consequently planned to reduce somewhat the financial strength of the provincial governments.

## Chapter V - The Second National Financial Conference

### Summary

The opening of the Second National Financial Conference in 1934 was the result of three major causes. Two of them were political, the other, economic. At this Conference, three important Resolutions were passed. The first Resolution proposed an abolition of various Chuan levies; the second, recommended an adjustment in the existing land tax system; and the third transferred some provincial taxes to the Hsien governments for administrative purposes. In the years that followed 1934, the first two Resolutions were gradually realized; the third one, however, was never put into effect. In spite of this, the Second Financial Conference was extremely significant in the history of Chinese public finance, because it was the first time that the Hsien governments, the major local governments of the state, had been empowered by statute to levy taxes of considerable magnitude.

#### A. Political Aspects Leading to the Financial Conference of 1934

The first political force leading to the Conference of 1934 was the civil war between the National Government and the Chinese Communists. Therefore it is advisable to review briefly the relationships between the Kuomintang and the Communists because many a financial plan of the National Government was brought about through the conflict between the two Parties.

Following the success of the Russian Revolution, the Soviet Government announced, in 1920, that it would renounce all its interests

and privileges outlined in the unequal treaties previously contracted between China and Russia. The result was the establishment of a feeling of friendship between the Chinese and the Russians, particularly on behalf of the Chinese revolutionary leaders.<sup>1</sup> Between 1920 and 1922, the Chinese Communist Party was created. From then on, China had two great parties which played an extremely important role in recent Chinese history.

In 1922, a special envoy of the Soviet Government, A. Joffe, came to China and met Dr. Sun Yat-sen who, at that time, was only the leader of the Kuomintang Government in Canton. This Government had not yet been internationally recognized. In January 1923, Sun Yat-sen and Envoy Joffe issued a joint statement, which reads in part as follows:

"Dr. Sun Yat-sen holds that the Communistic order or even the Soviet system cannot actually be introduced into China, because there do not exist here the conditions for the successful establishment of either Communism or Sovietism. This view

1. Cf., Li Jan-nung, Vol.II, Pp 609-10;

"The Peking Government dared not accept this announcement because of the threats from the diplomatic offices of the Imperial powers in Peking .... When a Russian Envoy, A. Joffe, came to Peking, there were no representatives of the Chinese Government present; but fourteen people's organizations warmly welcomed Envoy Joffe, and a series of parties and meetings followed. This was the first occurrence in Chinese history of 'civilian diplomacy'. This action was not indicative of a desire on the part of the Chinese Communists to unite with Russia, because the number of the Communists was extremely small among the fourteen groups. Nor was it an endeavour by the Kuomintang to unite with Russia, because at that time Joffe had not as yet met Sun Yat-sen. It was, however, an indication that the intellectual classes were showing a partiality to the Russians. The Warlords in Peking could not prevent this sort of occurrence because they could not declare it illegal; and, the foreign diplomatic offices did not increase their pressure on the Peking Government, but they were quite envious."

is entirely shared by Mr. Joffe, who is further of the opinion that China's paramount and most pressing problem is to achieve national unification and attain full national independence, and regarding this task, he has assured Dr. Sun Yat-sen that China has the warmest sympathy of the Russian people and can count on the support of Russia." 1

After the reform of the Kuomintang, in 1924, an understanding was reached with the Chinese Communists whereby individual Chinese Communists were allowed to join the reformed Kuomintang in order to bolster the revolutionary elements in the country. Meanwhile, an important member of the Chinese Communist Party, Li Ta-chao, declared:

"In joining the Kuomintang, communists of the Third International are to obey Kuomintang discipline and to participate in the national revolution. They have not the slightest intention of turning the Kuomintang into a Communist party. Those Communists who join the Kuomintang do so as individuals and not on a party basis." 2

This statement was characteristic of the split between the Kuomintang and the Chinese Communist Party in later years, in that there was never an actual agreement which could clarify the future relationship between the two Parties who were now together undertaking the task of unifying the country. This was particularly true where military affairs were concerned.

In 1927, following the military campaigns of the preceding year, the National Government moved to Hankow. This Government was made up of members of both Parties. At the same time, the Communist Party was developing on a party basis its own military strength. As an inevitable result, the split between the two Parties was becoming apparent as time went on. In April of the same year when the National Government,

---

1. China's Handbook, 1937-45, p. 66.

2. Ibid.

under Generalissimo Chiang Kai-shek moved to Nanking, it contained no Communist members. The eight-year hostilities between the Kuomintang and the Communists then broke out. In July 1927, the Chinese Communist Party created the Chinese Soviet Republic and set up the Chinese Soviet Government in southern Kiangsi with its territory in several central provinces.

In 1933, two years after the Japanese had invaded the North-eastern Provinces, Chiang Kai-shek declared a general mobilization order<sup>1</sup> in eight provinces, in order to raise an army to remove the Communists completely before the outbreak of an official war with Japan. By 1935, the National Government had launched numerous suppressive moves in the central provinces and the Communists fled westward, then northward, until finally they reached northern Shensi.

For the purpose of more effectively destroying the Communist strength, the National Government attempted to reduce both the political and financial power of the provincial governments. The provinces had contributed substantially to the disintegration of the state since 1917 and had been an adverse influence on the progress of the Central authorities. Therefore in 1933 a remarkable monetary reform was undertaken by the National Government. The Standard Silver Dollar was minted and authorized as full legal tender replacing the unstable and chaotic provincial silver and paper currencies. Thus for the first time since 1917 did the nation have a uniform currency, and the provincial financial power, the reduction of which was begun by the Financial Conference of 1928, was further reduced. The National Government planned to build up a sound

---

1. Fukien, Honan, Hunan, Hupeh, Kiangsi, Kwangtung, Shensi, and Szechwan.

Hsien financial system instead of strengthening the provinces, consistent with the underlying philosophy of the Kuomintang, laid down by Sun Yat-sen in his "Fundamentals of National Reconstruction". In the Fundamentals it was recommended that the Hsien governments be the ultimate governmental unit to perform government services, while the provincial governments were to serve as an intermediary between the Central and the Hsien governments. The Second National Financial Conference was held to realize this purpose.

The other political pressure leading to this Conference was the tenseness between China and Japan.

In 1928 Chiang Kai-shek led his troops across the Yangtze River towards his objective -- Tzinan, the capital of Shantung. Meanwhile, the Japanese Government had been sending reinforcements into this Province, pretending to protect the Japanese residents and their properties, but actually to prevent the War of Unification and to bolster the political position of General Chang Tsö-lin. General Chang at that time was the only one among the Northern Warlords who could resist Chiang Kai-shek. Inevitably, in May of the same year, street fighting broke out in Tzinan between the Nationalists and the Japanese. An unprecedented anti-Japanese feeling spread throughout the country even before the Unification was fully accomplished.

Chang Tsö-lin was at that time the head of a central governing body which he had recently formed at Peking. He sent a cease-fire order to his troops fighting Chiang and began peace negotiations with the Nationalists. Chang's actions showed signs of a complete split

between Peking and Tokyo. As a result he was murdered by the Japanese when he himself was withdrawing from Peking to Mukden, the capital of the Eastern Provinces where his political strength originated.<sup>1</sup> Following this, the Mukden Government, the "envy of the Japanese", governed by young Marshal Chang Huseh-liang, the son of Chang Tsö-lin, "despite the efforts of the best Japanese diplomats" firmly joined the National Government.<sup>2</sup> In December of 1928, the Kuomintang's flag flew over all the Northeast, and as a result of this the political crisis between China and Japan became increasingly serious.

On the night of 18th September 1931 what the Japanese termed the "Mukden Incident", broke out. In the following year a puppet "Manchu Government" was set up at Mukden, and the Four Eastern Provinces were fully occupied by 1933.<sup>3</sup> Henceforth there was no significant warlike activity from the puppet state, "Manchukuo", because she regarded her boundaries as the "natural frontier" of her jurisdiction. After 1933 the Japanese agitation led to Mongolian independence from China, and thereupon successive battles followed between the National Government and the Mongol-Japanese forces in the North. Another step in Japanese policy in China was what was later termed by the Japanese the "Shanghai Incident" which broke out in January, 1932. "Determined Chinese resistance and international opposition, however, rendered the realization of this play<sup>4</sup> (the Japanese invasion) impossible." The "Shanghai Incident", thus, ended through negotiations between the two countries.

1. The International Year Book, 1928, New York, p.166, "Previously he (Chang Tso-lin) had been a mere tool of the Japanese Foreign Office, but in recent years ... he had chaffed under Japan's political and military guidance and had shown signs of ultimately breaking completely with Tokyo."
2. Ibid.
3. Keilungkiang, Kirin, Liaoning and Jehol.
4. Lei Hai-tsung, History, Chinese Year Book, 1937, p. 125.

From 1932 on, the National Government had been preparing  
<sup>1</sup>  
for an official war with Japan. Bearing in mind the abuses of warlordism as they existed prior to the Unification, it seemed vital that the National Government attempt to eliminate any probable political threat from the provincial governments in order to concentrate their efforts against the Japanese. In the opinion of the writer, the Second National Financial Conference should be considered only in connection with this political preparation for war.

B. Economic forces leading to the  
Financial Conference of 1934.

When the storm of world depression appeared in 1929, China  
<sup>2</sup>  
had the only silver standard in the world. China, at that time, was not only a silver standard country, but there was a free silver market in existence. The fall and rise of silver prices abroad essentially dominated her economic trends. From 1929 to 1932 the heavy fall of silver prices relative to gold prices prevented China from suffering most of the adverse effects of the world depression, because the lower silver prices brought inflationary conditions in the country. As a result, the general price level went up steadily from 1929 to 1932.

1. Cf., Chang Peh-yi, p. 7.

2. Hawtrey, R.G., pp 73-4, "The greater part of Latin America had formerly had silver currencies, but had lapsed into inconvertible paper. Those countries which emerged from this state of confusion, such as Peru, Argentina, Uruguay and Mexico, adopted gold. Others, towards a gold stand ... From 1898 onwards, the (East Indian) rupee was fixed ... by an ingenious application of gold exchange standard. Similar measures settled other Far Eastern currencies on a gold basis, till in 1914, China almost alone in the whole world retained a silver standard."

During these years there were two significant tendencies in the Chinese economy. The first tendency, as we have seen, was the rise of the general price level because of the fall of silver prices abroad. The other was the fall of cereal prices in spite of the inflationary influences, because of poor crops. The latter situation reduced the purchasing power and real income of the agrarian section, which was a major part of the total population. These unbalanced developments inevitably resulted in economic crisis in a later period.

Beginning with 1932 silver prices went up rapidly abroad, resulting in deflation and business panic in China. From 1933 onwards, the general price level dropped and the fall of cereal prices critically continued because of a good season. The influences of the world depression prior to the Conference of 1934 are reflected in Table XI.

It should be noted that in 1930 there was a great famine in Shensi areas caused by locusts and cereals in more than 70 Hsien were lost. The increase in price of cereals in that year cannot be considered as one of the influences of the great depression.

From 1929 to 1931 the general wholesale index climbed rapidly, while the cereal wholesale index declined. In 1932 and 1933 the price of silver abroad was increasing and the general index in Shanghai fell off, but the prices for cereals dropped even further. Because the agrarian population is the greatest proportion of the total, the decline of cereal prices greatly checked domestic commercial activities.

371 347  
480

TABLE XI

Effects of the World Depression in China  
1929 to 1934

Wholesale index, base year: 1926 - 100.0

Unit of silver trade: Chinese Standard Dollar - 26.7 grams silver,  
880 fineness

Trade unit: 000,000 Haikwan taels - \$34,000 in U.S.A. funds.

Unit of gold trade: Custom Gold Unit - 60.19 centigrams of pure gold.

	1929	1930	End of 1931	1932	1933	1934
Wholesale index in Shanghai (including cereals) <sup>1</sup>	104.5	114.8	126.7	112.4	103.8	97.1
Wholesale index in Shanghai for cereals <sup>2</sup>	97.2	110.3	94.4	81.7	69.6	69.1
New York quotations on silver in cents per oz. <sup>3</sup>	48.48	32.64	30.12	25.01	43.35	54.39
Excess of imports (in Haikwan taels) other than silver. <sup>4</sup>	1104	1106	1285	978	?	?
Excess of silver imports <sup>5</sup> <sup>6</sup>	164.9	104.4	70.8	-	-	-
Excess of silver exported	--	--	--	11.4	14.1	-
Silver exports including smuggling. <sup>7</sup>					200.0	
Excess of gold exports. <sup>8</sup>	3.15	19.02	27.29	59.27	35.54	26.22

1. Chinese Year Book, 1937, p. 639. 2. Ibid.

3. Money and Banking, League of Nations, 1936-7, Vol. II, p. 40.

4. China Year Book, 1934, p. 174.

5. Chinese Year Book, 1937, p. 555. 6. Ibid.

7. Chia Teh-huei, Vol. II, p. 463.

8. Chinese Year Book, 1937 issue, p. 554.

While the prices for silver were decreased abroad, the imports of silver played an important role in monetary inflation. But from 1932 onwards, silver prices were higher abroad so that a great deal of silver metal was exported and monetary deflation followed. Although the general wholesale index did not fall greatly in 1934, that of cereals had sunk to 69.1. The farming communities were most depressed and approached bankruptcy. Thus to relieve farming became the most important political issue of the time. The abolition of various Chuan and readjustment of the land tax system were urged everywhere throughout the country. The Second National Financial Conference was, therefore, hastily called.

#### C. Resolutions of the Financial Conference of 1934

The Resolutions of the Conference were in four parts. The first part was "Taxation"; the second was "Demarcation of Provincial Hsien Taxation System"; the third was "Banking and Circulation"; and the last was "International Trade".

In the first part the existing provincial and Hsien taxes were reviewed. It emphasized the inadequate revenue sources of the Hsien governments as cause and the impositions of the onerous surtaxes and the various Chuan levies as effect. The first section of this part, the "Abolition of Miscellaneous Chuan", stated that, "Since the Financial Division Act of 1928 has been in effect, the expenditures of the provincial and Hsien governments have been greatly increased. Since the recent expansion in expenditure of the said governments seems to be limited, the

surtaxes and the Chuan levies have been increased from time to time. The disadvantages of the Chuan and similar levies could be enumerated as follows:

- "1. They are contrary to the public interest;
- 2. They are detrimental to communication;
- 3. They encroach upon the source of the central revenues;
- 4. They constitute overlapping taxation;
- 5. They are unjustifiably imposed upon the goods imported from other localities for the sole purpose of raising revenue for the locality concerned; and,
- 6. They are of the nature of a transit duty on commodities in circulation among various localities."

Before the Financial Conference of 1928 the Chuan and Likin levies had been imposed in the same manner in many cases. Both were imposed on commodities whether in transit or in the course of production or of marketing. Except for the Chuan levies imposed on the persons and firms there were no practical means for distinguishing the Chuan from the Likin. While it was decided to abolish the Likin levies by the Financial Conference of 1928, the Chuan levies were not mentioned. The Financial Conference of 1934 thus attempted to associate these two levies with the period before 1928, for by omitting any reference to Chuan, it seems to have identified Chuan imposed before 1928 with Likin.

The first Article of 1934 regarding the abolition of Chuan levies stated that:

All the Chuan and similar levies imposed by the provincial and Hsien governments before the introduction of the Financial Division Act of 1928 should be reported in detail as to their amounts and purposes to the Ministry of Finance of the Central Government for abolition.

In fact, many Chuan levies had been imposed after 1928, particularly by the Hsien governments since their finances were not controlled by the provincial authorities, but by the Hsien people's assembly, and they imposed the Chuan levies by the consent of these assemblies. The second Article of 1934 thus recommended a conditional abolition of these Chuan levies imposed since 1928. It stated that:

All the Chuan and similar levies imposed not in accordance with the laws or acts after the introduction of the Financial Division Act (1928) should be reported in detail as to their name, amounts, rates, and purposes, to the Legislative Yuan (Parliament) for approval or for abolition.

According to the previous statement, the Chuan levies were attributed to the expansion in government expenditures. Therefore it would have been logical for the Hsien people's assemblies, instead of the Legislative Yuan, to abolish these levies. Instead, the Conference referred the case to the Legislative Yuan. It is apparent that their intention was to abolish all the Chuan levies throughout the country, regardless of whether they were "legitimate" or not. Furthermore, the calling of the Conference was largely a political matter: to set up sound Hsien financial systems instead of provincial ones, and to transfer a part of the existing provincial taxes to the Hsien governments. Thus the loss of the Chuan levies would not necessarily embarrass the Hsien governments in performing their obligations.

Bearing in mind the experience in abolishing Likin, the Ministry of Finance of the Central Government was authorized by this Conference to supervise the existing and future Chuan levies. The

fourth Article dealt with the timing of the abolition of the Chuan levies imposed after 1928. It reads as follows:

The Ministry of Finance (of the Central Government) shall restrict any illegal increase or decrease in provincial and local taxation whenever it is not in accordance with the laws and acts.

All the Chuan and the similar levies considered illegal by this Conference should be abolished within the six months from July 1 to December 31, 1934. The funds provided for legitimate losses from the abolition of Chuan and the similar levies should be defined separately by laws.

One proviso in the same Article allowed means for those provincial and Hsien governments who could not adopt these financial measures immediately. It stated:

The provincial and Hsien governments should report to the Ministry of Finance of the Central Government the special cases in which the Chuan and the similar levies could not be fully or partly abolished by December 31, 1934.

According to the recommendation of a Congress of the Kuomintang, the Financial Conference should also improve the existing land taxation system. The second section of the first part of the Resolutions was entitled "Land Taxes". Under this heading the existing abuses of the land taxes were reviewed:

Since the land tax was allotted to the provincial governments (by the Financial Conference of 1928), the forms, the rates and the amounts of surtaxes on land have been increased in a chaotic manner.

The most important part of this Section dealt with the rates at which the recommended land taxes were to be levied. It stated that:

The taxes on land, hereafter, shall be levied under two categories only, namely, the land value tax and the land increment tax.

The land value tax was proposed to replace the existing provincial land taxes and Hsien land surtaxes in order to eliminate the discrimination against the taxpayers in different assessment areas. A more significant feature of the land value tax was that it was expected to reform the existing land tax levying methods. The old levying method, which had been followed for hundreds of years, was to assess the farm land tax according to the acreage. Under the old method, in many provinces, there were no separate taxes levied on urban land, but they were incorporated into the improvement levies.<sup>1</sup> The Articles of the Resolutions of the Conference thus stated that:

The amount of the land value tax shall not exceed 1 per cent of the value of the land concerned (both rural and urban).

The surtax, or surtaxes, on farm land shall not exceed the original levy on the same farm land. The total amount of both the surtaxes and the original levy on farm land shall not exceed 1 per cent of the value of the farm land concerned.

Any additional form or rate of land taxation shall be void.

In short, 1 per cent of the land value was proposed as the maximum rate on all improved land.

The land increment tax was proposed to replace the existing title deeds taxes the rates of which varied from 2 to 9 per cent. The new rates recommended by this Conference were not important because generally they were set up to conform with the existing rates. It was stated that:

The evasion of the title deeds taxes was largely due to the high surtax rates and the lack of a uniform rate .... Hereafter, the rate of the tax on the property sold shall not exceed 6 per cent of the selling price; and the rate of the tax on the mortgages shall not exceed 3 per cent of their face value. The surtaxes on title

1. Cf., Ben Yu-sing, Hsien Finance, p. 95

deeds shall not exceed 50 per cent of the original rates. If the present rates, assessed on title deeds by the provincial and Hsien governments are lower than the said maximum rates, the actual rates shall be maintained. The portion of the present rates exceeding the maximum rates shall be fully reduced by the provincial and Hsien governments themselves.

In summarizing this first part of the Resolutions passed by the Financial Conference of 1934, two points are of importance. In the beginning of the first part of the Resolutions, the heavy Chuan levies and farm land surtaxes were attributed to the expansion of the provincial and Hsien expenditures. The Articles went on to enumerate the abuses of these two levies. Following these statements, it was proposed to abolish the Chuan levies and to set a maximum rate for land taxation.

As a matter of fact, since 1928, the provincial finances had been regulated by the Central Government through its budgetary controls. The provincial governments had accepted this financial measure together with a general subsidy system which provided means for reducing the provincial deficits. But in later years the Hsien governments were gradually expanding their obligations which forced them to impose the Chuan levies and surtaxes on the land since the Hsien governments had not yet been given independent tax sources. In a word, the existing sources of revenue were inadequate for the expenditures of the provincial and Hsien governments. In order to realize the abolition of various Chuan levies, either adjustment of the government taxation system, including the Central Government, or adjustment of government expenditures was necessary. For this purpose there were four logical alternatives:

1. To redistribute the existing sources of revenue and obligations between the Central Government and the provincial and Hsien governments; and then, to adjust the expenditures according to

the available sources of revenue for each level of government respectively.

2. To allot a part of the functions of the Hsien governments to the provincial governments; and in turn, to contract Hsien expenditures.
3. To allot a part of the revenue sources of the provincial governments to the Hsien governments, thereby reducing the provincial expenditures.
4. To provide, if possible, new revenue sources for the already expanded expenditures of the Hsien governments.

Bearing the previously discussed political trends in mind, it is not surprising that the Financial Conference of 1934 decided upon the latter two alternatives, as shown in the second part of the Resolutions. The decisions stated in this part were later known as the "Demarcation Act of the Provincial-Hsien Taxation System of 1935". In this Act the functions of the provincial and Hsien governments were defined as follows:

The provincial and Hsien revenues should be spent for the following purposes:

- a. Kuomintang's provincial and Hsien headquarters; or the expenses for civilian assembly and its representatives;
- b. Administration;
- c. Legislative expenses;
- d. Education facilities;
- e. Construction;
- f. Public health;
- g. Relief;
- h. Capital investment;
- i. Police protection;
- j. Reclamation and settlement (provincial only);
- k. Cost of taxation collection;
- l. Debt charges;
- m. Pensions and retirement allowance to officials;
- n. Subsidies to subordinate bodies;
- o. Other expenses defined by law. 1

---

1. Chinese Year Book, 1937 issue, p. 368.

The sources of revenue for the provincial and Hsien governments were defined as follows:

The following sources of revenue should be administered separately by both the provincial and Hsien governments:

- a. Tax receipts;
- b. Special assessments;
- c. Fines;
- d. Administration fees;
- e. Receipts from rentals, royalties and franchises from the public properties;
- f. Receipts from administration or trusts;
- g. Profits from the government operating enterprises;
- h. Receipts from selling public properties;
- i. Receipts from cancelling or reducing invested capital;
- j. Receipts from bond issues and credit proceeds;
- k. Receipts from gifts, grants, subsidies from higher levels of governments, and donations from the people or other public organizations;
- l. Other receipts defined by law. <sup>1</sup>

The sub-items which constituted "tax receipts" of the provincial and Hsien governments were as follows:

Tax receipts of the provincial governments:

- a. Taxes levied and enjoyed by the provincial governments:  
The title deeds taxes.
- b. Taxes levied by the provincial governments and shared between the provincial and Hsien governments:  
The business taxes — 70% of which should go to the provincial governments, and the other 30% was allotted to the Hsien governments concerned.
- c. Taxes levied by the Hsien governments and shared between the provincial and Hsien governments:  
The land tax — 15-45% of which should go to the provincial governments.  
The improvement taxes — 15-30% of which should go to the provincial governments.

---

1. Ibid.

- d. Proposed new taxes levied by the Central Government and shared among the Central, provincial and Hsien governments.

The income taxes — 10-20% of which should go to the provincial governments.

The succession duties — 15% of which should be assigned to the provincial governments.

Tax receipts of the Hsien governments:

- a. Taxes levied and enjoyed by the Hsien governments:

The business license taxes;  
The operation license taxes;<sup>1</sup> and  
The special prohibitive taxes.<sup>2</sup>

- b. Taxes levied by the Hsien governments and shared between the provincial and Hsien governments:

The land taxes — 55-85% of which should be enjoyed by the Hsien governments; and the other 15-45% allotted to the provincial governments concerned.

The improvement taxes — 70-85% of which should be enjoyed by the Hsien governments; and the other 15-30% allotted to the provincial governments concerned.

- c. Taxes levied by the provincial governments and shared between the provincial and Hsien governments:

The business taxes — 30% of which should be enjoyed by the Hsien governments.

- d. Surtaxes on the provincial imposts levied and shared by the Hsien governments:

The title deeds surtaxes — the Hsien rates should not exceed 50 per cent of the provincial rates.

- e. Proposed new taxes levied by the Central Government and shared by the Central, provincial, and Hsien governments:

The income taxes — 20-30% of which should be assigned to the Hsien governments; 10-20% to the provincial governments.

The succession duties — 25% of which should be assigned to the Hsien governments; 15% to the provincial governments. 3

1. Such as the vehicle, water equipment licenses, etc.

2. Such as the prostitution licenses, etc.

3. Chia Teh-huei, Vol. I, Pp 27-8.

The net result of these changes in the levying power of the provincial and Hsien governments is difficult to show because the Demarcation Act was never put into effect. For the sake of convenience, Table XII sums up these changes between the Financial Division Act of 1928 and the Demarcation Act of the Financial Conference of 1934 with regard to some important taxes of the provincial and Hsien governments.

If this Demarcation Act were in effect, the provincial governments would likely suffer a loss of 10 to 15 per cent of their previous annual income; while the Hsien governments would likely gain by 10 to 20% of their previous annual receipts. Suppose again that the various Chuan levies were entirely abolished, then the provincial governments would further lose 5 to 10 per cent of their previous annual income; whereas the Hsien governments might not lose because their losses might be offset by their gains. In other words, the plans of the Financial Conference of 1934 would have transferred about 20 per cent of the provincial annual income to the Hsien governments.

Apart from the political intentions of the Demarcation Act, this Conference did work out the best financial structure since 1912, or we might even say since the beginning of the nation's history. During the centuries prior to 1934, the local governments had never been granted independence in the exercise of their financial power. From 1850 to 1928 was a period of provincial struggle to secure better terms in both political and financial fields. Then the years from 1928 to 1934 make up the period when the Kuomintang, with its political supremacy, ended the period of provincial struggle. During these years the provincial

TABLE XII

Comparison of the Total Receipts by Provinces and Hsien  
from Certain Important Taxes Under the Demarcation Act of 1935.<sup>1</sup>

Taxation		Land tax	Title Deeds	Improve- ment taxes	Busi- ness taxes *	Total
Both provincial and Hsien levies		100%	100%	100%	100%	--
Financial Division Act <sup>2</sup>	P	53	66.6	46	51	--
	H	47	33.3	54	49	--
Demarcation Act <sup>3</sup>	P	15-45	66.6	15-30	70	--
	H	55-85	33.3	70-85	30	--
The importance of each tax in the total annual receipts under the Division Act. <sup>4</sup>	P	30	4	1	50	50
	H	54	2	3	4	63
The importance of each tax in the total annual receipts under the Demarcation Act. <sup>5</sup>	P	17	5	0.5	20	42.5
	H	80	1	4.3	2	87.3

\* The business taxes include the butchering tax.

1. This Table shows only approximate and conservative estimates. For the sake of convenience it does not include any possible increase or decrease in these sources of revenue.
2. Calculated from Table VI and IX, supra.
3. See pages 95, 96, 97, supra.
4. Calculated from Table VI and IX, supra.
5. Calculated from three rows above.

finances were properly defined while the Hsien governments were still left without independent tax resources. Owing to the lack of adequate revenues and their expanding obligations, the Hsien governments developed the Chuan levies and surtaxes on the provincial imposts. Though the Hsien finances did move towards independence in collecting Chuan levies and in dealing with their obligations, a chaotic and unsound Hsien taxation system resulted.

As far as the three levels of government, the Central, the provincial and the Hsien, were concerned, the obligations and administrations of the Hsien governing bodies were more directly related to the daily needs of the people. The year 1934 first witnessed remarkable progress in China's political tradition: the main tax revenues of the state were for the first time distributed among the three levels of government. The powers of the Hsien governments were for the first time defined by statutes and they were authorized to levy some important taxes.

#### D. Failure in Enforcing the Demarcation Act

By 1931 all the Hsien had an average population of 230,000<sup>1</sup> and the average jurisdiction area was 4,300 square kilometers. Each Hsien, on the average, had 50 Hsiang, or counties, surrounding the city or town where the Hsien government was located. During the civil war years since 1917, the population of the richer cities had been increasing

1. Cheng Nien-chung, p. 39, "In 1941, there were 1954 Hsien. Population in each Hsien varied from 200 (cit.) to 1,500,000; on the average, 230,000. The area of each Hsien varied from 100 to 350,000 square kilometers, on the average, 4,300 square kilometers".

2. Ibid.

rapidly relative to that of the counties, because the civil wars usually were carried on throughout the countryside. The resulting population movement had concentrated the wealth of the state into some of the richer cities. If the levying power of the title deeds tax and the business tax had been left completely in the hands of the Hsien governments there would probably have been discrimination against the tax-payers in different localities. Moreover, there would be overlapping levies on inter-Hsien firms and some other types of business organization. The Demarcation Act thus had set forth that the provincial governments were to administer the title deeds and business taxes. The Hsien governments were not entitled to levy these two taxes, but they could enjoy the surtaxes on title deeds and 30 per cent of the revenue grant from the business taxes collected by the provincial governments.

Farming in China, particularly in the central and southern provinces where rice is grown, is largely a matter of irrigation. The custom had developed for the provincial governments to assume the cost of the inter-Hsien water works. For this reason the Demarcation Act declared that the provincial governments were to receive 15 to 45 per cent of the land taxes which were to be levied by the Hsien governments.

The provincial authorities were still to provide inter-Hsien communication which was very important in fostering the prosperity of the Hsien economy as a whole. The Demarcation Act thus set forth that the provincial authorities were to receive 15 to 30 per cent of the

revenues from the improvement taxes which were to be levied by the Hsien governments. On the other hand, the provincial governments were to grant 30 per cent of the revenue from the business taxes to the Hsien where they were raised.

In order to further improve the Hsien finances, the Demarcation Act recommended that the revenues from licenses were to belong to the Hsien governments because they could deal effectively in administrative matters with the tax-payers who received the franchise to do their businesses in the districts concerned. Moreover, the provincial and Hsien governments might share the revenues from income taxes and succession duties, if they were imposed by the Central Government.

In short, the Second National Financial Conference attempted to provide a fair means of financial cooperation between the provincial and Hsien governments, and to eliminate the abuses of the various Chuan levies and surtaxes. Though the recommendations of this Conference were excellent, their adoption and enforcement were handicapped by the political opposition and the financial difficulties of the provincial governments.

<sup>1</sup> The abolition of Chuan levies, the adjustment of land taxes, and the Demarcation of Provincial-Hsien Taxation System were passed at the Second Financial Conference in June, 1934. These three financial innovations were submitted to the Executive Yuan and were to be put into

---

1. These two financial devices will be discussed in the Appendix of this Chapter.

force simultaneously in July, 1935. However, except for the first two provisions, the Demarcation Act was not carried out by any province, because among the three levels of government only the provincial governing bodies faced a loss of revenue from this action. One must bear in mind that since 1865 the provincial governments had been the most powerful governing bodies in the state. Therefore, "the key step towards the enforcement of the Demarcation Act of 1935 was neither on the part of the Central Government, nor of the Hsien governments, but should have been taken by the provincial governments which, however, were not in the mood to do so."<sup>1</sup>

Apart from the political resistance of the provincial governments, there did exist actual provincial economic difficulties in enacting this Act. In fact, since the Republic had been founded the unstable Central Governments and the ambitious provincial governors had been fully occupied in waging civil war without concerning themselves about ordinary governmental functions.<sup>2</sup> It was not until the Unification of the country was realized in 1928 that the provincial governments began slowly to perform their responsibilities with the funds formerly devoted to military purposes. It was quite doubtful whether their revenues, formerly used for military expenditures, would be sufficient for ordinary governmental functions or not, since none of the governing bodies had previously had an opportunity to perform these functions adequately.

---

1. Ben Yu-sing, p. 7.

2. The warlords even spent the appropriation funds for education for military purposes. Li Jan-nung, Vol. II, p.65.

Following the Financial Conference of 1928, the provincial governments were no longer able to monopolize all the sources of revenue of the state. From this radical change in financial administration, the provincial governments lost a great deal of revenue which had long been illegally administered or intercepted. The losses from the Likin levies and the salt taxes were the greatest. Following 1928 the Central Government had been taking over the Likin and the salt taxes. When the Central Government took over the surtaxes on salt from the provincial governments in 1930, the latter again relinquished a considerable part of their annual income. On the other hand, the new uniform business tax was imposed from 1930 onwards, replacing the old levies on business firms, brokers, and pawnshops. This new business tax did not yield the originally anticipated amount to meet the revenue losses from Likin levies. Among all the revenue sources remaining to the provincial governments, the taxes on farm land were relatively the most reliable and stable. However, the provincial governments were now to perform some governmental functions, such as education, inter-Hsien communications, public works, relief, reconstruction, etc., on a larger scale than ever before. Moreover, the provincial governments were to subsidize the subordinate governing bodies, the Hsien governments.

Furthermore, since the enforcement of the Financial Division Act of 1928, the provincial governments had depended heavily on the subsidies from the Central Government, which were, on the average, more than 15 per cent of their total income.<sup>1</sup> In addition, the provincial

---

1. Tables V and VI, supra.

governments had carried on a policy of borrowing to meet their expenditures, to an extent of about 15 per cent of their total annual income.<sup>1</sup> Evidently the annual revenue of the provincial governments was inadequate to meet their annual expenditures.

On the other hand, after 1928, the provincial governments still could not reduce the expenditures for police protection because of the split between the Kuomintang and the Communists. In some provinces the cost of police protection amounted to more than 50 per cent of total spendable funds. The other expenditures of the provincial governments, except those for education and administration, were in small amounts which were necessary to maintain minimum governmental activities. Further, the repayment of their debts, together with interest on them, ranged up to 50 per cent of the total expenditures of some provincial governments.<sup>2</sup>

If the provincial governments put the Demarcation Act of 1935 into effect, a problem would arise: How could the provincial governments deal with their heavy indebtedness while their annual income was reduced by about 20 per cent? How could the provincial governments contract their already expanded functions immediately, or, what sort of expenditures should first be contracted? Undoubtedly, the existing provincial revenues were already insufficient and some of the provincial expenditures were still ill-financed because the largest portion of the spendable funds went for police protection and indebtedness. Neither

---

1. Ibid.

2. Ibid.

provincial incomes nor the costs could be further reduced. In spite of the promulgation of the Demarcation Act, therefore, the provincial governments withheld the revenue sources which had been allocated by the Demarcation Act to the Hsien governments. As a result of the unwillingness of the provincial governments to surrender their levying power, the Hsien governments could not enjoy the rights to levy the taxes which were actually left in the hands of the former. Owing to these facts, after 1935, the enforcement of the Demarcation Act was made impracticable, and the Hsien finances, supposed to be greatly improved, remained virtually unchanged.

### Conclusion

The year of 1928 witnessed both the complete downfall of warlordism and the continual rise of the Communist revolts. This wearied nation was again involved in chronic civil war. Accompanying this she had sustained a series of painful events before the outbreak of the Eight Years War in 1937. The situation during these years forms a background against which the nation's finances as a whole developed, particularly those effects of the Financial Conferences of 1928 and 1934.

In 1930 seventy Hsien in Shensi area were under a great famine caused by locusts. In the autumn of 1931 the greatest flood in China's history took place in Honan, Hunan, Hupei, Anhwei and

<sup>1</sup> Kwangtung. The National Government, because of its limited financial ability, was unable to pay the one million workers called for emergency dyke buildings (over 7,000 kilometers in length) at Yangtze. It had to negotiate a loan, the first foreign loan of Nationalist China, from the United States of America. The loan was obtained in wheat (450,000 tons) which was paid directly to the workers. In September of the same year, the Japanese invasion occurred in the Northeast. In 1932, the Japanese attacked on Shanghai. The National Government, at that time, was undecided whether to fight the Communists first or to oppose the Japanese. But it was determined to cope with the Communist revolts first and in 1933 Chiang Kai-shek ordered a general mobilization in eight provinces. Civil war thus broke out on an unprecedented scale and continued for eight years. By 1936, the Communists, in a tightened ring of Nationalist troops in northern Shensi, accepted these conditions: to give up the Chinese Soviet Government and to recognize the National Government, and to adopt Sun Yat-sen's tenets instead of Marxism. Several months after the armistice between the Nationalists and the Communists in 1937, the Eight Years War between China and Japan began.

- 
1. A report from the National Flood Relief Commission stated that:  
"During the summer months of 1931, 25,000,000 people inhabiting an area of 70,000 square miles, were affected in various ways by the greatest flood in the history of China. Approximately 140,000 persons were drowned ... A crop worth \$900,000,000 was lost, and a total loss of \$2,000,000,000 was borne by a community whose average family earnings do not exceed \$300 a year."  
Cit. China Year Book, 1934, p. 776.

The above description of the general situation of these eventful years is highly indicative of the obstacles to improvement of the nation's finances. The governments, nevertheless, did make headway in dealing with their finances during these stirring years. Remarks have already been made with regard to provincial finances. For instance, in the fiscal year of 1931, each provincial annual income averaged 15,000,000 yuan, while in 1936 the same income had increased to 18,000,000 yuan of 1<sup>1</sup>30 per cent of that in 1930. The most characteristic achievement in the provincial finances since 1928, was that no more funds were spent for military purposes but were devoted to public welfare. Had there been no wars between the Nationalists and the Communists, the provincial finances would have been further improved; or, at least, a great part of the spendable funds of the provincial governments used for police protection would have been spent for reconstruction, education, or for other public interests. Likewise, the Hsien finances would have been in a more healthy condition.

Since the Financial Division Act was in effect, an effective general subsidy system was built up. The subsidies from the Central Government to the provincial and local governments increased each year, particularly from 1932 on, when the Central Government could balance

---

1. Cf., Tables IV and VI, supra.

<sup>1</sup>  
its budgets, as shown in Table XIII

TABLE XIII

Subsidies from the Central Government  
to the Provincial and Local Governments,  
1929 - 1936 inclusive <sup>2</sup>

(Unit: yuan)

Year	Amount
1929	16,563,470
1930	986,696 cit.
1931	78,875,615
1932	72,943,041
1933	29,878,449
1934	82,559,935
1935	101,980,089
1936	105,816,000

Due to the establishment of a general subsidy system, the increase in the amount of the subsidies from the Central to the provincial and local governments was one of the significant means of improving the financial ability of the latter.

- 
1. T.V.Soong's combined report for 1930-1 and 1931-2 reproduced in the China Year Book, 1934, p. 491, reads: "It should be a matter of satisfaction to the Central Executive Committee (of the Kuomintang) that since February, 1932 (when the Japanese attack on Shanghai ended), for the first time in the 21 years of the Republic, the (Central) Government has been able to balance its budget at a time of world economic depression when practically every Government has large deficits and when, in addition to the depression, the Government has had to confront the colossal burden of the 1931 floods, the slump in silver, the Japanese seizure of revenue in Manchuria and the attack on Shanghai".
  2. Chia Teh-huei, Vol. I, Pp 261-62.

The Demarcation Act of 1935 was expected to be a remedy for the existing provincial and Hsien financial relationships. It was the first attempt to alter the Chinese traditional financial system of the past, namely, a system in which only the Central and provincial governing bodies participated in the financial affairs of the state.<sup>1</sup> At the Financial Conference of 1934, it was decided that all three levels of government were to administer the finances of the country, and at the same time, to cooperate in solving administrative problems. Although the Demarcation Act, due to the provincial financial difficulties, was never in effect, it was, nevertheless, a significant event in Chinese economic history. This Act became, in 1946, a model plan for the "Central, Provincial and Hsien <sup>Financial Collecting</sup> Taxation and Disbursement System Act" which was passed by the Fourth National Financial Conference.

The period between the Second and the Fourth National Financial Conference was the Eight Years War which commenced in 1937. To provide a wartime financial scheme, the Third National Financial Conference was called at Chungking, the wartime capital of China. At this Conference a wartime tax structure was devised to enable the National Government to finance its resistance to the foreign invasion.

---

1. The Special Municipal Governments, though they were local governments in character, were qualified as provincial governments in political administration.

## Chapter VI - Appendix to Chapters IV and V

A. Abolition of the Chuan Levies.

The abolition of the Chuan levies was one of the three chief parts of the program of the Second National Financial Conference. Because of the failure to enforce a new provincial-Hsien taxation system and because the Hsien governments had depended heavily on them, the Chuan levies were abolished more slowly than they should have been. From July to December 1934, 21 out of 24 provinces had reported to the Ministry of Finance of the Central Government the cancellation of the Chuan and similar levies. The number of cancellations was 3,600 and was equivalent to a total revenue of 28,890,000 yuan.<sup>1</sup> The year 1935 saw further progress when 1,600 levies were discontinued, amounting to 20,140,000 yuan.<sup>2</sup> By December, 1936, 1,190 additional Chuan levies were cancelled, to the amount of 10,039,500 yuan.<sup>3</sup> In the fiscal year of 1936, the Hsien governments were still collecting some Chuan levies, on the average amounting to more than 20 per cent of their annual income;<sup>4</sup> and more than 10 per cent of the income of the provincial governments.<sup>5</sup>

1. Cf., Chinese Year Book, 1937 issue, p. 455.

2. Ibid.

3. Ibid.

4. In sixteen provinces, p. 77 supra.

5. In nineteen provinces, Table VI, supra.

Note: These figures include the abolished Shuan levies in 20 provinces and 3 Special Municipalities. The cancellations also include Chuan levied formerly by the provincial, Hsien and the 3 Municipal governments. The greatest cancellation among these governments was from Kwangtung, 30,984,436 yuan.

Cf., The Chinese Year Book, 1937 issue, p. 456.

B. Adjustment of the Farm Land Taxes.

After the Financial Conference of 1928 there were two farm taxes, the farm land tax and the farm land surtax. The farm land tax was levied and enjoyed by the provincial governments, and the farm land surtax by the Hsien governments.

After the Financial Conference of 1934, there were three different methods of land taxation: the land value tax, the farm land tax, and the farm land surtax. The land value tax was recommended by the Financial Conference of 1934 to replace both the two old taxes, the farm land tax and the farm land surtax. The two old taxes were based on the acreage of the land concerned, while it was proposed to levy the land value tax at 1 per cent of the value of the land concerned. In the districts where a new land survey had not been completed, the provincial and Hsien governments still imposed the farm land tax and the farm land surtax respectively as they always had. But in those districts where a new land survey had been completed, both the provincial and the Hsien governments were to surrender the two old taxes and to institute the land value tax which was to be shared between the provincial and Hsien governments. Therefore, after 1934, there were three different taxes on land. Another new method, the land increment tax, was recommended by the Financial Conference of 1934 to replace the existing land title deeds tax. But after 1934, the provincial and Hsien governments retained

the old title deeds tax because the land increment tax was not a new tax in fact, but merely a new name for the old "title deeds tax".

Another Financial Conference was held in 1941 during the war to help the National Government finance the resistance to the Japanese and all provincial tax revenues were incorporated into the central finances. The Central Government thus administered the title deeds tax, although the name "land increment tax" was used instead. This change has little importance for our present discussion.

Owing largely to the unstable political situation, the land taxes had long been administered inefficiently. Prior to the establishment of the Republic, the last tax roll of farm land had been completed in 1713, under the Ch'ing Dynasty. Though the agrarian areas as a whole did not change appreciably during this time, the tax roll of 1713 was by no means adequate for use in the nineteenth century.

From 1850 to 1864 there was a great revolutionary movement, known as the Taiping Rebellion, or the Hong-Yang Revolution. The revolutionary leaders, during this period, founded a kingdom with territories stretching over most of sixteen provinces. This Kingdom prohibited private ownership of land, and destroyed the tax rolls in the provinces under their control. After this Kingdom had been crushed out by the Government of the Ch'ing Dynasty, the tax rolls in these provinces were completed on the basis of other records which were much less satisfactory.<sup>1</sup> No real attempts were made under the

---

1. Chinese Year Book, 1937 issue, p. 457.

Ch'ing Dynasty to improve the tax rolls, because after 1860 it was busy waging war against foreign powers, and during the twentieth century it was involved in coping with the revolutionary movement. Owing to this lack of an accurate tax roll, the administration of the land tax met with enormous difficulties.

After the Revolution of 1912, the political situation was even worse than that under the Ch'ing Dynasty. The Central Governments in Peking came and went one after another, but none of them attempted to adjust the land tax rolls. Successive civil wars also made improvement impossible.

After the Kuomintang had come into power in 1931, a National Economic Council was set up by and was subordinate to the chairman of the Central Government.<sup>1</sup> It was empowered to plan projects for the economic reconstruction of the state. In 1934 a report was made by this Council in the field of agriculture. It stated that:

All studies agree that the fundamental factors in the situation are the low output of Chinese agriculture, the very high cost of credit facilities, the burden of taxation, particularly of surtaxes, and in large parts of the country the harsh and uneconomic system of land tenure. <sup>2</sup>

- 
1. The Council consisted of various ministers of the National Government and of unofficial members designated by the Government so as to ensure the participation of intellectual, industrial and other circles. The power of the said Council was to plan and execute various projects for economic reconstruction of the state.  
Cf., The China Year Book, 1934, Pp 763-64.
  2. Ibid., p. 766.

It continued to describe the farm land tax:

Another burden, besides the system of tenure, which weighs heavily upon agriculture, is the land tax. This tax, based on an assessment made over two hundred years ago, which in the course of time has become obsolete and anomalous, is nevertheless moderate. However, during the last several years the tax has in many provinces been multiplied several times. Though legally payable by the landowner, the tax appears in many cases where the tendency prevails to be paid in whole or in part by the tenant. In Kansu it was discovered, for example, that the tenant paid 60 per cent of the (land) tax and the (land) surtaxes. It is not possible to give any figures for the whole of China demonstrating the burden which this tax causes, since conditions vary from one province to another. 1

The rates of the farm land tax described by the same report are as follows:

A careful study was made (by the group of the National Economic Council) of the methods of collection, amounts paid, amounts received by the provincial government. The results are enumerated in the introduction to the report:

"The old land tax, with all its faults, would by itself, if legally applied without additional charges or exactions, contribute no undue burden. The features of land taxation which make it a central factor in agricultural distress are (a) the surcharges, (b) the inequalities between different regions, (c) the system of tax collection, with the waste and exaction that it involves. Surcharges in Chekiang are a recent phenomenon. They have nearly all come into existence since 1927. They now range from 20 per cent to 30 per cent in the different Hsien, and they are extremely unequal in incidence, falling much more heavily on the poorer localities. In five relatively rich Hsien taken at random, for example, the surcharges were found on the average to involve an excess over the land tax of only 25 per cent. In five relatively poor Hsien the average excess involved was 350 per cent.

"Among the first five Hsien the total land taxation only amounted , in one case, to over 65 cents a Mou (2); among the latter it averaged over \$1 (one yuan), and in one Hsien reached \$2.80."

1. The Chinese Year Book, 1934, p.766.

2. Six Mou equal one acre.

With such gross inequalities a general average is difficult to find, and would be misleading if given.

But even these inequalities, and these locally excessive legal charges, might in some cases be tolerable, though unjust, if they represented all that the peasant had to pay. Unhappily the system of tax collection leads to additional exactions (Chuan levies), which add greatly to the real burden of taxation, admits of evasion on a large scale, especially on the part of those best able to pay, and results in a great loss of revenue ... At the crucial point of the intricate chain of tax collecting stand, as elsewhere in China, the unofficial registrars with their books of "fish scale" (the land registration records made after 1713), transmitted from father to son, as the only record of taxable owners and proprietors ... It is impossible to estimate what this system involves in evasion and extortion. But all the evidence suggests that both are on a very large scale indeed ...

Land-tax is, of course, in any country where economic conditions resemble those of China the main source of provincial revenues. And, heavy as are the burdens of land taxation in Chekiang, the total revenue shown in the accounts as received would probably not necessitate an excessive burden if it were equally and inexpensively collected without large evasion, misappropriated exactions and grossly disproportionate incidence in different districts. With an efficient system of collection, reductions in rates could be made, and at the same time the revenue maintained or even increased.<sup>1</sup>

The essence of this Report can be reduced to three points:

1. The lack of a uniform tax rate -- the farm land surtaxes were the major factor causing unequal burdens on the peasants; the differentials of the total tax burden ranged as high as 30 per cent.
2. The lack of an accurate tax roll -- the government levied the farm land tax and the surtaxes in accordance with the old tax regardless of the actual acreage of the land cultivated by the taxpayers. Inevitably, a large scale of tax evasion resulted.

---

1. Cit., The China Year Book, 1934, p. 768.

3. Adjustment in tax rates --- if an accurate tax roll were adopted, the abuses of tax evasion would be eliminated; the total revenue from the land might be maintained or even increased though the existing tax rates were reduced.

In many cases, the market values of the farm land were wiped out, and in other cases abnormally increased, as a result of successive civil wars. Because of this any relationship between the land taxes and the land values was difficult to ascertain. Similarly, it was impossible to find accurately what portion of the taxes were shifted to the consumer in the form of higher prices. Speaking generally, the burden of the farm land taxes was not fully born by the tenants and landlords, but was partly shifted to the consumers.<sup>1</sup>

---

1. "The farmer is in a very poor bargaining position as against the merchant. This was pointed out in the report on the studies made last December in Kiangsi, a paragraph of which may be quoted: 'In addition to his burdensome taxation and land tenure conditions, the Kiangsi farmer is faced with a serious decline in the price of agricultural produce and an enormous discrepancy between prices which he can obtain locally and actual market prices in the large towns. According to figures furnished by the Provincial Reconstruction Bureau, the difference between prices paid to Kiangsi farmers for their produce and prices charged to consumers in Shanghai may amount to no less than 100 per cent. This question of middlemen's profits is regarded in official circles in the province as one of the most important problems in the work of rural reconstruction.' Various provinces, notably Kiangsu, have attempted to deal with this problem by providing warehouses where the farmer can pledge his gain, thus enabling him to hold it off the market until he can obtain the most favourable prices." Cit. The China Year Book, 1934, p. 769.

Particularly during the period of warlordism, the provincial governors relied on the revenue from the farm land taxes as the major source for their extensive military expenditures. The result was that the amounts and the rates of the farm land taxes varied not only from one Hsien to another, but from time to time.<sup>1</sup> It is difficult to compute an average rate on the farm land throughout the country. If given, it would merely mislead readers because the variations were so great. For instance, in Szechwan, after 1917, the power to levy the farm land taxes was left in the hands of the warlords. In each year following the farm land taxes were collected to as much as 12 times in advance (or, six years ahead). Not until 1934, when Generalissimo Chiang Kai-shek himself was in Szechwan coping with the Communist revolts, was this practice abolished.<sup>2</sup> Previously the rate in Szechwan, including the surtaxes

1. The China Year Book, 1926, p. 903, "The militarists have at the same time been levying excessive and illegal taxation on the agricultural districts from which Shanghai obtains its food supply. The wholesale index number for cereals, including rice, for Shanghai on the base of 100 for February, 1913, indicates a constant rise. Beginning with August, 1924, the index numbers are as follows:

1924: August - 144.6; September - 148.1; October - 145.6;  
November - 151.8; December - 148.1;  
1925: January - 147.9; February - 145.7; March - 152.9."

2. Chia Teh-huei, Vol. II, p. 585.

which were three-quarters of the total, averaged more than 7 yuan per  
<sup>1</sup>Mou. But this rate did not include other miscellaneous forced pay-  
<sup>2</sup>ments imposed on the farmers. There were many other illustrations  
of the variety in land tax rates. For instance, in Shantung, from  
<sup>3</sup>1925 to 1927, every picul <sup>4</sup>of rice was taxed 8 yuan, so that the  
rate was 20 yuan a Mou (<sup>a</sup>Assuming 2.5 piculs of rice per Mou). At that  
time the price for rice in Shanghai was only about 1<sup>4</sup> to 16 yuan per  
<sup>5</sup>picul. In Kiangsi, after 1927, the rate was determined at 4 yuan  
<sup>6</sup>per picul of rice. Until 1925 in Kiangsu, the rate was fixed at 5  
yuan per picul of rice; and after 1930, the rate was somewhat reduced.  
In 1932, the rate was reduced by 40 per cent. Though there was a  
tendency after 1928 toward reduction of the farm land tax rates, the  
National Economic Council, quoted above, proposed measures for reform-  
ing the land taxation system because the surtaxes, at the same time,  
were increasing. It recommended an adequate survey of land. But

1. Chia Teh-huei, Vol.II, p. 585.
2. Ibid.
3. A picul is equal to 60.4 kilograms.
4. Chia Teh-huei, Vol.II, p. 585.
5. Cf., The China Year Book, 1926, p. 896.
6. Chia Teh-huei, Vol. II, p. 587.
7. Ibid.

Note: Other alternative rates of the farm land taxes, the rates in other provinces and the increase in cereal prices directly caused by taxes will not be discussed here.

"such a reform must be immensely difficult, lengthy and, in its initial stages, expensive ... And some reform is urgent. The first necessities are simplification, equalization and reduction, and a removal, or at least mitigation, of some of the worst anomalies of assessment.<sup>1</sup>

In the same year, 1934, the Second National Financial Conference was held. Three major tasks were worked out at this Conference, namely, the abolition of miscellaneous Chuan levies, a demarcation of provincial-Hsien taxation rights and the adjustment of the farm land taxes. The last was emphasized particularly. The recommendations of this Conference regarding the adjustment of farm land taxation could be summed up as follows:

1. The removal of the Hsien surtaxes on the farm land — Before 1928, the heavy farm land tax was attributed to the expanding military activities of the warlords; but after 1928, it was due largely to the rising expenditures of the Hsien governments which, at that time, had no independent tax sources. The abuses of the lack of an accurate tax roll caused large-scale tax evasion.

1. A preliminary paper, the Rural Economic Reconstruction in China by Franklin L. Ho, presented to the Sixth Conference of the Institute of Pacific Relations held at Yosemite, California, August 15-29, 1926, stated that "A complete cadastral survey for the whole of China with its area of 11,000,000 square kilometers would take 30 years and cost \$2,200,000,000, provided 100 planes were at work all the time." This description was translated from the Journal of the Chinese Association of Land Economics (in Chinese), January, 1934; Pp 19-21.
2. China Year Book, 1934, p. 768.

The gross inequalities hampered further the development of the agricultural economy, and handicapped the recovery of the agrarian bankruptcy.<sup>1</sup> Both the existing provincial and Hsien taxes on land should be consolidated into one single land tax for the efficiency of future administration.

2. The maximum rate of land tax - One per cent of the land value should be the maximum rate of the consolidated land tax.
3. The registration of land ownership - The land owners should report to the government the value and the acreage of their own land.
4. The land value tax - After the completion of this land registration, the local and provincial governments should levy the land tax at one per cent of the reported land value.

One might ask why the Chinese Government allowed the land-owners to declare the value of their own holdings. In answering this question, we must consider the background of the proposal.

Back in 1924 when the Kuomintang was reformed and its First Congress was convened, Dr. Sun Yat-sen drew up a "Fundamentals of the National Reconstruction" which was instituted as the organic law of the National Government. The Articles with regard to land taxation stated that:

Article 10. Every Hsien, at the commencement of self-government, shall first assess the value of private land in the whole Hsien, which value is to be declared by the landowner. The local government shall tax private land on the basis of the value assessed, and at any time may buy it on the same basis. If after

1. See the Economic Aspects Leading to the Second National Financial Conference, Pp 85-7.

this assessment the land increases in value as a result of political advancement or social progress, such unearned increment should be shared by the people in the whole Hsien and should not be kept by the landowners as private benefit.

Article 11. Annual receipts from land tax, unearned increment, products of public land, yields from mountains, forests, rivers and lakes, proceeds from mineral deposits and water power, all belong to the local government, and shall be used for the operation of local public enterprises of the people, for the care of the young and the aged, the poor and the sick, for famine relief, as well as to meet various public demands.

Dr. Sun Yat-sen's idea regarding the declaration of land value by the landowners can be interpreted that, "The land owners would not declare their land value much lower than that in the actual market, because the Government could buy their land, at any time, according to the declared value. Neither would the land owners declare their land value much higher than that in the actual market, because the landowners would pay more taxation than presumably they could afford. Therefore, the land value declared by the landowners would be reliable and there would be no over assessed burden, nor evasion of taxation."

After the proposal regarding the registration of land ownership was submitted by the Financial Conference of 1934, and was promulgated by the Central Government, some provinces put this proposal into effect, on an experimental basis. The following Table indicates that in 20 Hsien, 12 million Mou of taxable land had previously evaded the land tax entirely, that is, more than 35 per cent of the taxable land.

TABLE XIV  
Taxable Land Before and After Registration  
in 20 Hsien 1

Unit: Mou- one sixth of 1 acre

Hsien	Before Regist.	After Regist.	Increases
Shuyang (Kiangsu)	1,422,137	3,145,561	1,723,424
Hsiaohsien (")	1,332,081	2,453,665	1,121,584
Kiangtu (")	1,878,251	2,326,889	448,638
Liyang (")	1,352,062	1,426,177	74,115
Ihsing (")	1,254,082	1,296,533	42,451
Chinkiang (")	1,063,531	1,102,087	38,556
Kiangyin (")	1,214,085	1,242,141	28,056
Hwening (")	724,978	2,267,817	1,542,839
Tangtu (Anhwei)	901,895	1,197,804	295,909
Hohsien (")	619,109	909,187	290,078
Minhow (Fukien)	486,066	586,066	100,000
Shenhsien (Honan)	217,690	900,838	683,148
Hsiangyu (")	2,162,892	3,384,423	1,221,531
Hweishien (")	919,009	1,684,408	765,399
Taikong (")	1,101,590	2,755,760	1,654,170
Hwaiyang (")	1,564,215	1,653,878	89,663
Chehlu (")	492,072	731,777	239,705
Yuhsien (")	868,937	1,665,004	796,067
Yunan (")	2,559,914	3,005,013	445,099
Ningpao (")	564,484	1,010,713	446,229
Total	22,699,080	34,745,741	12,046,661
Average	1,134,954 <u>2,269,908</u>	1,737,287 <u>3,474,574</u>	602,333 <u>1,204,666</u>

1. Cf., The Chinese Year Book, 1937 issue, p. 456.

In those areas where this land value tax was introduced and the registration of ownership was completed, the revenue from land taxation generally increased.<sup>1</sup> The Hsien governments in these areas withdrew their surtaxes on land and received as their share of the land value tax from the provincial governments, an amount equivalent to that collected under the old system. In many other cases the increased revenue from the land value tax was equally distributed between the provincial and Hsien governments, and in still other cases, the Hsien governments received a greater portion.<sup>2</sup>

Many Hsien governments in most of the provinces, however, did not fully enforce the land value tax though the registration of land ownership had been accomplished, but somewhat reduced the old surtaxes. Moreover, in many Hsien, the registration of ownership had not been completed by 1937, and therefore, the provincial and Hsien governments still levied the land tax in the old way. As a result of the lack of a uniform levying method, after the Financial Conference of 1934, there were thus three different methods of land taxation, namely:

1. The land value tax - Shared by both the provincial and local governments who had adopted the new method of taxing land: no "land surtax" appeared on their accounts;

---

1. Cf., Pen Yu-sing, p. 5.

2. Cf., Ibid.

2. The land tax - Collected by the provincial governments who had not adopted the land value tax instead of the old levies;
3. The land surtax - Collected by the local governments who had not adopted the land value tax instead of the old surtaxes.

The land value tax, introduced by the Financial Conference of 1934, though it was not used in many localities from 1934 on, did represent a remarkable step in land taxation. One of the advantages of the land value tax was that it could eliminate most of the tax discrimination among different areas. The second advantage of the land value tax was that it provided means for solving the difficulties of tax evasion which had appeared particularly since the middle of the nineteenth century. Parallel with this registration of land ownership, the National Government undertook a nation-wide land survey beginning in 1934 on; but this program was interrupted by the war in 1937.

In 1936 the National Government promulgated a new Land Law, which had been drafted originally in 1930, introducing a land increment tax. According to Sun Yat-sen's Fundamentals of National Reconstruction, the Land Law placed a heavy burden on profits derived from the sale of land. That portion of the profit exceeding 20 per cent of the declared farm land value was subject to the land increment tax; the portion exceeding 15 per cent of the declared urban land value was also subject to this tax. The rates were defined as shown in the Table following.

TABLE XV  
Rates of the Land Increment Tax  
of the Land Law of 1936 1

Profits		Rates
Less than 15% of the declared urban land		None
" " 20% " " "		None
Exceeding 20% but less than 50% of the declared value of both urban and rural land		20% of the excess over the "permitted profit".
Exceeding 50% but less than 100%	"	40% " "
Exceeding 100% " " " 200%	"	60% " "
Exceeding 200% " " " 300%	"	80% " "
Exceeding 300% and above	.	100% " "

The purpose of this land increment tax was to prevent concentration in land ownership and to replace the existing title deeds taxes which were levied at different rates in different provinces. This Law was never put into effect because of the outbreak of War with Japan in 1937. Since the proclamation of this Law, many economists have criticized its theoretical basis as unsound.

For instance, A German land specialist, Adolph Damaschke, once issued an essay criticizing this Land Law. He said, "It is by no

1. Sun Shan-fu, p. 65.

2. Ibid., Part of Damaschke's essay here is translated from a Chinese article quoted above, in which the author did not give details regarding A. Damaschke and his essay, except a qualification of "land specialist".

means satisfactory to assess the land increment tax merely according to the percentage of the increased land value. For instance, a small farmer, who owned a piece of land worth 1,000 yuan, now sells his land at a value of 2,000 yuan with an increment in value of 1,000 yuan, or a profit of 100% of the original value. If a speculator who purchased a piece of land at a value of 100,000 yuan now sells his land at a value of 150,000 yuan he will make a net profit of 50,000 yuan, or 50% of the original value. Yet the small farmer will be taxed at a higher rate than the speculator".<sup>1</sup>

A famous Chinese land specialist, Mr. Chu Chi criticized this land increment tax, saying that it should be based on three important factors:

- "1. The percentage of the increased value to the original value,
- 2. The actual amount of the increased value, and
- 3. The duration of the ownership."<sup>2</sup>

Mr. Sun Shan-fu emphasizes "the duration of the ownership" because "the longer the period of ownership the less would it be speculative in character".<sup>3</sup>

As mentioned above, following the Financial Conference of 1941, the Central Government took over all provincial taxes and obligations. Meantime, the Central Government proclaimed the "Provision for the Enforcement of Wartime Land Taxation". This

1. Ibid., p. 65.

2. Ibid., Pp 65-6.

3. Ibid., p. 66.

Provision set forth the graduated rates for land increment tax as follows:

TABLE XVI  
Rates of the Land Increment Tax  
After 1941 1

Profits	Rates
The increased value less than 100% of the original value of both urban and farm land	20% on the excess over the "per- mitted profit".
Exceeding 100% but less than 200%	40%      "      "
Exceeding 200% but less than 300%	60%      "      "
Exceeding 300% and above	80%      "      "

The same Provision defined the rates of land value tax as follows:

TABLE XVII  
The Rates of the Land Tax  
After 1941 2

Land value per Mou	Rates
Less than 500 yuan	6 to 10 per mille
Exceeding 500 yuan but less than 10,000	11 to 15      "      "
" 10,000      "      "      " 50,000	16 to 20      "      "
" 50,000      "      "      " 100,000	21 to 25      "      "
" 100,000      " and above	26 to 30      "      "

This tax was only applied to urban land, since rural land was taxed in kind, at different rates, which will be discussed in the following chapters.

1. Cheng Cheng-mo, p. 11.  
2. Sun Shan-fu, p. 56.

C. Provincial and Hsien Finances  
in Kiangsi Province, 1928-1937

Kiangsi Province is situated in the middle-east part of the country. Its area in 1937 was 200,000 square kilometers, divided up into eighty-three Hsien and one provincial municipality; and its population was 15,820,000.<sup>1</sup>

This Province had suffered severely along with its neighbouring provinces during the Unification War before 1928 and also in the series of civil wars between the National Government and the Communists after 1929. It is proposed in this Appendix to discuss the provincial and Hsien finances of this province, emphasizing the relationships between the three levels of government.

The finances of this province were typical of the characteristic Chinese financial difficulties caused by political crises. Most of the materials in the following paragraphs have been selected and translated from an Article on "The Central-Kiangsi Financial Problems in the Last Ten Years", by a Chinese scholar, Mr. Ben Yu-sing, and published in the Financial Review, Volume XIII, Number 4, April, 1945, in Chungking. Ordinary provincial and Hsien revenues and disbursements were not discussed in this Article, but the financial relationship with the Central Government was analyzed essentially as follows:

1. Provincial Finances.

From 1912 to 1917, the Kiangsi Provincial Government still drew up budgets even though there were deficits. But in 1918,

---

1. Chinese Year Book, 1937 issue, Pp 278-9.

1919, and 1920, these deficits, caused by military expansion, were so great that no attempt was made to present a budget. This state of affairs lasted until the Financial Conference of 1928. During this entire period there was no order in the collecting and spending of revenues because of the confused political situation, not only within the province but also throughout the entire country.

After the National Government became established in Nanking and a relatively stable regime was established, the finances of this province were gradually improved and, as a result, provincial budgets were again brought down in 1928 and 1929. There were deficits too, but loans were sought by the Provincial Government to remedy this situation.

After March, 1929, however, the revenues of the Provincial Government rapidly dwindled because of the Communist revolts. Previously the major revenue of provinces was that from the farm land tax. Before 1929 it brought in an annual income of about 9,000,000 yuan. But in 1929 the revenue from this tax amounted to only 3,000,000 yuan. The civil wars not only caused a shortage in the government's revenues, but it also expanded the government's expenditures. For example, in 1929, the Provincial Government received its total revenue of 11,000,000 yuan only, while its total expenditures totalled 14,000,000 yuan. In 1930, the revenue from the

farm land tax fell from 9,000,000 yuan to 2,000,000 yuan. The total revenues were estimated at less than 10,000,000 yuan while the total expenditures were more than 17,000,000 yuan. These figures do not include the funds spent directly from the Central treasury for military purposes.

In 1931 the National Government promulgated a new law regarding the organization of provincial and local government administration. According to this law, local self-government was to be set up in each Hsien; and the National Government was to improve the provincial and local finances necessary to promote the development of local self-government. Thereafter, the increasing expenditures seemed less burdensome to the provinces and Hsien. In the same year, the surtax on salt was handed over by the <sup>Kiangsi</sup> Kienси Government to the Central Government which, in turn, granted subsidies equivalent to the old yields, to the province.

## 2. The Importance of the salt surtaxes to the Provincial Finances.

Before the Kuomintang unified the country, the provincial governments had utilized land taxes, Likin levies and the salt tax as their main revenue sources. It was recommended by the Financial Conference of 1928 that provincial governments surrender their power to levy the Likin levies and the salt taxes to the Central Government. In 1930, the Likin levies were

abolished and the salt tax was taken over by the Central Government. In 1931 the Central Government further demanded that the salt surtaxes be placed under central control in order to make a uniform salt tax rate effective. Before the surtax on salt was administered by the Central Government, in this Province, this surtax had been relied upon by the Provincial Government for the following purposes:

(i) Adjustment of the Provincial Bond Market

Before 1926, the Provincial Government had issued various bonds to meet deficits. Some bonds were issued against the old bonds which became a reserve fund for the new issues. Some bonds were permitted to circulate in the market as means of payment, and others were issued to redeem the old bonds. Because of a lack of systematic planning, the provincial bonds were issued in a capricious manner. As a result, the bond market in this Province was seriously undermined by these unending issues.

In January 1928, the Provincial Government issued "Circulation Adjustment Bonds" in the amount of 8,000,000 yuan, to absorb a part of the Kiangsi Provincial Bank notes and two outstanding bond issues. Part of the surtax on salt, 1,800,000 yuan was annually allotted for the repayment of this new issue.

Again in 1930 the Provincial Government issued bonds to meet their budgetary deficits. The fund for repayment, totalling 1,200,000 yuan was also to be provided by the salt surtax. This surtax was also planned to provide 240,000 yuan annually for redemption of part of the Provincial bond issue of 1931, which totalled 400,000 yuan.

(ii) Educational Funds

In 1927 the budgetted expenditure for education was only 1,200,000 yuan. But after 1928 it was increased to more than 2,000,000 yuan annually. This entire increase in the expenditure for education was to be covered by part of the surtax on salt. Later, because of the Communist revolts and the drop in provincial revenues, a larger portion of the salt surtax was set aside to balance the expenditure of 2,000,000 yuan for education.

(iii) Communication

In order to expedite the suppression of the Communists, the Provincial Government rapidly built a highway net work. Besides funds directly assigned by the Central Government, the Provincial Government provided 1,000,000 yuan annually, derived from the salt surtax.

In 1934 the completion of the Yuping Railway was assisted by a 12,000,000 yuan issue of bonds, once more secured by the salt surtax.

## (iv) Subsidies to Subordinate Governments

There had been in the past no independent tax sources for the Hsien governments. Their limited funds were by no means adequate for the expenditures on police protection and on relief in the war-torn areas. Extraordinary subsidies of 400,000 yuan to the Hsien governments were derived from the salt sur-tax.

From these details, it is evident that the surtax on salt was extremely important to the Kiangsi Provincial Government, particularly when other income was sharply reduced by the Communist revolts. Since provincial finances depended so heavily upon the salt surtax, the Central Government had to subsidize the Provincial Government after taking it over. New subsidies from 1934 on were assigned by the Central Government to the Province in the following amounts:

Education	2,000,000 yuan
Reserve for the old Provincial bonds	1,834,000 "
Highways	96,000 "

---

3,930,000 yuan

In addition, a subsidy of from 1,000,000 to 1,500,000 yuan was annually granted by the Central Government to this Province for highway construction. When part of the Provincial bonds were redeemed in 1934, the subsidy from the Central Government was re-appropriated to the reserve fund of the Yiping Railway Bonds.

The subsidy of 96,000 yuan under the heading of Highways was also later assigned to the reserve fund of the Railway Bonds. Two months after the war with Japan broke out, the Central Government reduced by 30 per cent its subsidy for education.

### 3. Hsien Finance

Ever since the Republic had come into existence in 1912, the expenditure for police protection in local finance had always constituted one of the largest outlays of the local governments. This local phenomenon also appeared in Kiangsi, especially during civil wars between the Nationalists and the Communists. In order to cope with the Communist expansion, the Hsien governments, under the Central and the Provincial order, organized militia forces. In 1933 these Hsien militia in Kiangsi comprised thirty-two units, each unit containing more than 300 soldiers. The funds were derived from the surtaxes on farm land and on salt.

After 1933 depression in farm communities throughout the country rendered inadequate for military maintenance these funds from the farm land surtaxes. The Central Government, therefore, assumed part of the cost of this militia organization, and assigned 250,000 yuan monthly to all Hsien governments. On the other hand, because of the departure of the Communists from this Province, the militia was gradually reduced in membership.

By 1935, the civil wars in this Province had come completely to an end. As a result, the Provincial and Hsien governments were able to divert a larger proportion of their revenue from war expenditures to post-war relief and reconstruction. The Provincial Government could now draw up budgets and could enjoy relatively adequate revenue sources. General subsidies to the Hsien governments were increased annually until they exceeded those received by Kiangsi from the Central Government, as shown in the following Table:

TABLE XVIII

Subsidies from the Central and Provincial Governments  
to the Hsien Governments in Kiangsi  
1935 - 1941

(Unit: yuan)

Year	Grants from the Central Government to the Provincial Government	Grants from the Provincial Govt. to the Hsien Governments	Percentage of the Central Grants in the Provincial Grants
1935	120,000	130,000	92%
1936	210,000	250,000	84
1937	290,000	450,000	54
1938	290,000	222,000	45
1939	230,000	534,944	39
1940	220,000	692,524	32
1941	280,000	1,639,310	17

Note: These grants did not include subsidies from the Central Government for particular purposes discussed in the preceding pages, such as education, bond redemption and communication.

This last Table is highly indicative of the Provincial Government's new ability to subsidize its subordinate governments. This state of affairs was due largely to the peaceful situation in the Province in later years, or, shall we say, the previous financial difficulties could be attributed to civil wars and the need for expanded police protection.

Selected ReferencesChinese:

Ben Yu-sing, Hsien Finance, Chungking, Commercial Press, February 1945, first edition; Shanghai, Commercial Press, November 1945, Shanghai-first edition; April 1948, Shanghai-second edition.

Cheng Nien-chung, Local Self-Government, Chungking, Commercial Press, April 1942, first edition; July 1944, fourth edition; Shanghai, Commercial Press, September 1946, Shanghai-first edition; July 1947, Shanghai-second edition.

Chia Teh-huei, Financial History of the Republic of China

Li Jan-nung, Chinese Political History in the Last One Hundred Years.

English:

Hawtrey, R. G., The Gold Standard in Theory and Practice, Longmans, Green & Co., Ltd., London, New York, Toronto, Calcutta, Bombay and Madras, 1927.

Ho, Franklin L., Rural Economic Reconstruction in China, a paper presented to the Sixth Conference of the Institute of Pacific Relations, 1926.

Periodicals (Chinese):

Ben Yu-sing, The Central-Kiangsi Financial Problems in the Last Ten Years, Shanghai Financial Review, April 1945, Vol. 8, No. 4.

Chang Peh-yi, Wartime Finance of the National Government, Shanghai, Financial Review, February 1947, Vol. 16, No. 2

Cheng Cheng-mo, New Land Act and Land Policy, Shanghai, Financial Review, November 1946, Vol. 15, No. 5.

Sun Shan-fu, The Arguments of Tax Rates on Land, Chungking, Financial Review, June 1944, Vol. II, No. 6.

Periodicals in English:

China Handbook, 1937-1945. Compiled by Chinese Ministry of Information, Revised and enlarged with 1946 supplement, New York, MacMillan Company, 1947.

China Year Book, 1926, Tientsin, Tientsin Press Ltd.

China Year Book, 1934, Shanghai, The Northern-China Daily News and Herald, Ltd.

Chinese Year Book, 1937 issue, Shanghai, Commercial Press.

International Year Book, 1928, New York.

Money and Banking, 1936-7, Vol. II, League of Nations.

L E 3 B 7  
1949 A 8  
T P 7  
Cyp. 1

PART IV

Wartime Financing 1937 - 1945

PART IV

## Chapter VII

## Financial Developments Between 1937 and 1941

Introduction

In this Part the Third National Financial Conference will be stressed in detail. Before the wartime financial projects recommended by this Conference are reached, however, it is advisable to discuss the development of the Eight Years War which persisted from July 1937 to August 1945.

In the first years of the War, neither China nor Japan did anticipate that the hostilities would last for eight years. The Central Government developed its wartime financing rather spasmodically, and no permanent and comprehensive financial policies followed for the provincial and Hsien governments until 1941, when China was convinced that the War was chronic and the Financial Conference of 1941 was called.

In the first years of the War, since the danger was worse in China than in Japan, the financial strength of the Central Government was greatly weakened by the loss of the taxpayers in enemy territory. In order to enable the Central Government to liberate the nation from the foreign invasion, the Financial Conference of 1941 was assembled to provide means for solving central economic handicaps. The provincial governments thereby surrendered their tax levying power to the Central Government enabling it to handle national defence more effectively.

This Chapter is entirely a discussion of the background of this Financial Conference.

#### A. War Areas and Financial Difficulties

Before the outbreak of the Eight Years War, the Four Eastern Provinces, known in English as Manchuria, had already been occupied by the Japanese. The Japanese field forces could easily attack the Provinces of Hopeh and Chahar, the south and west.

On the night of July 7, 1937, what was termed by the Japanese an "incident", following a Japanese "military manoeuver", took place in the vicinity of Peiping, formerly known as Peking, Hopeh Province. The Chinese Government attempted at the beginning to settle this "incident" through diplomacy, and, on July 10, sent a written protest to the Japanese Embassy in Nanking. However, it was believed that no satisfactory results could be expected through diplomacy and on July 17, General Chiang Kai-shek, in a public speech, laid down four minimum conditions for the settlement of the so-called "incident". In response to Chiang's statement, on July 25, Japanese Field Headquarters sent an ultimatum to General Soong Cheh-yuan, the Chinese commander in the Hopeh-Chahar area, demanding the evacuation of all Chinese troops from Peiping and the vicinity. When the Chinese Government refused this ultimatum, the "incident" enlarged and spread over North China.

On August 13 of the same year, the Japanese guns fired on Shanghai. The Chinese Government then announced that 200 kilometers of the Yangtze River, from Shanghai upwards, had been mined and were closed to traffic. One week later, a Non-Aggression Treaty was signed between the Chinese and Soviet Governments in Nanking. On August 30, a conscription law was put into effect. Two days later, on September 1, the Central Government issued its first wartime bonds, amounting to 500,000,000 yuan, 40 per cent of the total Central budget for the preceding year. The eight

Years War had begun; not until August, 1945, did the Japanese forces surrender and the War come to an end.

The fiscal year of the Chinese Government ran in the twelve months from July 1937 to June 1938. (1) The hostilities broke out just at the beginning of this fiscal year. It was necessary for the Central Government to rush the first wartime bonds, which were issued two months after the outbreak; but a relatively permanent wartime financial plan was out of the question because both China and Japan never realized that this "incident" would last for eight years.

Following the early bloody campaigns, China's forces withdrew westward from the maritime provinces. The loss of the land together with the taxpayers there domiciled, was particularly inconvenient, so far as the financial matters were concerned. The following Map and Table give a rough picture of the war areas and population situations.

---

1. Beginning from 1938, the fiscal year was altered from January to December of each year.



- [Hatched area] Area under Japanese control from 1896 to 1945.
- [Cross-hatched area] Provinces occupied by the Japanese from 1931-33 to 1945.
- [Solid red area] Provinces entirely occupied by the Japanese after 1937.
- [Red and black striped area] Provinces where after 1937, the Japanese controlled major portion of land.
- [Red and black striped area] Provinces where major portion of land still under Government control.

Note: This Map shows the 28 Provinces and the territories of Mongolia and Tibet in 1937; the Island Hainan was under the jurisdiction of the Kwangtung Provincial Government. The changes of the international and provincial boundaries after 1945 will not be shown here.

TABLE XVIII

145.

Population and War Areas in the  
28 Provinces of China. (1)

(Population and acreage quoted below in  
accordance to 1937's census )

PROVINCES	' Popula-	Per-	' Areas	' Per-
	' tion (000)	' centage to Total	' (000)	' centage to Total
The 28 Provinces	452,614	100.0	8,766	100.0
<b>Provinces fully occupied by the Japanese:</b>				
Four Eastern Provinces	30,007	6.6	1,247	14.3
Chahar	2,036	0.5	279	3.3
Hopeh	28,644	6.3	154	1.8
Total	60,687	13.4	1,680	19.4
<b>63 per cent of the Hsien in the Provinces occupied by the Japanese:</b>				
Kiangsu	36,469	8.0	108	1.4
Chekiang	21,231	4.7	103	1.3
Anhwei	23,265	5.1	134	1.5
Kiangsi	15,820	3.5	200	2.2
Hupeh	25,542	5.6	208	2.4
Hunan	28,294	6.2	273	3.1
Shantung	38,029	8.7	179	2.0
Honan	34,290	7.3	173	1.9
Shansi	11,601	2.6	156	1.8
Fukien	11,756	2.6	159	1.8
Kwangtung	32,290	7.1	217	2.5
Suiyuan	2,084	0.6	291	3.3
Kwangsi	13,385	2.9	218	2.5
Total	293,956	64.9	2,419	27.7
<b>The Provinces intact during the War:</b>				
Szechwan	52,963	11.7	431	4.9
Yuman	11,995	2.7	320	3.7
Sinkiang	4,360	0.9	1,828	20.8
Chinghai	1,196	0.2	697	7.9
Kweichow 1	9,043	2.0	179	2.0
Sikang	968	0.2	372	4.2
Kansu 1	6,705	1.5	378	4.2
Ningsia 1	1,023	0.2	275	3.1
Shensi 1	9,718	2.3	187	2.1
Total	97,971	21.7	4,667	52.9

1. These Provinces not entirely intact.
1. Cf., Chinese Year Book, 1937 issue, pp 278-79 and China Handbook, 1937-1945, p.112.

Figures do not include those of Special Municipalities and the Territories of Mongolia and Tibet.

Before 1937, 13.4 per cent of the total population and 19.4 per cent of the land among the 28 provinces had already been occupied by the Japanese. During wartime an additional 45 per cent of the population and an additional 20 per cent of the land were lost from the administration of the Central Government. Roughly speaking, in the later years of the War, the Central Government was only directly supported by 40 per cent of the population, inhabiting 60 per cent of the land which was much poorer than that occupied by the enemy. Since the Central Government had previously depended on the revenues from the indirect taxes, as we shall see in the next section, the loss of majority of the population would necessarily put a tremendous burden on the Central Government in its struggles against foreign invasion. This was the elementary factor that handicapped the central treasury in financing the war expenditures, and that led to the convening of the Third National Financial Conference in 1941, by which time China was positively convinced that the "incident" was "chronic".

#### B. Inefficiency of the Central War Financing

Since the pressure on the central finances was the chief cause for the Financial Conference of 1941, it is advisable to discuss, as background, briefly the economic projects of the Central Government prior to 1941.

In order to cope with the financial difficulties of the War, the Central Government had adopted three policies, namely the issue of bonds, the imposition of new taxes, and the inflationary printing of banknotes. These policies, however, were by no means sufficient to raise the funds necessary for the huge war expenditures, as the separate headings

below will show.

First policy: Wartime Bonds

The failure of the coastal defences of China was inevitable because she lacked a strong navy, while Japan at that time was pre-eminent in sea power. In 1937 and 1938, the Japanese had successfully occupied all the important sea ports, industrial centers and commercial cities along the coast. As a result of this, the Central Government not only lost all revenues from the maritime customs duties, and the tax on the salt produced on the coast, but also the considerable annual income from commodity taxes. It was the worst period in the records of the central finances since the Unification era of 1928, for the Central Government had lost its three major revenue sources, while it had to carry the costs of total war. The following Table shows the percentages of the Indirect taxes in the Central Government's budgets since 1928.

Table XX

Importance of the three major Revenue sources in the Estimated Budgets of the Central Government,

1928-1937 (1)

Year	Revenues from Indirect Taxes			Borrowings	Other Revenues
	Customs %	Salt %	Commodity % (1)		
1928	26	22	--	48	21
1929	34	19	--	53	18
1930	40	18	7	65	28
1931	42	18	9	69	20
1932	52	24	13	89	--
1933	52	21	13	84	--
1934	41	20	12	73	5
1935	35	19	11	65	7
1936	32	19	13	64	22
1937	36	22	17	75	--

1. The fiscal year started from July 1937 to June 1938 and the War broke out in July 1937. The figures do not include the wartime bonds.

On the average, in the ten years up to 1937, the Central Government's revenue from customs duties, salt taxes, and commodity taxes, were 69 per cent of its total annual income. When the War broke out these reliable revenue sources dwindled sharply. By 1939, the revenue from these taxes amounted to only 46 per cent of that of 1937, while the total expenditure for 1939 rose to 125 per cent of the 1937 figure. With an eye to the expected loss of the indirect taxes, the Central Government endeavoured both to frame a new centralized taxation system and also to issue wartime bonds to meet its budgetary deficits.<sup>1</sup> The latter policy could be administered more easily and efficiently in the emergency. Thus, the first wartime bonds were issued two months after the outbreak of the War.

In these early War years, the central budgetary deficits were not so great that the Government could not balance its total expenditures with its total income. After 1940, however, deficits increased so rapidly that bond sales were no longer sufficient to offset them, as shown in the following Table.

---

1. Cf., Yen Wen-Dhin, p.112.

TABLE XXI

Deficits and Domestic Bonds of  
the Central Government, 1937-1941<sup>1</sup>

Year	Bonds Names and Purposes	Unit: 000,000 yuan		Central Deficits
		Issued Amounts	Total	
1937	Liberty Banking	500 17	517	496
1938	National Defence Relief	4,500 30	4,530	396 x
1939	Reconstruction National Defence	600 1,200	1,800	1,383
1940	Reconstruction National Defence	1,200 2,000	3,200	4,007
1941	Reconstruction National Defence	1,200 1,200	2,400	9,000

x The fiscal year ran from July to December in 1938

1. Source: Yen Wen-chin, Pp121-2 & Chang Peh-yi, Pp 10,12,13,15 & 17.

From 1937 to 1939, the wartime bonds were the backbone of a balanced central budget. In 1940, however, the deficits exceeded the amount of the bonds issued plus all other sources of revenue of the Central Government. By 1941, the bonds offset only 37 per cent of the budgetary deficit. A remedy had to be provided for the Central Government, so that in the summer of 1941, the Third National Financial Conference was held for this purpose.

Second Policy: New Taxes of the Central Government

Ever since the Unification of the country, and particularly after the Japanese seizure of the Four Eastern Provinces, the Central Government had been attempting to strengthen its financial system in preparation for a war with Japan.<sup>1</sup> In 1934, the Second National Financial Conference had proposed new income taxes and succession duties imposed by the Central Government. In the following year, an income tax act was actually put into force, and, in 1937, succession duties were imposed.

One year after the War began, legislation regarding a wartime excess profits tax was promulgated. This tax was first imposed in 1939.

In 1940, the Central Government temporarily established a monopoly of the sales of sugar, salt, tobacco, cigarettes, and matches in a few areas. Because of the good results of this operation the Central Government, in 1941, applied this policy throughout the whole country.

---

1. Chang Peh-yi, "Because of the Japanese invasion at the Northeast, the National Government attempted to plan its finances to meet the impending threat of war with Japan, particularly evident after 1932 (the Japanese attacked on Shanghai)".

As the war situation worsened, voluntary donations from the people to the Central Government increased from year to year. From 1940 on, the Central Government in its budgets put this sort of income under a separate heading. The following Table shows the percentages that the new taxes, monopoly sales, and donations were of the total income of the Central Government, from 1937 to 1941.

TABLE XXII  
New Receipts as a Percentage of the Total  
Receipts of the Central Government, --  
1937- 1941 (1)

Year	Income Tax	E.P.T. Succession Duties	Monopoly Sales	Donations	Bonds	Total
1937	1.6	0.1		37.0	38.7	
1938 x	0.3	0.01		89.9	90.2	
1939	1.3	0.2	0.1	77.9	79.5	
1940	1.0	0.7	0.1	0.8	1.1	84.6
1941	1.5	1.7	0.1	7.9	3.4	58.2
						67.8

x Fiscal year ran from July to December, 1938, while the bonds were not by fiscal year.

Although the revenues as a whole increased annually, the total deficits of the Central Government still mounted more rapidly, as shown in the following Table:

1. Source: Chang Peh-yi, Pp 10-7, & Table XX supra.

TABLE XXIII  
 Total Income as a Percentage of the Total  
 Expenditure of the Central Government  
 1937 - 1941 <sup>1.</sup>

Year	Total Income	Total Expenditure	Per cent
1937	1,515,357,000	1,511,293,000	100.3
1938 x	5,037,679,000	903,329,000	556.3
1939	2,309,089,000	1,892,269,000	126.8
1940	3,784,439,000	4,591,595,000	82.4
1941	4,118,985,000	10,729,941,000	38.4

x Fiscal year ran from July to December, 1938.

As the total incomes as a percentage of the total expenditures dwindled, the Central Government's ability to sell more new bonds was weakened. It was, therefore, necessary for the Government to resort to dilute in its currency to meet its deficits. Inflation, however, was poor remedy for such a prolonged struggle.

#### Third Policy: Fapi, the convertible fiat money

From 1934 on, the price of silver had increased rapidly abroad, which led to the export of a great deal of silver to the gold standard countries. This event brought to China a shortage of silver in the money stream and a crisis in the domestic economy. The Government, therefore, had to divorce the exchange value of its currency from the world price of silver and had prevented the free movement of silver after the middle of October, 1934. In November, 1935 an emergency decree was issued by

---

1. Ibid.

the Central Government authorizing an inconvertible paper money, known as Fapi, as full legal tender. In that peaceful year Fapi was expected to prevent a domestic economic panic, but in fact, it was one of the whole link of the Nationalist war policies. Mr. Ping Liang, the head of the Issue Department of the Central Bank of China, in his article issued in 1948 to observe the twentieth anniversary of the Central Bank of China, stated that, "....Moreover, the relationships between China and Japan became so tense that the Government had to reform its currency by emergency decree, as a preparation for war".<sup>1</sup> In the same article, Mr. Liang went on and said that, "During the later years of the War, the Government had done its best to avoid the use of note issues for war purposes".<sup>2</sup>

In 1948, the Minister of Finance, Wang Yu-wu, in his statement regarding a later monetary reform said that, "At present, the Fapi has met with its fate after several stirring years. During these years, it did periodically increase in quantity but not as much as our citizens imagined".<sup>3</sup> The Government had never made a detailed statement concerning the extent of the note issue while the War was going on; even during the post-War years, when the conflicts between the Government and the Chinese Communists were spreading. It is difficult to discover how important was the role played by the Fapi inflation in the central financing of the War. According to Mr. Liang's article, the inflation was not critical in the first three years. He also said that, "during these three years, a quantity of Fapi was necessary only in order to meet emergency needs at the

---

1. Ping Liang, p.34.

2. Ibid.

3. Financial Records, Financial Review, Vol. 19, No. 2, p.10.

front and to facilitate development of some industries in the interior"<sup>1</sup>.

Further, one must remember that in the first three years of the War, the Government had issued wartime bonds in the amount of 11,500 million yuan. These funds had to be provided from the existing money stream which was at the eve of the War only 1,410 million yuan. Therefore, the Central Bank had to increase the quantity of the Fapi through loans to private business in order to maintain a useful volume of the currency in circulation. In 1938, the Fapi was increased from 31.2 million to 32.4 million yuan; in 1939, by 340 million yuan; and in the first six months of 1940, by 540 million yuan.<sup>2</sup> From then on, there was no official statement regarding the Fapi issuing, but Mr. Liang said that, "The Fapi should be elastic in its quantity".<sup>3</sup>

In view of the central budgets, one would believe that the Government, beginning in 1940, had begun to spend the Fapi directly to meet a part of its expenses because in that year it first met with net deficits.<sup>4</sup>

1. Ping Liang, p.34.

2. Ibid.

3. Ibid.

4. See Table XXII supra.

Chang Peh-yi, p.5 How to Maintain the Value of the Gold Yuan, "Through the first three years, this continuing issue of the Fapi caused gradual but stable decline in its value. But after Pearl Harbour was bombed, the sudden reduction in ports caused serious shortage of various staple goods (because less and less the staples imported across the Pacific Ocean). This resulted in a rapid rise of the general price level and was a further factor in the seemingly limitless fall in the value of the Fapi".

Of the three wartime financial measures, the bond issue, the taxes and inflation, the dilution of the Fapi was the last and most desperate resort. But such inflation was never an effective weapon for coping with financial difficulties in the long run. Other remedies had to be provided if the Government was to continue the war effort to the end. Thus, the Third National Financial Conference was called in 1941.

(C) Developments in the Provincial and Hsien Finances, 1937 to 1941

In 1934, the Second National Financial Conference took a significant step through which to provide an expansion of the Hsien finances was expected. But only a few of its Resolutions -- such as abolition of the Chuan levies and the introduction of land value taxes -- were put into effect by the provincial governments, while the Demarcation of the Provincial-Hsien Taxation was never realized. In March, 1937, the Central Government promulgated an Enforcement Provision for the Demarcation Act.<sup>1</sup> This Provision was to be in force by July, 1937. However, the hostilities between China and Japan broke out in that month, so the enforcement of the Provision was postponed by a central decree.

The materials in this section are arranged to stress the financial developments among the provincial and Hsien governments from 1937 to 1941. Of these, the New Hsien System was the most important, and will be discussed in a following chapter.

Provincial Finances

The provincial governments still had a broader revenue base than the Hsien, because the Demarcation Act had not been as yet put into practice. They could reserve bond issuance power for their extraordinary

1. The Provision was of the same pattern of the Demarcation Act, decided by the Financial Conference of 1934, with slight changes in names and terms.

expenditures, as is shown in the following Table.

TABLE XXLIII

## Provincial Wartime Bonds, Issued Annually

1937-1940<sup>1.</sup>

Year	PURPOSES				'Deficit ' & Others'	'Total'
	'Reconstruction & Public works'	'Relief ' Industry	'Highway & ' Industry	'Defence ' & Others'		
1937	5,000	6,000	2,960		500	14,460
1938	56,000			15,980	17,900	88,980
1939	7,500			8,900	9,200	25,600
1940		20,000	40,000	25,000	5,000	90,000
Total:	68,500	26,000	42,960	49,880	31,700	219,040

Note: the figures include the bonds which had been authorized and not yet issued.

The Provincial Governments of Anhwei, Chekiang, Fukien, Honan, Hunan, Hupeh, Kansu, Kiangsi, Kiangsu, Kwangsi, Kwangtung, Shantung, Shensi, Sikang, & Szechwan.

The financial conditions of the individual provincial governments were varied with their proximity to the front. The following Table shows the finances of three Provinces. In Chekiang, there was fighting with the Japanese in 1939. Fukien was one of the neighboring Provinces of Chekiang, and war areas in this Province were small. Szechwan was free from active hostilities.

1. Cf., Chia Teh-huei, Vol. 11. p.664-66.

TABLE XXV

Provincial Budgets of Chekiang, Fukien,

and Szechwan for 1939.<sup>1</sup>

Unit:000 yuan

<u>Revenues &amp; Receipts'</u>	Chekiang		Fukien		Szechwan	
<u>From:</u>	Amount .	%	Amount .	%	Amount .	%
Farm land taxes	5,800	14.8	1,540	11.8	29,000	30.8
Title deeds taxes	500	1.3	154	0.2	3,000	3.2
Business taxes	5,729	14.5	2,364a	17.3	11,000	11.8
Improvement taxes	--	--	4,000b	30.5	1,000	1.1
Public properties	266	0.7	146	0.1	100	0.1
Public enterprises	819	2.1	57	--	90	0.1
Administration	8,152	20.5	687	0.5	2,700	2.9
Subsidies from the						
Central Government	1,861	4.7	2,144	16.4	14,000	15.0
Debts & borrows	12,000	31.0	1,983	15.2	30,300c	32.0
Others	4,347	11.0	30	--	200	0.2
Total (cit.)	39,475	100.0	13,105	100.0	94,000	100.0

Expenditures For

Administration (d)	3,050	7.7	3,708	28.5	24,900	26.2
Police protection	10,194	25.8	3,288	25.3	9,400	10.0
Subsidies to sub- ordinate govern- ments	7,153	18.0	--	--	700	0.7
Education	2,599	6.6	2,999e	23.0	7,400	7.9
Financial Ad.	2,104	5.3	1,780	13.7	5,700	6.2
Debt Service	9,756	24.7	--	--	26,000	27.7
Public enterprises	199	--	--	--	--	--
Pensions to retired officials, etc.	110	--	60	--	1,000	1.1
Construction, etc.	1,127	2.9	328f	2.5	15,000	16.0
Other	--	--	744	5.7	--	--
Reserve funds	3,182	9.0	744	5.7	3,900	4.2
Total (cit.)	39,475	100.0	13,105	100.0	94,000	100.0

x The budget had not been submitted to the Central Government for approval. a) Including butchery tax, etc. b) Including a part of land taxes. c) Debts: 300,000 yuan, Deficits: 30,000,000 yuan. d) Including the expenditures for administration, judicial administration, and the Party. e) Including the expenditures for special training of civil officials. f) Including the expenditures for public health, etc.

1. Cf., Chia Teh-huei, Vol. 11. Pp 656-67.

In Chekiang, the income from debts and borrowing was the greatest, 31 per cent of the total income of the Provincial Government, while that from the central subsidies was only 4.7 per cent. In Fukien, the taxes from land and improvements were the greatest revenue, 42 per cent of the total income of the Provincial Government; while the subsidies from the Central Government was 16 per cent. In Szechwan, the revenue from debts and borrowing was the greatest, 32 per cent of the total income of the Provincial Government, while that from the land tax was the next, 30 per cent.

Chekiang and Szechwan had heavily depended on borrowing, but both of them had the increasing burden of refunding their old debts, 24 and 27 per cent of their total expenditures respectively.

Since actual battles waged in Chekiang, the Provincial Government also had an expenditure, the largest one of all, for civil protection and police amounting to 25.8 per cent of its total expenditures. But, in Szechwan, the cost of police protection was only 10 per cent of the total expenditures, while in Fukien, the same expenditure was 25.3 per cent of the total. The expenditure for construction was only 2.9 per cent in Chekiang compared to 21.5 per cent in Fukien and 16 per cent in Szechwan...

In Chekiang, as the areas under the Provincial administration steadily diminished, the expenditure for administration became less important. But in Fukien and Szechwan, the same expenditure amounted to 28.5 and 26.2 per cent respectively. This expenditure included the cost incurred in maintaining provincial people's assemblies. The Chekiang Government was burdened by subsidies to its subordinate governments, of 18 per cent of its total expenditures, while such costs in Szechwan were

only 0.7 per cent. In Fukien, this cost was incorporated into that for administration.

A better understanding of the provincial wartime financing will be given by the following Table, which shows the variations in Chekiang's budgets for the years 1936 and 1939.

TABLE XXVI  
Comparison of the Chekiang Provincial  
Budgets of 1936 and 1939.<sup>1</sup>

Unit:000 yuan											
Revenues & Receipts	Amount '1936.		Percent '1936.		Expenditures for		Amount '1936.		Percent '1936.1939'		
	1936.	1939		1936.	1939		1936.	1939		1936.	1939
Land taxes	10471	5800	36.2	14.8	Administ.		5681	3050	19.6	7.7	
Tit. deeds	1080	500	3.7	1.3	Pol.Prot.		3423	10194	11.8	25.8	
Business	5665	5729	19.6	14.5	Subsidies						
Pub. prop.	610	266	2.1	0.7	to Sub.						
Pub. enterp.	3905	819	13.5	2.1	gov'ts		1035	7153	3.6	18.0	
Administ.	1033	8125	3.6	20.5	Financial						
Subsidies from the							1218	2104	4.2	5.3	
Gen.Gov't.	4669	1861	16.1	4.7	Debts		5959	9756	20.6	24.7	
Debts	1194	12000	4.1	31.0	Pub.enterp.		3373	199	11.7		
Others	311	4347	1.1	11.0	Pension		98	110	0.3		
Total	28938	39475	100	100	Construct.		4089	1127	14.1	2.9	
					Others		107		0.4		
					Reserve		824	3182	2.9	9.0	
					Total		28938	39475	100	100	

1. Tables VI & XXIV supra.

Because fighting was going on in this Province, the revenue from the land taxes was sharply reduced from 36.2 per cent in 1936 to 14.8 per cent in 1939, of the total receipts. In 1936, the income from provincial enterprises was 13.5 per cent, of the total, but the same income in 1939 was only 2.1 per cent. In 1939, the receipts from title deeds, and public properties had fallen to 50 per cent of those in 1936. The receipts from debts being a stable amount of money increased from 4.1 per cent in 1936 to 31 per cent in 1939 of the total revenues of the Provincial Government, and the debt charges in 1939 rose 4 percentage points above that of 1936. In 1936, administration, construction and public enterprises were 45.5 per cent of the total expenditures; but these expenditures were not of importance in 1939, being 10.6 per cent only. The cost for police protection and the subsidies to the subordinate governments were only 25.4 per cent in 1936; however, by 1939 they were 43.8 per cent.

To sum up, the essences of the provincial wartime financing can be analyzed as follows:

- 1) In these provinces where battle was carried on, the provincial governments not only had an increasing costs for police protection, but the heavy burden of subsidizing the subordinate governing bodies. They had to keep a reserve fund of high percentage of their total expenditures to meet emergency needs. Here, the subsidies from the Central Government were not important.
- 2) In these provinces removed from the direct activities of the War, construction and public works were carried on a greater scale than in the pre-War years. Here, the subsidies from the Central Government became more important than ever.

3) Generally speaking, all provincial governments developed their debt financing during the War years. The expenditure for the repayment of the old debts, therefore, increased each year.

#### Hsien Finances

Since the outbreak of the War, the Hsien governments had been increasingly burdened by their extraordinary functions, such as organizing militia, supplying foodstuffs, carrying propaganda, administering refugees, moving, rehabilitation, military works, reconstruction. One must remember that the Hsien governments were still without adequate revenue sources, because the Demarcation Act had never been put into effect. The Hsien financial methods were rushed and particularly in those districts close to the theater of War. When the subsidies from the Central or the provincial governments were not received, or were inadequate, the Hsien treasuries had to distribute the burden of the extraordinary costs among the people.

In 1939, the Kwangsi Provincial Government first promulgated rules governing such "distribution" of extraordinary costs of its Hsien governments.<sup>D</sup> After this initial step, other provinces made similar rules for their respective local bodies. The regulations drafted by the Kwangsi Provincial Government can be summed up as follows.<sup>1</sup>

- 1) The total amount of the "Distribution" should be first approved by the people's assembly in the Hsien concerned.
- 2) The individual levies of the "Distribution" should be determined by each District Assembly, (which was subordinate to the Hsien people's assembly) in accordance with the financial ability of each Hu ( one Hu usually contained one family; and every business firm was considered as a separate Hu).
- 3) The spending of the "Distribution" in each district of the

---

1. Chia Teh-huei, Vol.II. p.660.

Hsien should also be decided by the District Assembly.

4) The total collection of the "Distribution" should be in each Hsien treasury for safe keeping ;but,-

5) The Hsien governments must spend the "Distribution" in accordance with the budgets originally made by each District Assembly.

#### Conclusion

After the outbreak of the War, the Central, provincial and Hsien governments were all confronted with difficulties. The most characteristic feature in China's wartime financing was that none of the three levels of government had adequate sources of revenue. Because of the loss of taxpayers and territories, the Central Government was confined to increasing its funded debt to meet its huge war expenditures. The currency was, therefore, diluted in order to expedite sales of war bonds. The provincial governments developed debt financing too, but their annual repayments of their old debts increased in direct proportion. Because of the lack of adequate revenue sources, the Hsien governments resorted to the Chuan levies. In short, none of the government with its revenue sources could deal with the war expenditures efficiently enough to keep its finances in good condition.

Another characteristic feature of China's wartime financing was the continually advancing price level, which was the principal problem of all three levels of government. After 1940, the general wholesale index number accelerated more rapidly than ever before, as shown in the following Table. All these forces led to the Third National Financial Conference in 1941, which redistributed the government functions and tax levying powers among the three levels of government.

TABLE XXVII  
Index Numbers of Wholesale Prices  
of 22 Basic Commodities in Chungking

Items	Base Year, Jan-Jun, 1937::100			Weighted geometric mean			
	'General'	'Food'	'Textiles'	'Fuel'	'Metal'	'Timber'	'Sundries'
No. of Commodities	22	10.5	3	2.5	2	1	3
<b>Date</b>							
1937							
Decem.	98	95	96	125	186	148	54
1938							
July	98	91	103	153	254	193	51
Decem.	104	89	156	213	400	217	64
1939							
June	120	102	170	344	471	233	73
Decem.	177	151	262	576	922	249	102
1940							
June	336	309	439	852	1362	305	171
Decem.	1094	1129	715	1889	1453	1095	208
1941							
March	1187	1171	844	2192	1823	1604	390
June	1726	2194	982	2058	1832	1456	408
Sept.	2336	2568	1222	2936	2214	1817	494
Decem.	2848	3100	1550	3508	2397	2607	596
1942							
March	3515	3718	2046	4963	6044	2941	1008
June	4162	4310	2556	6347	9691	4412	951
Sept.	5238	4971	5597	8403	21536	8223	902
Decem.	5741	5098	7688	13942	28286	10340	1173
1943							
March	7435	6787	12840	15771	28391	9202	1571
June	11250	10374	23522	18931	30556	10656	2125
Sept.	15920	15351	24441	23600	44170	14442	3543
Decem.							
1944							
March	36219	38660	42803	37031	42712	18850	9711
June	54470	59532	62674	44785	50974	23247	13218
Sept.	47180	47330	63555	59860	48910	33556	14890
Decem.	54860	49850	71210	145500	56260	78860	70250
1945							
March	118900	114500	141150	216150	134650	124000	36936
June	155300	141200	229400	318900	275700	213700	57740
Sept.	122600	109950	151600	413020	147570	155650	57781
Decem.	140448	127124	258324	254975	169573	72863	67670

Source: Central Bank Monthly, Vol. IV No.1. pp 141-2

### Chapter VIII - The New Hsien System

In the last Chapter some significant features in China's wartime financing were discussed. The Central Government attempted to balance its budgets through bond issuance, wartime taxation, and Fapi inflation. The provincial governments strove to meet their deficit through indebtedness. The Hsien governments instituted "Distribution" methods through which part of their obligation were assumed by the Hsien people's assemblies, so that the Hsien government properly could balance its incomes with its expenditures. In this Chapter, the chief topic is the New Hsien System which was created to replace the "Distribution" system. Before this, however, it is advisable to discuss the nature of the "Distribution" method.

The "Distribution" method was different from that of Chuan levies. The collection and disbursement of the "Distribution" method were determined by the people's assembly while the Hsien governing authority was the decision-making group. But the Chuan levies before the War had been collected by the Hsien governing authority while the Hsien assembly was the legislator. Funds raised from the Chuan levies had been spent on general obligations of the Hsien government, but those raised from "Distribution" were spent for specific purposes which were referred from the Hsien government to the people's assembly, particularly where the cost of militia maintainence was concerned.

The advantage of the "Distribution" method was that its yield was determined according to the need. Theoretically, there would be neither surplus nor deficit. However, it had an undesirable feature: even within

a Hsien the burden on similar taxpayers domiciled in different districts would be unequal. According to the Kwangsi rules mentioned in the last Chapter, each district assembly was to spend the funds from the "Distribution" in that very district. It was quite reasonable that, within this district, the subscription of "Distribution" was raised in accordance with the financial ability of each individual Hu. However, it was very inequitable when this method was applied for all districts, for a poor taxpayer in a district where many wealthy people resided would have a much lighter burden than one who was domiciled in a poorer district.<sup>1</sup>

The Central Government had attempted unsuccessfully to persuade the Hsien governments to give up this sort of financing, but the Hsien governments were unable to manage their wartime obligations with limited sources of revenue.<sup>2</sup> Other means must be provided to prevent the growth of "Distribution": either to reduce the Hsien wartime obligations or to strengthen the Hsien taxing powers.

One must remember that the political intentions of the Nationalist China were unfavourable to the provinces, as has been seen in preceding chapters. It was, therefore, enacted that a part of the existing provincial tax revenue be transferred to the Hsien in the "Organizational Outline of Various Graded Units in the Hsien", known briefly in Chinese as the New Hsien System.

In September, 1939, the Central Government promulgated this Organizational Outline. It was enforced after 1940. It had ten chapters,

1. Ben Yu-sing, Hsien Finance, p.89
2. Chia Teh-huei, p. 660  
Cf., Vol. 11

namely,

- 1) General provisions
- 2) Hsien government
- 3) Hsien council <sup>1.</sup>
- 4) Hsien finance
- 5) Chu <sup>2.</sup>
- 6) Hsiang ( or Chen)
- 7) Hsiang ( or Chen) council <sup>3.</sup>
- 8) Hsiang ( or Chen) finance
- 9) Pao-chia
- 10) Annex

Three points should be noted in the New Hsien System. They are: (1) the Hsien obligations. (2) the Hsien sources of revenue, and (3) the budgetary procedure and the power of Hsien council; which were stated in the second, fourth, and the third chapters of the Organizational Outline.

#### Hsien obligations

The Functions of the Hsien governments were stated as follows:

1. Hsien people's assembly.
2. Under the Hsien there were Hsiang (rural district) or Chen (urban district). The Hsiang and Chen were further divided up into Pao (borough) and Chia (ward). If a Hsien is unusually large and has special conditions, it may be first divided into a number of Chu (district), each of them is governed under a Chu office. Under the Chu, there were 15 to 30 Hsiang.
3. Subordinate to the Hsien council.

NOTE: the Hsiang and Chen finances will not be discussed in this Thesis.

Article 7) Each Hsien shall have a Hsien government and a magistrate, whose powers and functions shall be as follows:

- (a) To administer all affairs of the Hsien self-government under the supervision of the provincial government;
- (b) To execute, under the direction of the provincial government, all orders of the National Government.

The execution of the preceding orders of the National Government and the provincial government shall be stated on official documents.

Article 8) In the Hsien government there shall be sections of civil affairs, finance, education, reconstruction, military affairs, land administration and social affairs. Each provincial government shall, according to the classification of the Hsien and actual requirements, determine the number of sections and the distribution of their duties, and report same to the Ministry of Interior (of the Central Government) for reference.<sup>1</sup>

These Articles were quite ambitious, particularly where wartime financing was concerned. The function of military affairs was considered to be one of the responsibilities of the Hsien governments. It was the first time that local governments had undertaken militia training in Chinese history. The intention was evidently that the nation should not again experience the consequences of the radical provincialism which had existed during the decade following 1917.

The power of the provinces over Hsien affairs was practically removed. They could supervise the Hsien government directly only in promoting the development of further Hsien self-government. No provincial orders were to be executed by the Hsien government, except those originally received from the Central Government. After having classified the Hsien governments into various grades according to the conditions of population,

---

1. China Handbook, 1937-1945. p. 122.

area, etc., the provinces were to report these facts to the Central Government. In other words, the Hsien governments under the New Hsien System should carry out their functions under the direction of the Central Government only.

#### Hsien sources of revenue

Article 18) The revenues of the Hsien come from the following:

- 1) Part of the land tax (the whole of Hsien land sur-taxes in case of Hsien where the Land Law has not yet been enforced);
- 2) Surplus of land tax and of its surtax after the completion of land registration;
- 3) Thirty per cent of the revenue stamp tax set aside by the National Government to the Hsien;
- 4) Tax on improvements on land (or house tax in case of Hsien where the Land Law has not yet been enforced);
- 5) Part of the business tax (the entire butchery tax and over twenty per cent of all other business taxes pending the revision of the rates in according with the Business Tax Law);
- 6) Income from Hsien public property;
- 7) Income from Hsien public enterprises;
- 8) Other legally permitted taxes and levies.<sup>1</sup>

In explaining the Hsien taxes under the New Hsien System, it is facilitated by comparison with the recommendation of the Financial Conference of 1934. The land value tax was to be introduced to replace the old levies on land: the provincial land tax and the Hsien land surtax. To framing the land tax reform, there had been two devices, namely, a complete cadastral survey and the registration of land ownership. The preparation of these records was interrupted by the outbreak of the War. Thus, by 1939, the land value tax could not be adopted in many Hsien; so the provinces still collected the old land tax and the Hsien governments imposed the land surtax in their old manner. The term "Land Law" quoted above means the "land value tax".

The registration of land ownership was a subsidiary means in-

---

1. Ibid., p.123.

roducing the land value tax in districts where the land survey had not been carried out. Because land registration in pre-War years had brought about more yield to both the provincial and Hsien governments,<sup>1</sup> the Organizational Outline induced the Hsien governments to adopt the new land registration with a promise that the Hsien governments were to enjoy the entire revenue surplus through this operation.

The Central Government was to grant thirty per cent of its fiscal stamp tax revenue to the Hsien where it was raised.

The most important part of financial adjustment under the New Hsien System was the revenue transfer from the improvement tax and butchering tax by the province to the Hsien. Before 1937, the improvement tax had been imposed, in many cases, by the provinces; in other cases, by the Hsien; and in still other cases, by both the provincial and Hsien governments. Recommended by the Financial Conference of 1934, this levy was to have been imposed by the Hsien governments, but the provinces were to enjoy 15 to 30 per cent of the total yield. This proposal had never been realized before 1937, and therefore, the administration of this tax remained unchanged in wartime.

Since the outbreak of the War, some provinces had independently granted the improvement tax to the Hsien. But this tendency was not general in the provinces. Not until the enforcement of the New Hsien System did all provincial governments have to relinquish entirely their improvement tax. The same situation occurred in the administration of the butchering tax.

---

1. Appendix, supra.

As we have seen before 1937, the business taxes (including the butchering tax and the business license) were enjoyed by both the provincial and Hsien governments, with the former receiving a slightly greater portion. The Demarcation Act of 1934 had stated that the provinces could enjoy 70 per cent and the Hsien 30 per cent, of the total business taxes. Though the Act was never operative, there had been a trend for the provinces to grant the butchery<sup>ing</sup> revenues tax to the Hsien, particularly after 1937. Now, under the present New Hsien System, the Hsien governments were not only to enjoy the entire revenue from the butchery<sup>ing</sup> tax, but also 20 per cent of that from the other business taxes.

The other "legally permitted taxes and levies" of the Hsien included the revenue grants of 30 per cent of central income taxes and 25 per cent of central succession duties, as well as these Chuan levies which had not been abolished but considered legal before the War. The Organizational Outline did not mention various license taxes which were partly enjoyed by the provinces and partly by the Hsien.

The Organizational Outline provided another means for Hsien finance in case of its deficiency. It stated that:

Article 20) In order to meet reconstruction needs the Hsien government, upon the resolution of the Hsien council, (the Hsien people's assembly) and with the approval of the provincial government, may in accordance with law issue Hsien loans.

Although in the past statutes there were distinctions between the provincial and local governmental functions, the provinces often referred matters to the local governments for execution without adequate funds. This was embarrassing to local finances.<sup>2</sup> Thus, the Organizational Outline stated that:

---

1. China Handbook, 1937-1945, p. 123.  
2. Ma Da-ying. p.6.

Article 19) Expenses incurred for national or provincial affairs shall be defrayed by the national treasury or the provincial treasury. The Hsien government shall not be ordered to raise funds locally to meet such expenses. In a financially self-sufficient Hsien its administrative and enterprise expenses shall be paid by the Hsien treasury. In the case of Hsien whose income is not enough to meet its expenses, it shall receive a subsidy from the provincial government. In the case of a sparsely populated Hsien, where land has not been reclaimed, funds needed for its development shall be paid by the provincial treasury, and any further deficiency shall be met by the national treasury.<sup>1</sup>

Hsien budgetary procedure and the power of the Hsien council

Two purposes were expected to motivate the New Hsien System. One was to create a sound Hsien financial system in order to meet the greater responsibilities of the Hsien governments. The other was to promote the development of local self-government in order to make the "local autonomy finance" more effective. Because the System was conceived for war purposes rather than other reasons, the power of the Hsien people's assembly over the Hsien budget was limited, and the magistrate was granted great power in drawing up emergency Hsien budgets. The Organizational Outline stated that:

Article 22) Pending the formation of the Hsien council, Hsien preliminary and final budgetary estimates shall be examined and approved by the Hsien administrative council (formed by the top officials of the Hsien government with the magistrate of the same as chairman) first, and then presented by the magistrate to the provincial government for approval.

After the formation of the Hsien council, Hsien preliminary and final budgetary estimates shall be passed first by the Hsien council and then presented by the magistrate to the provincial government for approval. In case of necessity, the magistrate may first present the estimates to the provincial government for approval, enforce them, and then send them to the Hsien council.<sup>2</sup>

1. China Handbook, 1937-1945. p.123.

2. Ibid, Pp 123-24.

The Financial Conference of 1941 created a new name for the Hsien financial system under the "New Hsien System" the "Hsien Autonomy Finance", and no significant changes were made with respect to the Hsien financial powers. The features of Hsien finances after 1940 (under the New Hsien System) will be discussed in the Chapter after the next.

## Chapter IX

## The Third National Financial Conference

Summary

Prior to 1937, China had divided her public finance into three levels: central, provincial, and Hsien. Although the three levels of government had endeavoured to overcome their financial difficulties, none of them had had adequate revenue sources to meet their obligations, even on the eve of the War. In wartime, the finances of all the levels of government were confronted with handicaps more serious than ever before. Under such circumstances, to work out an efficient financial system merely on the basis of the old one, was a discouraging task.

The Third National Financial Conference was convened in June, 1941. A two level-financial structure was decided upon, so that the independence of provinces disappeared. The structure was indeed a pathetic reshuffling of the same old taxes and obligations. It did contribute to wartime streamline and efficiency but only at the price of a drastic and unskillful removal of provincial powers. The characteristic features of the new structure can be summarized in three aspects:

- 1) Provincial finances were taken by the Central Government.

Following the outbreak of the War, the provinces because their responsibilities were increased, particularly in areas adjacent to the front, heavily relied on borrowing to handle financial affairs. Theoretically, there would be no advantages to the Central Government in taking over the critical provincial finances. But the wartime China was in fact under a military administration.<sup>1</sup>; and the central authority, in

---

1. In the Nationalist China, the Central Government was responsible to the Kuomintang. The National Congress of the Kuomintang was the highest organ of authority of the Party. The Congress was to

to be held every two years. Since the outbreak of the War, there had been no Congress called, except an Extraordinary Congress which was held in 1938. In the recession of the Congress, the Central Executive Committee of the Party was the supervisor and policy-forming body of both the Party and the Government. In this Committee the power of the Political Committee was the greatest. "Since February, 1939, the Political Committee of the Central Executive Committee has turned its functions over to the Supreme National Defence Council to meet war emergencies". "...the Supreme National Defence Council was created as the highest wartime body to be in charge of all organs of the Kuomintang Central Executive Committee, the five Yuan of the National Government, and the boards and departments of the National Military Council".

Cf., China Handbook, 1937-1945. Pp 39,40,60 & 61.

control of the provincial finances could economize on many functions previously performed by the provinces. On the other hand, the greatest revenue source of the province, the farm tax, would be put under central administration for war purpose.

2) Farm land tax was paid in kind.

The advance of price levels in the wartime China was the result of many causes, mainly lack of capital investments and materials, as well as the high cost of transportation. From 1939 onward, a new powerful force, the Fapi inflation, had greatly accelerated the increase of prices. As a rule under continuous inflation, the revenues received by the government had one value, and when spent had another. In order to feed millions of soldiers, to provide food ration systems, and especially to avoid the influence of the steadily rising prices, the Conference of 1941 proposed that the farm land tax be levied in kind.

3) Hsien finances remained the same as before.

In Nationalist China, the Hsien government was considered as the last unit of the nation's governing authority; and the establishment of Hsien self-government was the fundamental step towards constitutionalism, as recommended by Sun Yat-sen's "Fundamentals of National Reconstruction". To encourage this the New Hsien System had been instituted. The most important part of the System was the "Hsien autonomy finance". When the Financial Conference of 1941 was held, the Hsien finances were not altered (except for minor changes of Hsien revenues); because the New Hsien System itself was created for war purpose and because the Nationalist China had been trying to inculcate a democratic spirit,<sup>1</sup> in the Hsien.

---

1. See: China Handbook, 1939-1945. p.118.

#### A. Resolutions of the Financial Conference of 1941

In June, 1941, the Third National Financial Conference was called at Chungking, the wartime capital of China. The target of the Conference was indicated by Chiang Kai-shek, the Chairman of the Supreme National Defence Council, in a speech at the inauguration of the Conference. He said: "Since the National Government was established, we have had two National Financial Conferences. Each of them, with specific ends, has worked out various financial projects which are extremely valuable. Today, we hold the third one. The aims of the present Conference differ greatly from those of the past two: we must make our national financial scheme sound enough to enable the Government to undertake defensive war and to reconstruct the country at the same time". After proposing a two level-financial system, Chiang continued, "After the nation's finances have been divided into two levels (national and Hsien), not only the central finance could be stabilized; but the New Hsien System would be promoted more effectively under the direction of the Central Government, the funds necessary for the System would be provided without obstacles: (the Central Government was to subsidize Hsien directly); economic reconstruction in each province could be carried out more efficiently than before, especially as far as the industries for national defense are concerned".<sup>1</sup>

Previously the farm tax was imposed by the provinces according to the acreage of the land concerned. Under continuous inflation, yields from this tax declined in importance among the governments' revenues because the rates were not raised sufficiently. Thus, Chiang proposed that the farm land tax be levied in kind "for an equal burden of the War cost on taxpayers as a whole".

1. Financial Year Book, 1934-1942, Vol.1. Pp32-4.

Resolutions passed by the Conference of 1941 contained six chapters, which were:

- 1) Taxation
- 2) Bonds
- 3) Financial administration
- 4) Local finance
- 5) Money & Banking
- 6) Material resources 1.

For the sake of convenience, the following materials do not discuss the Resolutions in the sequence above, but summarize them in some specific aspects.

#### Provincial Finance

Under the new structure, the provincial financial department should either be replaced by a "Board" directly subordinate to the Ministry of Finance of the Central Government or serve merely as an agency of the Ministry. The function of the new financial Board was to collect the revenues previously belonging to the province, and to disburse the funds which thereafter, were to be assigned from the Central Government. The existing provincial treasuries should be incorporated into the Central Treasury.

The ordinary administrative cost of the province should be audited by the financial Board, which should then send the statements to the Financial Control Department, which was subordinate to the Chairman of the Central Government, for approval.

The cost of the province other than that for administrative purposes was considered not "ordinary" and the provincial government was to make a preliminary budget for it. The Resolutions said that each

---

1. Financial Year Book 1934-1942, Vol.1. Pp 105-120

province should, according to the "nation's financial ability", plan the "necessary" economic programs and construction in detail as to their character, timing and the funds required. Those plans should be first presented to the Executive Yuan for approval.<sup>1</sup>

Furthermore, one article of the Resolutions, which was the strangest in terms of waging war, stated that: "The head of the provincial financial department should execute decrees from the Minister of Finance (of the Central Government) applying to all financial administration in the province".<sup>2</sup> Thus, the independence of provincial finance had disappeared.

#### Farm Land Tax

All kinds of farm land should be taxed on the same basis as paddy land, it was recommended by the Conference of 1941. Every "tax-payment yuan" of 1941 on the land should be, thereafter, paid in two Tou, or 0.44 gallon, of paddy. In other words, the actual rate of the new farm tax was one-tenth of the total crop from the land. The maximum rate was computed according to a selected standard which assured 50 Tou of paddy could be produced per Mou a year. There were two other rates of the same tax on poorer grade land, which were also set at one-tenth of the total crop. In other words, the land as a whole was classified into only three major grades. Each grade of land was taxed at a rate of 10 per cent of the total yield of a good season.<sup>3</sup>.

#### Public Treasury System

The Central Bank of China, and some other national banks had been the treasury or financial agency of the Central Government. By

---

1. Ibid.

2. Ibid.

3. Cf., Ibid.

1939, a more centralized national banking system was completed, known as the Public Treasury System. To concentrate all funds of the three levels of government in the hands of the Central Bank for forming a more useful wartime banking structure, the Conference of 1941 proposed that the Public Treasury System be expanded. The Central Bank was to be charged with the disbursement, safekeeping and transfer of cash, notes and bonds, and the safekeeping of title deeds of the property of the three levels of government. In places where the Central Bank had no branch offices, the post office, or other banks might be authorized to handle matters relating to the public treasury.<sup>1</sup>

In order to strengthen this banking system, some changes had been made, of which the most important were as follows:

Inspection officers (of the Public Treasury System) were appointed to work in various designated districts to see to it that the tax-collecting units and the public treasuries handle revenues and expenditures in accordance with law. When necessary, supervision is exercised. To ensure better circulation of treasury checks, thereby making the public treasury system more effective, treasury checks are guaranteed for payment by the banks acting for the public treasury.<sup>2</sup>

#### Hsien Finance

Hsien finance modifications contained in the Resolutions of the Conference will be discussed in the Chapter following.

#### Act of 1941

Preceding the Act of 1941, there had been two important laws, the Organization Outline of Various Graded Units in the Hsien, and

---

1. Cf., Ibid.

2. China Handbook, 1937-1945, p.204.

the Enforcement Provision of the Financial Collecting and Disbursing System. The former was promulgated in 1939, and had been in effect from 1940 on. The latter was promulgated in 1936 and was to be in effect by 1937 in order to implement the Demarcation Act of 1934, but it was postponed because of the outbreak of the War. The Act after the Conference of 1941 was the Revised Enforcement Provision of the Financial Collecting and Disbursing System which had been in force in 1942. The Articles read as follows:

Article I) The nation's finances are divided into national finance and local finance.

Article II) The National Finance shall include all the revenues and expenditures pertaining to the National, provincial, and special municipal governments under the direct jurisdiction of the Executive Yuan and therefore not included in local finance.

Article III) Local finance includes all revenues and expenditures pertaining to municipalities, Hsien, towns and villages, provincial.

Article IV) National Government tax receipts to be apportioned to Hsien and provincial municipalities are based on the following standard:

a) 30 per cent of net stamp tax receipts to Hsien and provincial municipalities;

b) 25 per cent of net inheritance duty receipts to Hsien and provincial municipalities;

c) 30 to 50 per cent of net business tax receipts to Hsien and provincial municipalities;

d) The portion of land tax (in areas where the Land Tax Law is not enforced, the name farm tax is still used), originally belonging to the provinces, is now turned over to the National Government, while the Hsien and provincial governments still retain their original shares. During the period when the land tax is collected in kind, the National Government collects the entire amount in kind. The Hsien and provincial municipal portion is paid back to them by the National Government in cash.

e) The portion of tax on title deeds, originally belonging to the provinces, is turned over to the National Government, while the Hsien and provincial municipal governments still retain their original shares the title deeds surtax.

f) The entire butchery tax shall, separated from the business tax, go to Hsien and provincial municipal governments;

Article V) The entire income tax goes to the National Government.

Article VI) Subsidies to Hsien and provincial municipal governments are decided by the National Government.<sup>1</sup>.

Footnote prev. page

1. China Handbook, 1937-1945, p. 201.

Note: Special Municipality was qualified on the basis of province, while the Provincial Municipality on the basis of Hsien. Those Articles relate to Hsien finance will be discussed in the Chapter following.

- - - - -

(B Enforcement of the Act of 1941

The Act of 1941 had been put into effect in 1942. The revenue from the farm tax was the greatest amount of all the Central Government's incomes. Table XXVII shows the importance of two major provincial taxes now levied by the Central Government and also the Wartime Excise Duty which also recommended by the Conference of 1941, in the National Budgets of 1942 and 1943. These Budgets summarized not only the central, but also the provincial finances.

Because the Central Government had taken over the provincial finances, it was necessary for it to administer the old provincial debts. In 1942, it banned the floating of further provincial loans; and in 1943, a Provincial Readjustment Loan of 175,000,000 yuan was issued by the Central Government, to absorb and replace all provincial bonds outstanding.<sup>1</sup>

Thus, because from 1942 on China had no provincial finances, only the Hsien financing will be discussed in the chapters following, at least until the topic of post-War finances is reached.

---

1. China Handbook, 1937-45, p.207.

TABLE XXVIII  
National Budgets of 1942 & 1943<sup>1.</sup>

Unit:000 yuan

<u>Revenue from:</u>	1942		1943	
	Amount	%	Amount	%
Farm tax	3,092,774	36.3	6,829,500	28.4
Business tax	400,000	4.5	1,200,000	5.0
Wartime Excise Duty	410,000	4.5	1,000,000	5.0
Total new incomes	3,902,774	45.3	9,029,500	38.4
Other receipts (bonds not included)	4,603,504	54.7	14,212,869	61.6
Total Revenue	8,506,278	100.0	23,242,369	100.0
<u>Deficits</u>	19,777,034		12,994,045	
<u>Expenditure for:</u>				
Provincial affairs	1,914,050	6.8	3,510,527	9.6
National public works	8,789,028	31.0	9,712,067	26.8
Subsidies to Hsien (not including revenue-grants)	59,915		37,416	
Defense	12,505,547	44.2	17,313,767	47.8
Other purposes	5,014,772	18.0	5,662,637	15.8
Total Expenditure	28,283,312	100.0	36,236,414	100.0

1. Cf., Chang Peh-yi, Pp 19-22.

## Chapter X- Hsien Autonomy Finance

### Introduction

Hsien financial powers in Nationalist China changed frequently. In 1928 when the Nationalists had just come into power, the Hsien were not granted independence in either political or financial fields, but were placed under the province. After the Central Government had actually consolidated its rule in 1934, Hsien finances were planned to be independent of the provinces. Although the Demarcation Act of 1934 was never put into effect, Hsien finances, with limited tax resources, gradually became stable. In the first two years of the War, many provinces individually added to Hsien economic strength and in 1940, under the New Hsien System, a uniform Hsien financial system was founded. Two years later, the "Hsien Autonomy Finance" replaced the New Hsien System with some light changes in Hsien powers.

In this Chapter the revenue sources in the "Hsien Autonomy Finance" will be discussed, and its functions in the next. For the sake of convenience, the New Hsien System will not be analyzed separately, but is mentioned throughout the entire discussion of the "Hsien Autonomy Finance".

A summary of the Revenue sources under both the New Hsien System and the "Hsien Autonomy Finance" reads as follows:

(A) Autonomy taxes:

Improvement tax  
Butchering tax  
License tax  
Amusement tax  
Feast tax

(B) Other Hsien taxes:

Part of the land tax  
Title deeds surtax  
Special assessment

## (C) Central revenue-grants and subsidies:

30 per cent of net stamp tax  
25 per cent of net succession duty  
30 per cent of net business tax  
Subsidies

## (D) Other Hsien receipts:

Administration fees and fines  
Incomes from public property and enterprise  
Donations from public or private individuals  
Borrowings

(A) Autonomy Taxes1) Improvement tax

Before 1934, the levying power on houses belonged to the province. In some cases, the revenue was, fully or partly, assigned from provinces to the Hsien; and in other cases, the Hsien could levy a separate surtax on buildings. In 1934, the Second Financial Conference decided that the improvement tax was to be imposed by Hsien, but this proposal was not adopted in some provinces. In 1940, under the New Hsien System the provincial governments transferred the levying power to the Hsien. In 1941, an enforcement provision concerning the improvement tax was promulgated by the Central Government, in which a uniform assessment rate and method were defined to be effective in 1942. Before this new rate and method are discussed, however, it is advisable to review briefly the old ones.

Because the levying power had long been in the hands of each province before the War, the rates differed among provinces. Moreover, as we saw, in some provinces the Hsien governments levied surtaxes on houses, so that rates differed from one Hsien to another. Generally speaking, prior to 1942, the assessment rates on the houses where businesses

were operated were greater than those on residences. For instance, by 1928, in Cheking, a rate of 15 per cent of the rental value of business premises had been set, while residences were taxed at 10 per cent. In Hunan, prior to 1940, the improvement tax was 16 per cent of the rental value on business buildings and 8 per cent on homes. Kiangsi before the War had levied an improvement tax on businesses at 10 per cent of rental value, while rates on residences were classified into five categories, varying from 2 to 8 per cent of the monthly rental values which ranged from 5 to 200 yuan.<sup>1</sup>

In most cases, the house owners and the tenants each were to pay one half of the total improvement tax. In some exceptional cases, a custom had developed whereby the provincial and Hsien authorities allowed the landlord to claim a deposit from the tenants in advance against this tax, in case the tenant defaulted in paying rent.<sup>2</sup>

Before the War in Kwangsi, the improvement tax was considered as a property levy only the assessment base was the appraised value of the buildings with the maximum rate set at 1 per cent of the appraised value. The owners were subject to the tax regardless of whether their houses were for rental purposes or not. The house-mortgagees were liable for the tax rather than the owner. But, those tenants who permanently occupied a house were subject to the levy.<sup>3</sup>

Hsien improvement surtax rates, in those localities where the provincial governments were to levy this tax and the Hsien were permitted to levy surtax, in general were 50 per cent of the provincial

---

1. Ben Yu-sing, Pp 90-1.

2. Ben Yu-sing, p. 94

3. Ibid.,Pp. 93-4

rates, but in some cases they exceeded them. For example, in 1926 the Chaoshing Hsien Government in Chekiang levied improvement surtax at 24.8 per cent of the rental value of the business buildings, while at that time the provincial rate was only 15 per cent.<sup>1</sup> "Such a heavy tax burden based on rental value directly discouraged new house construction, because the tax discouraged increases in rents".<sup>2</sup>

By 1940, under the New Hsien System, the provincial governments had transferred the improvement tax to the Hsien, but no substantial reduction in the rates followed. In November 1941, the Central Government promulgated an enforcement provision of the improvement tax to be applied throughout the country. The tax was to be levied in two ways: one was on rented buildings and the other on owned houses. The maximum tax rate on the former was set at 5 per cent of the rental value, while that on the latter was 0.5 per cent of the appraised value. Surtaxes on improvements were no longer allowed by law. Tenants were to pay the tax, although they were authorized to deduct the tax amount from the rent to the owners. (The writer knows personally that the improvement tax was customarily paid by the tenants.) If the building was mortgaged, the mortgagees were subject to the tax.

A peculiar feature in Chinese improvement tax administration is the role of "Erh Fang Tung", or the "second house owner", who exists in most cities. Between the Erh Fan Tung and the original owner there are written contracts which state the rights of both the parties. Commonly, the Erh Fang Tung has the entire right to conduct the rental operation, and assumes the maintenance costs and risks of the business. The

---

1. Ibid., Pp 93-4

2. Ibid., p 94.

original owner then receives his rent only from the Erh Fang Tung, which is less than that paid by the tenants to the Erh Fang Tung. Thereby, the Erh Fang Tung earns his income through the differential between the two "rents". In such cases, the enforcement provision stated that Erh Fang Tung was to pay the tax on the basis of this differential.<sup>1</sup>

Another peculiar feature in Chinese improvement tax administration is that, prior to 1941, there had been no tax imposed on the land on improved lots. This was simply because, up to that time, the owner of the house and the land was usually the same person.<sup>2</sup> This state of affairs had been changing during wartime because of speculation in house construction and land purchase and because of the inflationary prices; so that the owner of the land would not necessarily always own the house. The enforcement provision stated that the improvement tax should be levied at different rate than the land tax. Temporarily, the assessment rate on this sort of land was 50 per cent of the improvement tax rate.<sup>3</sup> Therefore, the total improvement tax rate was 7.5 per cent of the rental value of the rented buildings, and 0.75 per cent of the appraised value of the owned houses.

Those buildings exempted from the improvement tax in the provision were as follows:

1. If the Erh Fang Tung pays to the original owner 100 yuan per month, and he charges the tenants a rent of 150 yuan, the total assessment value is 150 yuan. The original owner is to pay 5 yuan for the improvement tax and the Erh Fang Tung pays 2.5 yuan, on the basis of the tax rate of 5 per cent of their respective rental incomes.
2. Ben Yu-sing, p. 95.
3. Ibid.

- 1) Public buildings used non-profit organizations
- 2) School, charity, and public association buildings
- 3) Buildings and establishment for religious purposes and clansmanships
- 4) Buildings with an appraised value not exceeding 500 yuan or a monthly rent not exceeding 5 yuan
- 5) Buildings erected by poor people themselves for living purpose, including the temporary and simple houses built by refugees and the poor houses built by farmers.

It has been suggested previously that the economic conditions among the Hsien greatly differed.<sup>1</sup> Taking population as an index of Hsien economic strength, it is apparent that the improvement tax could not yield income of any importance to many Hsien governments. According to the 1941 census, the Hsien population varied from 200 to 1,500,000 within an average area of 4,300 square kilometers.<sup>2</sup> Moreover, in general Hsien had much less urban population than the special or provincial municipalities. Most peasants other than landlords in Chinese farming areas build simple living accommodations for themselves, and such houses were excepted by law. Thus, except in some prosperous Hsien, the house tax was not an important revenue source of the Hsien governments, as shown in Table XXIX.

By 1944, the Legislative Yuan revised the improvement tax enforcement provision. The new rates were defined as follows:

- 1) The business premises for rental purposes should pay the improvement tax at 20 per cent of the rental value
- 2) The owned business premises should pay the improvement tax at 10 per cent of the rental value

---

1. See Table X, *supra*.

2. Cheng Nien-chung, p.39.

TABLE XXIX  
Revenue From Improvement Tax in Kwangsi  
and Szechwan in 1942 and 1943

Unit: yuan

Kwangsi in 1942 <sup>1</sup>		Szechwan in 1943 <sup>2</sup>	
Revenue classes	No. of Hsien	Revenue classes	No. of Hsien
450,000	1	700,000	1
50,001 and more	2	100,001-300,000	4
10,001-50,000	8	50,001-100,000	12
1,001-10,000	54	10,001- 50,000	60
501- 1,000	12	10,000 and less	62
500 and less	21		
No revenue	3		

- 3) The resident houses for rental purposes should pay the improvement tax at 10 per cent of the rental value.
- 4) The owned resident houses should pay improvement tax at 1 per cent of the appraised value.<sup>1</sup>

Through these rate increases, the revenue from the improvement tax was expected to become more important in Hsien finances, particularly in prosperous Hsien.

## 2) Butchering tax

The butchering tax had been a provincial levy before the War, though in some cases, the revenue had been granted, partly or entirely, to the Hsien. In 1931, the Central Government promulgated the Business Tax Act which defined the levying method on the butchering business according to the number of livestock slaughtered for sale. This Act did not set rates but stated that the rate was to be determined by each province in accordance with the state of the butchering business.

---

1. Yee Hong-lin, 112.  
2. Ben Yu-sing, 106.

Before and after 1931 among the provinces, the butchering tax rates ranged from 30 cents to 1 yuan (100 cents equal 1 yuan) per head of sheep, pigs, and oxen. At that time the tax was not an important revenue source to either the provincial or Hsien governments. By 1933, the Kiangsi Government had allotted the entire levying power to its Hsien governments. Some other provinces adopted this policy in later years in order to help stabilize Hsien finances. After the tax had come under administration of the Hsien, the variation in the tax rates gradually and greatly increased among different taxing areas.

In 1935, the total revenue from the butchering tax in Kwangsi was only 2,000,000 yuan. But from then on, the Hsien governments had substantially raised the assessment rates from time to time. In 1941, the total revenue from the butchering tax in this Province exceeded 9,400,000 yuen.

In Hunan since 1938, the Provincial Government relinquished the levying power of the tax to the Hsien; and, the rates had been increased each year. Previously in that Province, the total revenue from the tax amounted to less than 1,000,000 yuan only, but by 1940, an annual revenue of 5,800,000 yuan was being received by the Hsien governments. Following these expedients, other provinces also adopted the same method so that the Hsien governments gradually became dependent on this revenue source.

Under the New Hsien System, the butchering tax was considered only as Hsien levy. Those provinces (who had not yet done it) now had to relinquish their levying power. But, there was still a lack of a uniform tax rate among the Hsien. Owing to the great differentials in

the tax rates, it was inevitable that livestock-smuggling from one province to another resulted.<sup>1</sup> To prevent this, the Financial Conference of 1941 proposed a separate butchering tax provision in which a uniform rate was set out.

The most striking aspect of this provision was that the butchering tax was considered as an excise tax instead of a business tax, not because the butchering tax cannot be treated as a business tax, but because its administration in China had evolved towards that of an excise tax. The facts are:

1) According to the business tax acts, there are three alternatives bases for the assessment: capital investments, gross receipts, and net profits. But the butchering tax was levied at a flat rate per head of the livestock slaughtered.<sup>2</sup>

2) If owners slaughtered livestock for celebrating marriages, the New Year, etc., they were paid the butchering tax. Apparently, this tax was not levied on business activities but on consumption.<sup>3</sup>

3) Butchery is different from other types of business. A butcher buys livestock when it is alive; and slaughters it and processes it before he makes a sale. Before slaughtering has been completed he, like other workers and manufacturers, had no ability to meet the tax payment, and he has to, in fact, shift it to the consumers through prices. It will be more reasonable to impose license tax, or property tax on him but not a business tax.

Furthermore in China, some large cities have big centralized abattoirs, under government or private operation, which handle all live-

---

1. Ben Yu-sing, p.97

2. Ibid.

3. Ibid.

stock for the local food supply. Under such a system, dealers in meat markets are not butchers and should be taxed on one of the three alternative basis stated above. But in most Hsien, there is no such system.

In August 1941, an enforcement provision of butchering tax was promulgated. The rates were set at from 2 per cent to a maximum of 6 per cent of the retail selling price of meat, beef, and mutton. Up to that time, no Hsien had imposed this levy at a rate exceeding 6 per cent, so that in some cases, the new rates brought an increase of 300 per cent more over the same tax revenue under the old rates.<sup>1</sup>

The butchering tax played an extremely important role in the wartime Hsien finance, as revenue from this source became more preponderant in the Hsien budgets. In some provinces, it had exceeded all other Hsien revenues including that from the land tax,<sup>2</sup> as can be seen in Table XXX following.

In 1943, the Legislative Yuan revised the butchering tax enforcement provision and decided that the maximum rate should be 5 per cent of the retail selling price. At that time, no Hsien had a rate exceeding this new maximum rate.

---

1. Yee Hong-lin, p. 111.

2. Ben Yu-sing, p.68.

TABLE XXX

Importance of the Butchering Tax  
in Hsien Budget in 1941 and 1942<sup>1</sup>

---

Provinces	Butchering tax as a Percentage of Hsien Budgets		Provinces where Revenue from Butchering tax Exceeded that from the Land tax		Provinces where Butchering tax Exceeded all other Revenues including those from the Central Government
	1941	1942	1941	1942	
Kwangsi	43	54	x	x	x
Szechwan	41	48	x	x	
Hunan	39	47		x	
Anhwei	34	54		x	x
Chekiang	30	12			
Sikang	30	54		x	x
Fukien	24	55	x	x	x
Hupeh	23	43		x	
Kweichow	21	38	x	x	
Kwangtung	16	32		x	
Kiangsi	?	58		x	x
Honan	?	35		x	

---

### 3) License tax

The license tax was divided into two major categories, namely, the business license tax and the use tax. Before the War, the former had been administered by the provinces and the latter by the Hsien.

When the Financial Conference of 1941 recommended that provincial finances be put under central control, they also suggested that this tax be levied by the Central Government. In January 1942 when the

1. Ben Yu-sing, p.68.

new "National Financial System" became effective, the Central Government promulgated a business license tax enforcement provision under which its levying power was granted to the Hsien.<sup>1</sup>

The maximum rate of the business license tax in each year was set at 0.25 per cent of the preceding year's gross receipts. It was so defined because the Central <sup>Government</sup> had collected its business tax (under the new National Financial System) and inspected the firms accounts during that preceding year, so that the Hsien governments could save the expenditure of inspection and other costs. But with the continuous Fapi inflation, a certain volume of trade in the first year might appear only a fraction of that in the second. Thus, the revenue from this tax, originally unimportant to the provinces, now further dwindled in importance in Hsien finance, particularly in the poorer Hsien.

The enforcement provision authorized provinces to work out individually a classification by type of business for Hsien taxation purposes. After the classification had been completed, each type of business was taxed at differential-flat-rates not exceeding the maximum rate; the number of differentiated categories should not be more than six.<sup>2</sup>

Use tax before the War; each individual Hsien had imposed a license tax on vehicles and boats. In September 1942, the Central Government promulgated a use tax enforcement provision for all the Hsien. The rate on such communication equipments for business purposes was 150 per cent of that for personal use. The revenue from this tax was not important

---

1. Ben Yu-sing, 99.

2. Yee Hong-lin, p. 112.

before the War and during wartime; because of the flat rates and the inflation, it became even more insignificant in many Hsien, as is shown in Tables XXX and XXXI.

TABLE XXXI  
Revenue From Business License Tax in Kwangsi  
and Szechwan in 1942 and 1943

		Unit: yuan	
1 Kwangsi in 1942		2 Szechwan in 1943	
Revenue Classes	No. of Hsien	Revenue Classes	No. of Hsien
230,000	1	100,000 and more	3
220,000	1	50,001-100,000	15
160,000	1	10,001- 50,000	60
110,000	1	10,000 and less	58
50,001-100,000	10	?	1
40,001- 50,000	6		
20,001- 40,000	19		
10,001- 20,000	24		
201- 10,000	37		

---

1. Yee Hong-lin, p. 112

2. Ben Yu-sing, p. 106

TABLE XXXII

Revenue From Use Tax in Kwangsi and  
Szechwan in 1942 and 1943

Unit:yuan

Kwangsi in 1942 <sup>1</sup>	No. of Hsien	Szechwan in 1943 <sup>2</sup>	No. of Hsien
86,000	1	100,001-249,696	2
56,000	1	10,001- 50,000	12
10,001-50,000	15	10,000 and less	60
5,001-10,000	7	No revenue	65
1,001- 5,000	29		
1,000 and less	22		
No revenue	25		

4) Feast and Amusement taxes

The feast tax was a new wartime levy which was imposed on consumers who held banquets in restaurants or who ordered more expensive dishes. In April 1942, the Central Government promulgated the feast tax enforcement provision, which set the maximum rates at 10 per cent of the price of the goods consumed.

The amusement tax was an old levy, but there had been neither uniform, nor maximum rates defined. In April 1942, a maximum rate was set by the Central Government of 30 per cent of the admission to theaters, recreation halls, gymnasiums,etc.

These two taxes would yield a stable revenue only to the special and provincial municipalities, or to rich Hsien because such businesses are not likely to operate in the poorer Hsien, as is shown in Table XXXIII.

1. Yee Hong-lin, p. 112.

2. Ben Yu-sing, p. 106.

TABLE XXXIII

Revenue From Feast and Amusement Tax in  
Kwangsi and Szechwan in 1942 and 1943

Unit: yuan

Kwangsi in 1942 <sup>1</sup>		Szechwan in 1943 <sup>2</sup>	
Revenue classes	No. of Hsien	Revenue classes	No. of Hsien
1,440,000	1	1,220,000	1
640,000	1	100,001-900,000	11
100,001-500,000	7	50,001-100,000	10
50,001-100,000	2	10,001- 50,000	29
10,001- 50,000	15	10,000 and less	87
5,001- 10,000	10	?	1
5,000 and less	44		
No revenue	21		

In summarizing the importance of these "autonomy taxes", only the butchering tax made a substantial contribution to the Hsien wartime finances: in 1942 and 1943 it provided on the average 50 per cent of the total Hsien income.

For example in Kwangsi in 1942, the improvement tax, license tax, and feast and amusement tax together made up less than 15 per cent of the total Hsien tax revenue.<sup>1</sup> In Szechwan in 1943, the revenue from these taxes was only 25 per cent of the total Hsien income from taxation plus the revenue-grants from the Central Government.<sup>2</sup>

#### B) Other Hsien Taxes

##### 1) Part of the land tax

Prior to 1942, the farm land tax was levied by the provinces while the Hsien imposed the farm land surtaxes. The Financial Conference of 1941 recommended that the entire land tax be administered by the

1. Yee Hong-lin, p.112, "The total Hsien revenue from taxes in 1942 was 75,450,000 yuan."
2. Ben Yu-sing, p. 106.

Central Government. This proposal was carried out in 1942.

From 1942 on, that part of the farm land tax which previously belonged to the provinces was now levied in kind, and retained by the Central Government; that part of the farm land surtaxes which previously belonged to the Hsien was now paid in cash to the Central Government which in turn paid it back to the Hsien. Those land taxes other than the farm land tax were still paid in cash and also put under central administration; the revenue from that portion of the land taxes originally belonged to the Hsien now went first to the Central Government and then to the Hsien.

Only the Central Government was now the authority to levy the land taxes. The present rate of the farm land tax was fixed at that in 1941, while the other land tax rates were adjusted by the Central Government. In general, most Hsien had more farm land than urban land and forest areas, etc. So the revenue from the Hsien farm land tax (now was the revenue-grant from the Central Government) was fixed in monetary amount in the fall of the steady increase in the price level.

Because of this inflexible return during the Fapi inflation, the farm surtax, the greatest revenue source of the Hsien before the War, now became less and less significant, as is seen in the following Table:

TABLE XXXIV  
Revenue From Farm Land Surtax as a Percentage of Total Hsien Budgetary Income in Thirteen Provinces, 1935-1941<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941
Kiangsu	77	74	67	--	--	--
Kansu	66	70	--	73	70	26
Kiangsi	55	63	61	55	26	--
Honan	57	57	48	52	52	28
Hupeh	48	69	28	--	--	50
Shensi	55	50	45	44	53	29
Anhwei	70	51	52	46	53	17
Hunan	42	37	41	39	30	20
Kwangsi	33	39	38	26	26	26
Szechwan	46	32	33	34	20	16
Chekiang	27	20	16	15	8	43
Fukien	36	11	10	12	15	10
Average	51	48	40	38	35	27

Previously, the Hsien farm surtax rates ranged up to more than 50 per cent of the provincial rate. But, in 1942, the Central Government decided that the surtax rate should be uniformly reduced to 15 per cent of the present central rate. In the same year, the Central decided that 30 per cent of the Hsien farm tax -- on the basis of this new rate -- should also be levied in kind.<sup>1</sup> This operation, however, made no significant change, so that the revenue from the Hsien farm surtax was still unimportant to the Hsien finances as a whole.

---

1. See the illustration of the land tax following.

Illustration of the Distribution of the Land Taxes  
Between the Province and the Hsien in 1941, and  
Between the Central Government and the Hsien in 1942

In the following illustrations, for the sake of convenience, the land as a whole is divided into two kinds only, namely, the "farm land" and the "other land".

Suppose that in 1941, the revenue from the provincial "farm land tax" was 200 yuan and that from the provincial "other land tax" was 100 yuan. In that year, the Hsien surtax rates were 45 per cent of the provincial rates; thus, the Hsien revenue from the "farm land surtax" was 90 yuan and that from the "other land surtax" was 45 yuan. The distribution of the entire land taxes between the province and the Hsien in 1941 is indicated in the following figure:

Provincial land taxes  
(according to acreage)

Farm land	Other
200 Yuan	100 Yuan
90 Yuan	45 Yuan

Hsien land surtaxes  
(45 % of the provincial rates)

In 1942, the Central Government levied the land taxes. The portion of the land taxes which previously belonged to the province was now levied and retained by the Central Government. That of the land taxes which previously belonged to the Hsien now was levied by the Central Government which in turn returned it to the Hsien. The present surtax rates were reduced to 15 per cent of the central rates.

The entire portion of the old provincial "farm land tax" was now levied in kind. 30 per cent of the present Hsien surtax on the "farm land" was levied in kind, the remainder in cash, both were collected by the Central Government and returned to the Hsien.



Illustration (continued)

Both the former provincial "other land tax" and the Hsien "other land surtax" were now levied according to the land value. Thus, in 1942, the distribution of the land taxes between the Central Government and the Hsien can be shown as follows:

Central Government

Farm land		Other
Land tax abolished through		rate reduction
200 Yuan		100 Yuan
in kind		
9 Yuan	21 Yuan	15 Yuan

Central Government

Hsien

Suppose that in 1942, the price of paddy was 5 yuan per gallon and the land value doubled in monetary value in comparison with the preceding year, the Central Government would have a revenue from the "farm land tax" of 440 yuan<sup>1</sup> and that from the "other land tax" would be 200 yuan. The Hsien would have a revenue from the "farm land tax" of 40.8 yuan<sup>2</sup> and that from the "other land tax" would be 30 yuan.

1. Each of 1941's tax payment yuan is equal to 0.44 gallon of paddy, and the amount of the Central "farm land tax" will be:

$$200 \times 0.44 \times 5 :: 440 \text{ (yuan)}.$$

2. 30 per cent of present Hsien "farm land surtax" was levied in kind, of, in this particular instance, 9 Hsien tax payment yuan were levied in kind, and 21 yuan in cash. Thus the Hsien revenue from the "farm land surtax" will be:

$$(30 \times 0.3 \times 0.44 \times 5) + 21 :: 40.8 \text{ (yuan)}.$$

## 2) Title deeds surtax

Before the War, the Hsien had long levied the title deeds surtax; but this tax did not yield an important income to the Hsien. During wartime, it remained a minor source of revenue. Previously, its rate had been 50 per cent of the provincial rate, after 1942 it was reduced to 25 per cent of the central rate.

## 3) Special Assessment

The Hsien governments were authorized by the Financial Conference of 1941 to levy special assessments in case of necessity. In a broad sense, the special assessment is the same levy as the "Distribution"<sup>1</sup> which was discussed in preceding chapters. The only difference between the special assessment and the "Distribution" of wartime China is that the former was imposed by the Hsien governments under a budgetary procedure, while the latter was handled by the people's organization and not set forth in the Hsien budgets.<sup>2</sup>

## (C) Central Revenue Grants and Subsidies

### 1) Stamp tax and Succession Duty

As recommended by the Financial Conference of 1934, the Central Government had, before the War, assigned 30 per cent of its income tax to the Hsien. This policy was still in force during the first years of the War. When the Central Government's revenue became inadequate to defray war expenditures, it was proposed by the Financial Conference of 1941 that the entire income tax should go to the Central Treasury.<sup>3</sup>

This 30 per cent tax grant to Hsien was suspended, but it was replaced in

---

1. Ben Yu-sing, p. 112.

2. Ibid.

3. Ben Yu-sing, p. 13

part by a new revenue grant of 30 per cent of the stamp tax.

The stamp tax, like the business license tax, yielded a stable revenue only to the special and provincial municipalities and prosperous Hsien, not to the poorer Hsien. This tax-grant in general was not a reliable income to the Hsien. For instance, in 1942 in Kwangsi, where the total stamp tax grant was only 266,770 yuan, one provincial municipality alone received 100,000 yuan of it, the rest being distributed among seventy-two Hsien.<sup>1</sup>

Prior to 1941, 25 per cent of the revenue from succession duties had been annually assigned by the Central Government to the Hsien. Since the administration of this tax in China was rather haphazard, its yield was never great and its distribution was seriously unbalanced. For instance, in 1942 in Kwangsi, the total grant from the succession duty was 11,850 yuan but one provincial municipality alone shared 10,000 yuan.<sup>2</sup>

## 2) Business tax

Before the War, the business tax was a complicated provincial levy as it included the business tax, the business license tax and the butchering tax; in some cases, the Hsien governments were annually granted a part of the revenue from these three sources by the provinces; in other cases, the Hsien was allowed to levy a surtax on the same tax objects; and still other cases, the Hsien was to share a part of the butchering tax alone; and there were many other variation in the administration of these sources.

Since the introduction of the New Hsien System, the butchering

1. Yee Hong-lin, p.113.

2. Ibid.

tax had been separated from the business tax, and the Hsien received the entire butchering tax revenue plus 20 per cent of the revenue from the provincial business tax (which composed of the business tax and the business license tax). As decided by the Central Government in 1942, the business license tax was to be separately levied by each Hsien independently while the business tax was levied by the Central Government. The present business tax was then to be solely a business including no other sources and 30 to 50 per cent of the yield was to be returned from the Central Government to the Hsien.

However, the business tax was not important to most Hsien. For example, in 1942, the total business tax assigned to Kwangsi was 920,000 yuan of which one provincial municipality alone received 900,000 yuan.<sup>1</sup>

In 1943 the Central Government instituted two new taxes, the land increment tax and the land value tax. The former intended in part to check the inflationary rise in land value, while the latter was levied on the land where the tax was not levied in kind in order to replace the old flat rates. Fifteen percent of each (land increment and land value) tax was to be assigned to Hsien. In 1944, two further new central taxes were introduced: the "Income Tax on Property Leases" and the "Income Tax on Selling of Property". Thirty per cent of each of these taxes was to be allotted to Hsien.<sup>2</sup>

The total central revenue grants from 1942 to 1944 from all these sources are shown in the following Table:

---

1. Yee Hong-lin, p.113

2. China Handbook, p. 202.

TABLE XXXV

Budgetary Estimates of the Central Revenue Allotter  
to Hsien and to Provincial Municipalities in 1942 -  
1943 and 1944<sup>1</sup>

Unit: 000 yuan

Central Revenues - Grants	1942	1943	1944
Farm land tax	165,441	538,788	1,057,015
Land increment tax	--	7,500	6,975
Land value tax	--	37,500	34,980
Business tax	110,783	245,640	525,341
Stamp tax	10,650	28,215	204,674
Succession duty	4,700	11,750	11,750
Income tax on property lease	--	--	27,000
Income tax on selling of property	--	--	27,000
TOTAL	291,574	819,393	1,894,735

## 2) Subsidies

Before the War, except in minor cases, the provinces themselves had subsidized their subordinate governing units, the Hsien and Provincial Municipal Governments. On the disappearance of the provincial finances with the Financial Conference of 1941, the Central Government replaced the provinces in handling the subsidies.

The policy in regard to subsidies of the Central and provincial governments were quite different. Prior to 1941, the provinces had levied higher taxes, through the surtax system, or allotted a part of their existing total revenue to the Hsien, or adopted both methods to meet a part of the Hsien expenditures. But, the Central Government

developed its subsidy system to Hsien in a different manner: through unconditional revenue grants and special cash subsidies.

In order to frame a sound Hsien wartime financial system, the Central Government, following the resolutions of the Financial Conference of 1941, participated in Hsien finance in two major fields: the "autonomy taxes" and the unconditional revenue grants which we have already discussed. It seems to the writer the Central Government was working on the principle that these two Hsien revenue sources should be sufficient to handle their obligations, and that the Central Government could withhold the special cash subsidies as far as possible in order to save more funds for the War. And, in actual fact, the special cash subsidies to the Hsien did decline in importance in both Central and Hsien finances. For instance, the special cash subsidy to the Hsien was reduced from 356,220, 166 yuan in 1942 to 18,000,000 yuan in 1943.<sup>1</sup> The subsidy in 1943 was only 6 per cent of that in 1942, quite apart from the influence of the Fapi inflation. In 1942, the special subsidy had been 125 percent of the total revenue grants to Hsien, but in 1943, it was only 2 per cent.<sup>2</sup>

#### D) Other Hsien Receipts

Borrowings, donations, administration fees and fines, receipts from Hsien enterprises and revenue from Hsien properties, together made up the "other receipts".

In actual fact, the borrowing was not important because most Hsien did not have a revenue system strong enough to enable them to carry the burden of debt. Furthermore, since the introduction of "Distribution" and special assessments, and since the provinces (before 1942) and the Central Government (after 1942) were to provide inter-Hsien works and

I. China Handbook, p.202

2. See Table XXV (on page 66 ) supra.

communications, the Hsien borrowing was largely unnecessary, except in the few rich Hsien.

Revenue from donations, fees, and fines was also unimportant to the Hsien taken as a whole.

Before the War, the public enterprises in each Province were customarily operated by the provincial government, speaking generally, Hsien enterprises had developed very slowly. The Hsien revenue or profit from this source was, therefore, negligible.

Among all the "other receipts", only that from the Hsien property is significant to Hsien wartime finance. The major Hsien property in China is land and buildings. Unfortunately, they had never paid much attention to the administration of their public properties, so that the "local gentry" had long used these public lands, buildings, and public funds for their private gain. Thus, the Financial Conference of 1941, strongly proposed that the administration of Hsien properties be adjusted. Following this proposal, efforts were made by the Hsien, provincial, and the Central Governments to reclaim these "lost" properties, throughout the country. By the end of 1944, public funds and properties reclaimed amounted to 97,520,867 yuan in public funds; 66,890,661 yuan in rent; 4,871,230 Shih Mow (or 811,871 acres) of land; 71,330 buildings; and 233,209 piculs (or 1,500,000 kilograms) of rice.<sup>1</sup> Taking Szechwan as an example, 30 Hsien reporting on the reclamation activities in 1942 said that the revenue from public properties increased from 17 per cent of the total Hsien incomes in 1940 to 27 per cent in 1942.<sup>2</sup>

1. China Handbook, p.203

2. Ben Yu-sing, p. 110.

Conclusion

In concluding the subject of Hsien "autonomy revenue", it is advisable to summarize the trend of major Hsien taxes, as is done in the following Table:

TABLE XXXVI

## Variation of Hsien Tax Sources, 1934-1942

The sign (x) shows the levying power of the Central, Provincial or Hsien Government

Names of Taxes	Proposed by Financial Conference of 1934	Actual Distri- bution between the Province & Hsien, 1934-1939	New Hsien System 1940- 1941	Autonomy Taxes from 1942 on-
Land	x H: 55-85%	x P: P H	x P: 45%	x C: 15%
Title deeds sur- tax	x H: 100%	x H: 100%	x H: 100%	x H: 100%
Improvement tax	x H: 55-85%	x P: P H	x H: 100%	x H: 100%
Business tax, or Business tax	x H: 30%		x P: 20%	x C: 30-50%
Business license tax	x H: 100%		x H: 100%	x H: 100%
Butchering tax	x P: 30%		x H: 100%	x H: 100%
Feast & amuse- ment tax	x H: 100%	x P: P H	x H: 100%	x H: 100%

In the last two columns, it can be seen that a sound Hsien revenue system was formed during the War, although the larger proportion of the land tax was still out of the hands of the Hsien; and although the Fapi inflation diluted the new financial power somewhat. The following Tables compare the Hsien wartime revenue system up to 1942 with the pre-War situation.

TABLE XXXVII  
 Hsien Revenue From Taxation as a Percentage  
 to the Total Hsien Receipts in 20 Provinces,  
 1935-1942<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Shantung	93.76	91.01	--	--	--	--	--	92.38
Kiangsu	88.18	84.72	76.78	--	--	--	--	83.22
Hupeh	70.64	83.20	74.25	--	--	78.63	47.13	70.77
Kweichow	--	80.72	--	74.09	72.59	62.61	55.03	69.00
Fukien	89.11	70.83	61.03	76.43	77.65	68.97	27.47	67.35
Kansu	82.19	86.33	--	83.39	81.25	37.94	28.76	66.64
Shensi	83.38	67.77	85.53	85.25	65.03	38.14	40.12	66.46
Kiangsi	85.59	73.72	62.68	63.02	48.55	--	41.82	65.89
Kwangtung	--	69.77	72.32	64.53	64.53	83.25	31.62	64.34
Kwangsi	69.34	72.78	67.00	66.96	65.85	68.21	37.59	63.96
Honan	78.71	76.92	63.82	66.35	64.18	56.29	34.01	62.89
Hunan	--	--	68.94	49.32	68.66	54.59	52.14	62.73
Chekiang	80.36	66.13	58.15	49.39	47.41	60.44	51.13	59.00
Szechwan	87.72	61.98	61.34	57.41	49.53	41.86	39.03	56.98
Mingsia	--	--	30.25	--	--	76.07	62.51	56.27
Anhwei	79.76	60.60	61.49	55.05	51.60	42.66	35.36	55.21
Yunan	--	--	77.72	28.45	60.95	55.67	41.35	52.82
Shangsi	--	70.19	59.74	--	--	1.25	9.18	35.09
Sikang	--	--	--	43.35	--	38.84	19.18	33.79
Chinghai	--	29.96	25.24	--	--	--	--	27.60
Average	82.39	71.66	64.14	63.06	62.90	54.09	38.42	

1. Ben Yu-sing, p.69 Taxes included: Butchering tax, Title Deeds Surtax, License Tax, Feast and Amusement Tax, Chuan Levies, Land Tax, Business Tax and other revenue grants from the Central Government.

It is evident that owing in part to the Fapi inflation, the revenue from taxation as percentage of the total revenues declined each year, particularly so far as the land tax was concerned.<sup>1</sup> Among the taxes the butchering tax had been the most important since 1940 when it was entirely allotted to the Hsien as we saw in Table XXXIV, supra.

TABLE XXXVIII

Hsien Revenue From Property as a Percentage  
to the Total Hsien Receipts in 20 Provinces,

1935-1942<sup>2</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Sikang	--	--	--	15.01	--	49.16	35.98	33.38
Ningsia	45.79	37.10	24.37	17.44	17.71	1.92	1.70	20.86
Szechwan	10.76	10.55	11.17	9.52	17.91	35.07	23.62	16.94
Chinghai	--	13.80	13.80	--	--	--	--	13.80
Yunan	--	--	20.96	--	--	6.52	9.23	12.23
Hunan	--	--	8.38	9.72	7.69	10.93	16.52	10.64
Honan	9.23	9.36	7.81	7.23	7.63	9.48	24.37	10.73
Kweichow	--	8.78	--	4.25	4.76	16.07	16.20	10.01
Shantung	6.86	8.98	--	--	--	--	--	7.92
Anhwei	10.46	8.97	7.77	7.53	4.34	4.54	8.79	7.48
Hupeh	11.51	5.13	4.16	--	--	7.59	3.56	6.39
Kiangsi	6.98	5.37	6.88	6.44	3.91	--	8.55	6.35
Kansu	5.63	6.64	--	4.65	3.95	3.70	6.41	5.16
Kiangsu	4.51	4.75	4.41	--	--	--	--	4.55
Kwangsi	5.95	6.11	4.31	2.81	2.73	5.25	3.89	4.43
Chekiang	5.64	4.16	3.52	3.84	3.89	5.14	4.00	4.31
Shensi	11.98	4.50	4.40	2.88	2.70	1.95	1.42	4.26
Kwangtung	--	0.89	2.95	2.34	2.34	5.06	3.92	2.91
Shansi	--	--	2.80	--	--	--	--	2.80
Fukien	2.71	1.89	1.19	1.14	1.31	1.32	2.50	1.72
Average	10.61	8.56	8.05	6.78	6.23	16.82	10.67	

The revenue from property increased very rapidly from 1941 to 1942 because the reclamation of public properties had begun.

1. See Section (1) under the sub-heading "Part of the Land Tax" supra.  
2. Ben-Yu-sing, p.71.

TABLE XXXIX

Hsien Revenue From Subsidies From the Provinces, 1935-  
 1941, and From the Central Government in 1942, in 20  
 Provinces, as a Percentage of the Total Hsien

Receipts <sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Ningsia	54.30	62.89	45.46	32.56	82.38	22.00	31.38	47.28
Chinghai	--	--	39.99	--	--	--	--	39.99
Yunan	--	--	--	70.34	38.39	25.37	17.12	37.80
Shensi	--	--	19.01	10.62	32.12	59.13	16.97	27.57
Sikang	--	--	--	13.83	--	9.48	41.17	21.49
Hunan	--	--	16.96	13.90	16.47	26.35	27.20	20.17
Kwangtung	--	--	17.44	29.83	29.83	7.25	14.92	19.85
Kiangsi	--	--	6.89	12.93	28.42	--	22.26	17.62
Honan	--	1.71	16.35	15.87	25.38	27.18	18.72	17.53
Kweichow	--	8.39	--	20.51	19.16	14.40	23.57	17.20
Anhwei	2.26	27.14	28.29	28.29	5.11	9.77	16.50	16.76
Fukien	0.76	11.14	27.77	16.37	14.33	27.59	16.11	16.29
Shansi	--	--	0.42	27.90	--	--	17.18	15.10
Chekiang	3.34	5.95	11.68	22.02	21.99	20.84	14.23	14.29
Kansu	--	1.16	--	10.88	13.61	13.83	27.17	13.33
Hupeh	5.31	6.43	15.20	--	--	12.28	13.08	10.46
Szechwan	--	1.41	2.39	9.10	5.58	5.87	30.01	9.06
Kwangsi	1.89	1.82	1.10	12.24	17.74	13.95	8.12	8.12
Kiangsu	2.47	5.03	13.93	--	--	--	--	7.14
Shantung	--	--	--	--	--	--	--	--
Average	10.04	12.09	17.53	21.69	25.04	15.09	20.92	

The revenue from subsidies from the provinces increased in each year, particularly during the early part of the War. When the new Hsien System was put into effect in 1940, however, the importance of the subsidies from the provinces declined relatively to other sorts of income. In 1942, the Central Government was directly in charge of subsidies to the Hsien and the amount from this source was increased in order to

1. Ben Yu-sing. p. 72.

facilitate the "Hsien Autonomy Finance". After 1942, the subsidies from the Central Government decreased, but the revenue-grants increased as we have seen in preceding pages.

TABLE XXXX

Other Hsien Incomes as a Percentage to the  
Total Hsien Receipts in 20 Provinces, 1935-

1942<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Shansi	--	29.80	37.03	72.09	--	98.75	73.64	62.26
Chinghai	--	56.23	20.65	--	--	--	--	38.44
Kwangsi	22.80	19.27	27.58	17.97	13.65	12.59	50.40	23.46
Chekiang	10.65	24.44	26.62	24.75	26.71	13.59	30.64	22.48
Szechwan	15.20	26.06	25.10	23.97	26.98	17.20	7.34	20.26
Anhwei	7.51	3.27	2.43	8.16	38.43	43.03	36.35	19.88
Kansu	12.16	5.87	--	1.07	1.18	44.53	37.67	17.08
Kwangtung	--	29.32	7.22	3.28	3.28	4.40	49.54	16.17
Kiangsi	7.41	20.90	3.53	12.60	19.00	--	27.37	15.13
Fukien	5.41	14.13	9.99	6.04	6.69	2.12	53.92	14.04
Hupeh	12.51	5.22	6.37	--	--	3.50	36.22	12.76
Shensi	4.63	27.72	11.05	0.23	0.13	0.78	41.50	12.76
Honan	12.06	12.00	12.02	10.54	2.79	7.05	22.90	11.33
Sikong	--	--	--	27.72	--	2.51	3.67	11.30
Yunan	--	--	1.31	1.19	0.65	12.44	32.30	9.57
Hunan	--	--	5.70	7.04	7.15	8.13	4.14	6.43
Kiangsu	4.84	5.49	4.81	--	--	--	--	5.04
Ningsia	--	--	--	--	--	--	4.41	4.41
Kweichow	--	2.11	--	1.14	3.47	6.92	5.20	3.76
Shantung	--	--	--	--	--	--	--	--
Average	10.47	18.78	13.42	14.51	11.54	15.36	39.42	

The revenue from this source was complicated in most cases, sometimes including borrowings, the return from public enterprises, fines, administrative fees, special assessment and the funds in trust from other sources for special projects, etc.

1. Ben Yu-sing, p.73

Among all the taxes, the farm tax was the most reliable revenue source to the Hsien because all the Hsien included farming land, but it had been taken by the Central Government which in turn paid back to the Hsien smaller amounts. The improvement tax was not an important revenue source to the poorer Hsien. Thus, the most characteristic feature of Hsien wartime financing, in general, was that its chief revenue did not come from property, but from the butchering tax, the license tax and the feast and amusement tax. These sources, however, did not yield much to the poorer Hsien either.

Before 1941, the provinces adopted a subsidy policy through which the poorer Hsien were aided to carry out their responsibilities. In 1942, the Central Government was charged to make the Hsien Autonomy Finance more effective, and the Hsien as a whole then received more subsidies from the Central Government than previously. After 1942, however, the Central Government adopted the principle that the revenue grants were to replace the cash subsidies, so, as we have seen, the poorer Hsien again felt their revenues inadequate. But since the Central Government itself was struggling against its own budgetary deficits, it had no intention of increasing cash subsidies to the Hsien. The remedy for this situation was finally determined in 1943: the provincial governments were to pool and redistribute all the Hsien revenue grants from the Central Government to the Hsien. It was decided that the provinces were to retain 50 per cent of the total revenue grants of the Hsien, and to distribute them "systematically" to all the Hsien within their boundaries.<sup>1</sup>

To make this measure more effective, in 1944, the Central Government further decided that all the Hsien budgets were to be regulated by the provinces, instead of by the Hsien people's assemblies.<sup>2</sup>

1. Ben Yu-sing, p.123. 2. China Handbook, 203.

## Chapter XI - Hsien Autonomy Finance (Cont'd.)

The Hsien in the past had no independent revenue sources, the funds for most of its expenditures being appropriated from the province. Hsien had never introduced budgets, strictly speaking, but acted as an agent of the provincial treasury, until 1934, when each Hsien was required to present its own budget.

It is difficult to ascertain the state of Hsien expenditures before 1934 because, in most cases, the costs incurred by Hsien governments were incorporated into their administrative expenses. For instance, the expenditure for education might be placed under the heading of "Expense of the Bureau of Education", or in many cases, Hsien government accounting was made up of "appropriation" items under which the funds raised by Hsien and allotted by the provinces were mixed. No distinction was made between the administrative cost and the actual amount spent for governmental services, such as "Appropriation for Education", "Appropriation for Public Safety" or "Appropriation for Public Health".

The following Tables show the state of Hsien expenditures in the years between 1935 to 1942, while that before 1935 will not be discussed.

TABLE XXXI

Expenditure for Administration as a Percentage of  
the Total Hsien Expenditure in 20 Provinces, 1935-

1942<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Ningsia	26.34	21.34	100.0	68.81	68.05	35.60	46.21	52.34
Kweichow	--	47.28	--	66.18	60.39	55.92	25.67	47.09
Kansu	48.99	32.04	--	54.53	55.29	38.31	30.06	43.20
Anhwei	11.36	40.84	45.45	--	50.09	65.13	46.25	43.19
Kwangsi	25.05	38.45	39.96	34.85	40.64	46.74	53.02	39.82
Shantung	42.65	34.25	--	--	--	--	--	38.45
Kwangtung	--	29.91	37.07	52.92	52.92	39.87	16.93	38.27
Yunan	--	--	17.45	24.94	59.03	58.74	28.00	37.63
Chekiang	16.97	27.24	32.49	56.21	54.20	29.72	29.12	35.14
Fukien	30.49	48.31	47.38	37.04	39.37	24.77	16.48	34.83
Shensi	3.13	50.95	20.50	28.32	40.41	45.46	42.54	34.19
Hunan	--	--	37.74	30.06	30.88	31.18	35.23	33.02
Honan	21.68	21.85	38.32	41.20	42.66	40.92	70.09	32.39
Shansi	--	31.23	34.03	30.77	--	32.21	34.88	32.26
Szechwan	25.53	36.52	36.17	43.71	31.67	32.46	18.26	32.05
Sikang	--	--	--	42.35	--	28.38	25.10	31.94
Hupeh	37.33	15.68	37.84	--	--	42.48	25.10	31.94
Kiangsu	20.71	19.64	26.84	--	--	--	--	22.40
Chinghai	--	18.34	22.19	--	--	--	--	20.27
Average	26.83	31.72	36.95	42.72	47.64	39.12	30.23	

This expenditure included the expense of the Hsien headquarters of the Kuomintang which were financially maintained by the Hsien governments, in districts where the Hsien people's assemblies were not yet created. This expenditure increased in each year because the local self-governments were gradually established and improved, particularly in 1940 when the New Hsien System was first put into effect and the initiation cost of Hsien people's assemblies reached its peak, declining in the following years.

1. Ben Yu-sing, p. 21.

TABLE XXXII

Expenditure for Education as a Percentage of the Total  
 Hsien Expenditure in 20 Provinces, 1935 - 1942<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Chinghai	--	64.04	63.06	--	--	--	--	63.55
Shantung	37.55	31.29	--	--	--	--	--	34.42
Szechwan	40.27	35.36	39.72	32.38	38.71	32.02	19.55	34.00
Kiangsu	30.08	32.49	31.62	--	--	--	--	31.40
Honan	38.47	39.65	29.96	28.54	29.01	23.78	29.21	31.23
Sikang	--	--	--	30.94	--	35.70	24.84	30.49
Kwangsi	44.25	37.54	32.35	29.31	26.45	25.02	11.16	29.44
Ningsia	54.16	53.42	--	20.02	21.50	9.44	12.54	28.52
Hupsh	37.85	19.17	25.42	--	--	11.20	41.12	26.95
Hunan	--	--	30.19	23.87	27.39	27.52	24.52	26.70
Kansu	25.82	28.85	--	20.69	21.90	25.15	27.61	26.67
Kweichow	--	31.51	--	17.20	16.99	28.96	29.95	24.92
Fukien	33.24	29.28	23.56	18.85	20.24	28.94	26.87	24.28
Kiangsi	16.95	25.55	27.66	27.50	27.40	--	15.55	23.44
Anhwei	32.67	25.45	31.14	--	14.86	16.78	17.36	23.04
Shensi	22.11	24.85	22.77	12.67	17.17	14.39	27.27	20.18
Chekiang	23.86	21.33	17.98	17.29	16.97	15.62	10.46	17.64
Yunan	--	--	17.78	16.00	8.73	17.00	19.78	15.86
Shansi	--	25.87	27.04	4.34	--	8.15	9.72	15.02
Kwangtung	--	15.51	17.68	12.09	12.00	23.35	5.32	14.34
Average	33.64	31.77	29.20	21.39	21.47	20.81	20.75	

The expenditure for education declined in each in percentage, because other expenditures increased. Since the outbreak of the War, this expenditure decreased absolutely in those provinces adjacent to the war areas and increased the provinces remote.

1. Ben Yu-sing, p. 23.

TABLE XXXIII

Expenditure for Police Protection as a Percentage  
of the Total Hsien Expenditure in 20 Provinces,

1935-1942<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Yunan	--	--	48.66	44.36	24.21	18.93	21.78	31.59
Shansi	--	32.03	28.79	37.01	--	33.28	17.73	29.51
Shensi	37.53	--	27.77	42.66	17.17	12.47	23.92	26.92
Kiangsi	28.18	29.80	29.44	27.15	23.49	--	8.13	24.37
Chekiang	41.09	25.12	16.98	18.95	13.08	27.21	19.44	23.12
Kwangtung	--	42.31	23.24	17.95	17.95	13.20	7.86	20.42
Fukien	25.64	5.31	15.49	29.81	27.72	23.48	12.40	19.98
Hupeh	3.81	52.18	10.63	--	--	16.75	15.57	19.79
Anhwei	37.46	23.51	13.77	--	16.59	12.63	12.99	19.49
Kiangsu	18.64	20.06	18.64	--	--	--	--	19.11
Ningsia	19.49	23.65	--	10.28	10.45	35.24	8.92	18.01
Hunan	--	--	10.16	16.32	14.22	18.50	13.09	14.46
Kansu	17.23	17.93	--	14.78	14.70	9.21	4.72	13.10
Honan	12.71	12.19	6.99	11.50	9.48	7.06	12.74	10.38
Chinghai	--	9.49	10.47	--	--	--	--	9.98
Kweichow	--	5.24	--	7.62	8.70	16.42	10.61	9.72
Szechwan	3.18	3.19	3.57	2.36	14.33	9.70	4.98	5.90
Sikang	--	--	--	--	--	1.83	8.91	5.37
Kwangsi	5.80	00.81	0.34	0.57	7.37	6.64	4.64	3.74
Average	20.90	20.19	17.66	20.09	15.68	16.40	12.6	

The expenditure for police protection declined in pre-War years, because the Communist revolts were subsiding. In wartime, this expenditure increased only in those provinces adjacent to the war areas. The last Table does not include the cost of militia training which was not in the Hsien budgets, but was handled by the Hsien people's assemblies.

1. Ben Yu-sing, p. 22

TABLE XXXIV

Expenditure for Construction, Public Health and Pensions for Retired Officials, as a Percentage of the Total Hsien Expenditure in 20 Provinces, 1935-1942<sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Chekiang	12.34	9.17	28.04	5.63	8.54	13.04	25.24	14.57
Kiangsu	11.41	13.53	12.74	--	--	--	--	12.56
Kwangsu	8.46	7.35	12.06	12.57	14.28	12.49	10.26	11.07
Shantung	11.37	10.31	--	--	--	--	--	10.84
Kiangsi	8.81	9.98	10.85	10.51	5.03	--	16.00	10.20
Hupeh	5.07	5.74	15.49	--	--	2.95	14.03	8.66
Hunan	--	--	10.08	5.34	5.68	10.70	8.70	8.10
Kweichow	--	--	--	9.46	4.51	7.83	15.35	8.09
Fukien	3.57	7.51	7.75	7.34	8.08	7.43	11.12	7.54
Yunan	--	--	9.46	8.67	4.73	4.14	8.09	7.18
Szechwan	8.04	6.94	6.37	4.91	8.52	6.99	7.15	6.99
Kwangtung	--	8.77	7.42	3.52	3.52	9.67	8.87	6.96
Anhwei	6.67	5.32	5.22	--	4.75	4.61	9.58	6.03
Honan	4.97	5.00	5.64	5.18	4.23	5.45	8.27	5.53
Sikang	--	--	--	5.50	--	6.32	4.45	5.42
Shansi	--	2.28	4.95	3.40	--	4.80	8.62	4.81
Shensi	4.66	4.24	5.65	2.73	5.93	4.33	2.73	4.32
Kansu	--	9.33	--	2.64	1.99	2.38	7.22	4.71
Chinghai	--	4.27	4.27	--	--	--	--	4.27
Ningsia	--	1.07	--	0.87	--	0.27	1.77	1.00
Average	7.76	6.93	9.73	5.51	6.14	6.46	9.85	

This expenditure, like that for education, increased in some provinces and decreased in others, depending on the war situation. But since the New Hsien System imposed new burdens in general it increased steadily relatively to that for education.

1. Ben Yu-sing, p. 24.

TABLE XXXV

Expenditure for Reserve or Emergency Funds and Others  
as a Percentage of the Total Hsien Expenditures in 20  
Provinces, 1935 - 1942 <sup>1</sup>

Provinces	1935	1936	1937	1939	1940	1941	1942	Average
Sikang	--	--	--	13.17	--	28.14	36.69	26.00
Szechwan	22.98	17.29	14.14	16.62	6.74	18.80	50.03	20.90
Honan	22.15	21.28	17.05	13.56	13.91	22.77	29.79	20.37
Kwangtung	--	3.49	14.45	13.52	13.52	13.89	61.03	19.98
Shensi	32.56	19.92	15.29	13.60	28.29	23.33	3.54	19.54
Shansi	--	8.56	7.20	24.45	--	23.53	29.04	18.5
Hunan	--	--	11.79	24.38	21.80	12.07	18.42	17.69
Kansu	7.95	20.82	--	7.35	6.12	33.94	29.86	17.67
Ningsia	--	0.48	--	--	--	19.44	30.53	16.81
Kwangsi	16.42	16.69	15.26	22.68	11.23	9.10	20.90	16.04
Fukien	8.05	10.58	14.81	6.96	4.58	25.38	33.10	14.78
Kiangsu	19.14	14.26	10.15	--	--	--	--	14.51
Hupeh	15.93	7.21	10.58	--	--	26.59	7.70	13.60
Shantung	8.40	17.13	--	--	--	--	--	12.76
Kweichow	--	15.97	--	4.21	9.35	10.86	18.40	11.76
Kiangsi	7.52	9.35	6.46	5.95	2.77	--	35.80	11.30
Chekiang	5.73	17.14	4.50	7.92	7.21	14.40	15.72	11.09
Anhwei	11.83	4.86	4.41	--	13.71	2.85	13.80	8.57
Yunan	--	--	6.63	6.00	3.28	1.19	22.34	7.88
Chinghai	--	3.84	--	--	--	--	--	3.84
Average	14.88	12.34	11.05	12.88	10.96	17.89	26.86	

On the average, this expenditure decreased during the pre-War years but increased rapidly during the War years.

1. Ben Yu-sing, p.25.

Selected References

## CHAPTERS VII, VIII, IX, X and XI

Chinese

Ben Yu-sing, Hsien Finance, Shanghai-second edition, 1948.

Chia Teh-huei, Financial History of the Republic of China,  
Shanghai-second edition, 1947.

Yen Wen-chin, Wartime Bonds in China, Chungking, Financial  
Review, December, 1943.

Periodicals (Chinese)

Chang Peh-yi, Wartime Finance of the National Government,  
Shanghai, Financial Review, February, 1947.

Chang Peh-yi, How to Maintain the Value of the Gold Yuan,  
Shanghai, Financial Review, August, 1948.

Financial Records, Shanghai, Financial Review, July, 1946.

Financial Records, Shanghai, Financial Review, August, 1948.

Financial Year Book, Chungking, Ministry of Finance, Vol.,  
1934-1942.

Index Number, Shanghai, Central Bank of China, Central Bank  
Monthly, January, 1948.

Liang, Ping, Operation of the Issue Department of the Central  
Bank of China, Shanghai, Central Bank of China,  
Central Bank Monthly, October, 1948.

Ma Da-ying, The Problems of the Improvement in Local Finance,  
Shanghai, Financial Review, October, 1946.

Yee Hong-lim, An Outline of Local Finance of our Country,  
Financial Review, April, 1945.

Periodicals (English)

China Handbook, 1937-1945.

Chinese Year Book, 1937 issue, Shanghai, Commercial Press.

PART V

The Act of 1946 and the Constitution of 1946

and

Their Practices

PART V

## Chapter XII

## The Fourth National Financial Conference

Introduction

When the War suddenly broke out in July 1937, China did not expect it would last for eight years, so no comprehensive wartime financial policy immediately followed until 1941, when the Third National Financial Conference was called. Shortly after V-J Day in August, 1945, the Central Government, not expecting that the victory would come so soon, was fully preoccupied in rushing various emergency measures, such as the transfer of its troops from remote theaters, or even from as far as Chungking, to protect the people inhabiting lands once occupied by the enemy (at present not yet disarmed) the liquidation of currencies issued by the enemy and the puppet government and the subsidization of rehabilitated government units, provincial and local governments in the once enemy occupied land, where it had been decided no taxes would be imposed that year. Thus the Central Government delayed consideration of what kind of peacetime financial system should be introduced.

In January 1946, the famous Political Consultation Conference was convened at Chungking, with representatives from the Kuomintang, the Chinese Communist Party, other minority political parties, and non-partisan leaders.<sup>1</sup> This Conference was expected to suggest means of co-operation of all parties and non-partisans in formulating a post-War basic

1. Other parties: China Youth Party, Chinese Democratic League, National Salvation Association, Vocational Education Association, and the Third Party.

policy for the nation, and, in the same month, it adopted as final resolutions the Program for Peaceful National Reconstruction.

In the first chapter of the Program, "Political Problems", a three level government organization was maintained and the powers of the three levels were defined. It reads in part as follows:

"The powers of the central and local governments should be regulated on the basis of the principle of "a fair distribution of power ("Sun Yat-sen's 'Balanced Power'"). The local governments may take such measures as are adapted to the special circumstances of the localities concerned, but the regulations issued by the provincial and district governments must not contravene the laws and decrees of the Central Government!"<sup>1</sup>

The sixth chapter of the same Program, Economics and Finance, reads in part as follows:

"Central government finance and local finance should be sharply differentiated".<sup>2</sup>

It is evident that the Political Consultation Conference considered the position of the provinces as of little importance, or, at least it treated provinces merely as an agency of the Central Government so that the finances between the Central and local should be sharply "differentiated" while the provincial finance was tacitly ignored.

#### A) The Act of 1946

In June 1946, one month after the Central Government had returned from Chungking to Nanking, the Fourth National Financial Conference was held. The chief task of the Conference was to restore the finance on the provincial level. In adherence to both Sun Yat-sen's Fundamentals of National Reconstruction and the Program for Peaceful National

---

1. China Handbook, p. 748.

2. Ibid., p.750

Reconstruction, provincial finance was indeed restored by the Financial Conference of 1946, but the provincial financial power was greatly reduced as compared with the situation existing in pre-War years.

The three earlier National Financial Conferences had been called by the Ministry of Finance alone and other economic affairs besides government finance were also studied; but the Fourth Conference was called by both the Ministry of Finance and the Ministry of Food, because the Central Government was attempting to retain 30 per cent of the farm tax in kind.

The Resolutions of the Fourth Conference, known later in the same month as the "Financial Collecting and Disbursing System Act", was put into effect in July 1946. The Act of 1946 contained fourteen chapters and three appendices, the content of which were as follows:

- 1) General provisions
- 2) Taxation
- 3) Government monopoly and monopoly sales
- 4) Special assessments
- 5) Fines and compensations
- 6) Administrative fees
- 7) Trusteeship
- 8) Sales of public properties
- 9) Profit from public properties and enterprises, and Donations
- 10) Tax-exemption of government activities
- 11) Subsidies
- 12) Loans and borrowings
- 13) Expenditures
- 14) Annex

#### Appendix No. 1: General Revenue Classification

- a) Central Government
- b) Provincial Government
- c) Special Municipal Government
- d) Hsien or Provincial Municipal Government

Appendix No.2: Expenditure Classification

- a) Central Government
- b) Provincial Government
- c) Special Municipal Government
- d) Hsien or Provincial Municipal Government

Appendix No. 3: Taxation Classification

- a) Central Government
- b) Provincial Government
- c) Special Municipal Government
- d) Hsien or Provincial Municipal Government <sup>1.</sup>

Except for the first chapter of the Act of 1946, the following materials are not arranged in accordance with the above contents, but are devoted exclusively to the fields of provincial and Hsien finances.

Five articles were contained in the first chapter of the Act of 1946; the last two stated that:

The Executive Yuan, the Legislative Yuan, and the Supervision Yuan of the Central Government shall be charged to supervise directly the provincial and the Special Municipal Financial Collecting and Disbursing. After the local self-government has been completed in the province, or in the Special Municipality, its Financial Collecting and Disbursing shall be supervised directly by the "public-opinion-organization" in the province or the Special Municipality concerned and indirectly by the Executive Yuan, the Legislative Yuan, and the Supervision Yuan of the Central Government.

Provinces shall be charged to supervise directly the Hsien or provincial municipal Financial Collecting and Disbursing. After local self-government has been perfected in the Hsien or in the provincial municipality, its Financial Collecting and Disbursing shall be supervised directly by the Hsien or provincial municipal public-opinion-organization in the Hsien or provincial municipality concerned and indirectly by the province concerned.

---

1. Financial Records, July, 1946. Pp 123-29.

### B) Provincial Finances

The provincial finances had been restored by the Financial Conference of 1946. The provincial Financial Collecting and Disbursing powers was listed as follows:

#### Provincial Revenues From:

1. Taxation
2. Special assessments
3. Fines and compensations
4. Administrative fees
5. Trusteeship
6. Provincial properties
7. Sales of provincial properties
8. Provincial enterprises
9. Subsidy from the Central Government
10. Withdrawals of provincial investment
11. Donations
12. Loans and borrowings
13. Other sources in accordance with law

#### Provincial Expenditures For:

1. Provincial legislation
2. Administration
3. Education
4. Construction and other economic purposes
5. Public health
6. Relief and other social purposes
7. Police protection
8. Reclamation and Settlement Expenses
9. Financial administration
10. Debt services
11. Pension for retired officials or compensation to the officials' dependents.
12. Repairing cost for government properties and other miscellaneous loss
13. Trusteeship
14. Subsidies to the subordinate governments
15. Provincial investment and the maintainence of the provincial enterprises
16. Others in accordance with law
17. Reserve fund.

Provincial Taxation:

Business tax -- the business tax shall be levied by the province; 50 per cent of the revenue shall be allotted to the Hsien, or provincial municipality.

Land tax -- the land tax shall be levied by the Hsien; 20 per cent of its revenue shall be enjoyed by the province which in turn shall utilize part of it in subsidies to the poorer Hsien or provincial municipalities.

The provinces were granted by the Act of 1946 the levying power of business tax only, 50 per cent of which should be allotted to the Hsien. The provinces could enjoy 20 per cent of the land tax which now was levied by the Hsien, but they were required to use part of it for subsidies to the poorer Hsien. Undoubtedly, then, the nation's tax structure as defined by the Act of 1946 was divided between the Central and Hsien government, with the provinces standing between them merely as intermediaries.

The provinces did have other important sources than taxation, such as public properties, enterprises, borrowing and subsidies from the Central Government. But, provincial enterprises had been well developed only in several richer provinces, recently returned from the hands of the enemy. In these provinces, the public enterprises were largely destroyed by the end of the War, so there was little yield from this source.

The revenue from public property had not been important to most provinces before the War, but now it became more significant because the provinces now administered a part of those properties seized or constructed by the enemy, plus the properties of owners who had died in the War.

There was one article only in the Act of 1946 which provided means for the Central Government to subsidize the provinces and for the provinces to subsidize the Hsien. Article 34 said:

"The higher level of government may financially subsidize its lower level of government to provide a balanced development of education, commerce, construction, public health, care of aged and orphans, and relief, in the jurisdiction concerned.

The subsidies, except those defined by law for special projects, shall be strictly utilized for the said purposes."

By way of comment, it must be remembered that since the Financial Conference of 1928, a general central subsidy system had been established of the provincial governments through budgetary controls. At present, as recommended by the Financial Conference of 1946, the provincial finances were to be supervised directly by the "public-opinion-organization" and indirectly by the Central Government. But, the supervision power of the Central Government was made more stringent than the "public-opinion-organization": provinces were not granted large tax levying powers and their other revenue sources were similarly limited; thus, the exercise of the supervision power of the "public-opinion-organization" was limited to the administration of the meagre revenues left to the provinces. Neither did Article 34 state that "the provinces shall ask" the Central Government subsidies for a balanced development of education, etc."; but rather that the higher level of government might subsidize the lower level of government.

It seems to the writer that the principle behind this kind of financial control can only be that the Central Government was attempting to reconstruct this stricken nation, not on a provincial basis, but on a national scale.

Borrowings had played a dominant role in the provincial finances in the years prior to 1941. It can be said that the Central

Government had tacitly permitted the provinces to do so since it had authority to regulate provincial budgets. At present, since the provincial governments had few revenue sources, their power to borrow was limited. Thus, the Central Government did not trouble to prevent the future provincial borrowings, except foreign loans. Article 35 stated that:

"Each level of government shall not issue domestic or foreign loans with maturity longer than one year unless it has obtained the power through legislative procedures."

The province, Special Municipality, Hsien and provincial municipality shall not negotiate foreign loans without the permission of the Central Government.

Public-opinion-organizations of the province, Special Municipality, Hsien and provincial municipality may separately legislate regulations to limit borrowing powers of the governments concerned."

The provincial governments which had been the most powerful governing unit of the country during the four score years prior to 1941, now became the dependents of the central authority. For the first time and by financial means, the nation realized the Balanced Power of Sun Yat-sen, which is hostile to great power in the provinces.

### C) Hsien Finances

The Hsien revenue sources other than taxation were set forth in the same way as those of the provinces, stated in preceding pages and thus not discussed in what follows. The Hsien tax sources defined by the Act of 1946 read as follows:

(a) "The taxes levied and enjoyed by the Hsien:

- 1) Improvement tax
- 2) Butchering tax
- 3) Business license tax
- 4) Use tax
- 5) Feast and amusement tax
- 6) Title deeds tax

- (b) The tax levied by the Hsien but shared with the Central Government and the provinces:

Land tax - the land tax was to be levied by the Hsien; 50 per cent of it was to go to Hsien, 30 per cent to the Central Government, and 20 per cent to the provinces.

- (c) The tax levied by the other levels of government and partly granted to the Hsien:

- 1) Business tax - the business tax was to be levied by the provinces and 50 per cent of it was to go to Hsien;
- 2) Succession duties - the succession duties were to be levied by the Central Government and 30 per cent of it was to go to Hsien."

The other revenue sources were the "Special Taxation" and the rents from new housing projects.

In the Appendix No. 1, it was stated that the Hsien, (or provincial municipality) could impose levies, the "Special Taxation" other than the existing taxes, if its plan had been passed by the public-opinion-organization, approved by the provincial government, and reported to the Central Government for reference. No further statement regarding the "Special Taxation" was made in the same Act. "Special Taxation" was a name commonly given to a form of surtax. For instance, because the great extent of destruction and because of the lack of adequate capital to undertake housing reconstruction, the housing problem was extremely critical throughout the country, particularly in the once-enemy-occupied lands. The Central Government had promulgated regulations to control the housing rents in order to protect the tenants. The improvement tax was levied according to the rental value, so the government revenue from this source was now fixed in a time when general prices went up steadily.

The local governments, therefore, exercised their levying power of "Special Taxation", an additional levy on the improvements.<sup>1</sup> The common name of the "Special Taxation" was the "Hsien Construction Special Taxation", which was probably imposed on the same tax objects as the improvement and the business license tax for these two tax rates were too inelastic to provide the needed revenue of the Hsien.

New "housing projects" had appeared in the later war years in Free China; the Central Government encouraged Hsien to build new houses in expectation of future rent receipts. This plan was originally sponsored and supervised by the Hsien governments and carried out by villages and towns. Because the Act of 1946 had proposed that village and town finances be incorporated into Hsien budgets, the rent from the "housing projects" would now go to the Hsien treasury.

The Act of 1946 cancelled the central stamp tax-grant and the income tax from property lease and selling to the Hsien, but in its stead, it allotted the entire former provincial title deeds taxes to the Hsien.

The Hsien expenditures were similar to those of the provinces and are thus not reproduced here. The only differences between the province and the Hsien responsibilities were:

- 1) Expenditure for reclamation and settlement was to be assumed by the provincial governments, not by Hsien; and,
- 
1. The writer recalls that because of the scarcity of buildings and because of rent-controls, there prevailed "black rent" and the "Tin Fee". The new tenants paid the "Tin Fee" to the owner in a lump sum which was computed on the basis of amortization of the "black rents", by law illegal; and then paid the controlled rents to the owner monthly. The house owner did not claim the "Tin Fee" from the permanent tenants who had occupied the buildings before the rent-regulations were promulgated, but customarily, these tenants paid the owner the "illegal black rents". In all cases, the improvement tax was not paid by the owner, but by the tenants.

- 2) The Hsien was to subsidize village and town finances, not provinces.

The essential difference between the wartime and peace time Hsien responsibilities was that the former included one more function, militia training.

One article regarding commodity tax seems to the writer to present conflicting ideas:

Article 11) The local (or provincial) government shall not, without fail, levy any commodity taxes, which belong to the Central Government, in order to prevent free circulation of goods throughout the country.

In order to provide funds for the maintenance and improvements of the land water communications, each level of government may charge a use fee on those vehicles and boats which use the communication within its jurisdiction.

The first part of this Article was to prevent a possible revival of the Likin levies, but the second conflicts with it in that it does not distinguish vehicles and boats for personal use from those used for transportation. Supposing the "use fee" is one of the costs of transportation enterprises, it would in the long run probably be shifted to consumers through higher commodity prices. In other words, a new Likin-type levy would have become legal.

## Chapter Xlll

## Financial Aspects in the Constitution of 1946

In May of 1936, the Central Government announced a Draft Constitution in accordance with Sun Yet-sen's tenets. Had not the War between China and Japan begun in July 1937, this Draft Constitution would have been revised and finally adopted by the National Assembly, which was supposed to convene in November 1937.

Ten years later, when the War had ended, on November 12, 1946, the postponed Constituent National Assembly was held and attended by the original representatives for the purpose of ending the period of Koumintang Political Tutelage, and to usher in a period of constitutionalism. The chief immediate task of this Assembly was to prepare the Constitution of the Republic of China, which had been accomplished by 25 December of the same year. The most outstanding characteristics of this Constitution can be seen in the Preamble, that this basic law was made in accordance with the "teachings bequeathed by Sun Yat-sen in founding the Republic of China". Thereby, the division of powers among the three levels of government set forth in the Constitution of 1946 were motivated by the theory of Balanced Power in approaching Sanminchuyi.

Articles 108 to 111 of the Constitution set forth the powers of the three levels of government. Among these the Central Government had the greatest power and Hsien governments were considered to be the final governing units for performance of governmental services, while the provinces were merely connecting machines through which most of the

provincial responsibilities could be channeled to the Hsien for execution.

These Articles read in details, as follows: <sup>1</sup>

Article 108. The following matters shall be legislated upon and executed by the Central Government or shall be referred to the provinces or Hsien for execution:

- 1) General rules governing provincial and Hsien self-government.
- 2) Division of administrative areas.
- 3) Forestry, mining and commerce.
- 4) The educational system.
- 5) Systems of banks and exchanges.
- 6) Shipping and coastal fisheries.
- 7) Public utilities.
- 8) Cooperative enterprises.
- 9) Water and land communication, and transportation involving two or more provinces.
- 10) Water conservancy, waterways, agriculture and animal husbandry involving two or more provinces.
- 11) Official grading, appointments, supervision and protection of officials in the Central and local Governments.
- 12) Land law.
- 13) Labor law and other social legislation.
- 14) Eminent domain.
- 15) Census-taking and compilation of statistics of the national population.
- 16) Immigration and land reclamation.
- 17) The police system.
- 18) Public health.
- 19) Relief, pensions, and unemployment assistance.
- 20) Protection and preservation of ancient books, historical relics, and historical landmarks pertaining to culture.

With respect to the various items enumerated in the preceding paragraph, the province may enact separate laws and regulations, provided they are not in conflict with the national laws.

---

1. All articles of the Constitution are cited from the text of "The Constitution of the Republic of China, in Chinese and English", Commercial Press.

Article 109. The following matters shall be legislated upon and executed by the province or shall be referred to the Hsien for execution:

- 1) Provincial education, public health, industries and communications.
- 2) The management and disposal of provincial properties.
- 3) Provincial municipal administration.
- 4) Provincially operated enterprises.
- 5) Provincial cooperative enterprises.
- 6) Provincial agriculture and forestry, water conservancy, fishery and animal husbandry, and public works.
- 7) Provincial finance and provincial revenues.
- 8) Provincial debts.
- 9) Provincial banks.
- 10) Enforcement of the provincial police administration.
- 11) Provincial charitable and public welfare enterprises.
- 12) Other matters delegated in accordance with the national laws.

In the case of any of the various items enumerated in the preceding paragraph involves two or more provinces, it may, unless otherwise provided by law, be undertaken jointly by the provinces concerned.

When a province, in undertaking the handling of any of the items in the first paragraph, finds its funds insufficient, it may, by resolution of the Legislative Yuan, be aided by the National Treasury.

Article 110. The following matters shall be legislated upon and executed by the Hsien:

- 1) Hsien education, public health, industries and communications.
- 2) The management and disposal of Hsien properties.
- 3) Hsien operated enterprises.
- 4) Hsien cooperative enterprises
- 5) Hsien agriculture and forestry, water conservancy, fishery and animal husbandry, and public works.
- 6) Hsien finance and Hsien revenues.
- 7) Hsien debts.
- 8) Hsien banks.
- 9) Administration of Hsien police and defense.
- 10) Hsien charitable and public welfare enterprises.
- 11) Other matters delegated in accordance with the national laws and the provincial self-government law.

In case any of the various items enumerated in the preceding paragraph involves two or more Hsien, it may, unless otherwise provided by law, be undertaken jointly by the Hsien concerned.

Article 111. Apart from the matters enumerated in Articles 107, 108, 109 and 110, when an unenumerated matter arises, it shall fall within the jurisdiction of the Central Government if it is of national nature, of the province if it is of provincial nature, and of the Hsien if it is of Hsien nature. In case of dispute, the matter shall be settled by the Legislative Yuan.

The Constitution of 1946 did not provide adequate means for dividing the nation's revenue sources among the three levels of government, but only, the responsibilities.

The most controversial topic in the Constitution was that of education. In some Articles education seemed to be one of the responsibilities of the Central Government:

Article 162. All public and private educational and cultural institutions in the country shall, in accordance with law, be subject to the supervision of the state.

Article 160. All children of school age from six to twelve shall receive primary education, without payment of tuition fees. Those who are poor shall be supplied with books by the Government.

Citizens who have passed school age but have not received primary education shall all receive supplementary education without payment of tuition fees, and shall also be supplied with books by the Government.

But, in Articles 109 and 110, education was considered to be one of the provincial and Hsien functions. Article 163 again expressed a strong sentiment that education was not a central responsibility. It said:

Article 163. The state shall lay emphasis on a balanced development of education in various areas, and shall promote social education in order to raise the cultural standard of the citizens in general; educational and cultural expenses for distant border regions and poor and unproductive regions shall be subsidized by the National Treasury. Important educational and cultural enterprises of these regions may be undertaken or subsidized by the Central Government.

Therefore, it is not difficult to surmise that the Central Government was directly responsible for educational services only in the "distant border regions and poor and unproductive regions". In other words, in the areas other than those "regions" the educational services were to be provincial and Hsien.

If education should be a central function, then the cost of it should be assumed by the Central Government; if not, the Central Government should not "legislate upon" and "refer" it to the provincial and Hsien governments for execution. But the matter is left in a state of ambiguity in the Constitution. One more Article concerning education contained an evident pitfall - Article 164:

Article 164. Expenses for education, science and culture shall not be less than 15 per cent of the total amount of the budget estimate in the case of the Central Government, not less than 25 per cent of the total amount of the budget estimate in the case of the province, and not less than 35 per cent of the total amount of the budget estimate in the case of the municipality or the Hsien.

These proportions are far too inelastic to be practicable, since, particularly in post-War China, if the governments attempted to undertake a large-scale reconstruction such as extensive emergency dyke-work in a given period, they would be forced to increase the expenditures on education simultaneously in order to maintain the fractions expressed in the Constitution. In other words, Article 164 attempted to limit all government expenditures, including those for military purposes, on the basis of these "proportions". In spite of the fact that each government service might be much more urgent at any one time, and not important at another, (and this is particularly true as far as national reconstruction

and relief are concerned). The total government expenditures could be easily increased in case of necessity through domestic borrowings or loans from abroad, however, the entire educational program could not change smoothly. Article 164, therefore, was by no means satisfactory and the spirit expressed in the Constitution could hardly be sustained.

When the Constituent National Assembly was meeting, Representative Tsiao Nai-chuan during the second reading of Article 164 proposed that the "proportions" should be based on the "total ordinary government expenditure" not on the "total amount of the budget estimate". However, this move was voted down.<sup>1</sup>

The same Article (164) continued:

Educational and cultural foundations established in accordance with law and their (funds and) properties shall be protected.<sup>2</sup>

This part seems also unnecessary for it would promote the revival of the old "appropriation funds system" which had existed from the middle of the nineteenth century, particularly during the decade of radical provincialism prior to 1928, in the absence of a strict budget system. Under the "appropriation funds system", each government function was exclusively financed by a definite appropriated source and the governments could not freely adjust total expenditures to total revenues, so that a chaotic financial situation obtained.<sup>3</sup>

The subsidy policy stated in the Constitution was similar to that in the Financial Act of 1946, and will not be reproduced here.

In Chapter Xlll of the Constitution, Basic Policy, an article

---

1. Ma Da-ying, p.15.

2. See the Chinese text.

3. Cf., Ma Da-ying, Pp 14-5.

specifically forbade the revival of Likin, thus expressing the aversion to the Representatives, who themselves had suffered from this sort of taxation twenty years ago.

Article 148 stating that:

Within the territorial boundaries of the Republic of China, all goods shall be permitted to circulate freely.

The Constituent National Assembly was convened three months after the passing of the Act of 1946. But, the articles concerning government finances in the Constitution were essentially the same as the Act of 1946 and no further National Financial Conference was called to revise the Act.

## Chapter XLV

## Enforcement of the Act of 1946

Introduction

Several months before the Constituent National Assembly was held, the conflicts between the Nationalists and the Communists became more and more severe

The Nationalists attempted to direct the Communist troops under power given them by the "Program for Peaceful National Reconstruction" of the Political Consultation Conference, but without success. The Communists refused to join the Constituent National Assembly because the Nationalists would neither relinquish the veto power in the Assembly about to convene, nor would they accept the Communists' proposal that the majority of the Assembly should be elected on a different basis than that of the delegates who were appointed ten years ago, when the Communist power was on the decline.

In November 1946, the Assembly was held and attended by the original representatives and delegates from the Kuomintang, the non-partisans, and two small political parties. The Communists and two other minority political parties refused to take their seats in the Assembly. This Assembly, therefore, not only showed the complete breakdown of the "peace talks" between the Nationalists and the Communists through "political means", but also showed that China was again entering into a time of great warfare, a civil war on a scale hardly smaller than that of the last international one.

While the political situation worsened as time went on, the Central Government could not balance its budgets and was forced to utilize a Fapi inflation to defray the tremendous war expenditures. Under such circumstances, the provincial and Hsien finances were hopelessly weakened, and the Central Government had to assume the major costs of the provinces and the Hsien. This action in turn increased substantially the degree of the ruinous Fapi inflation. In a word, the post-War provincial and Hsien finances were destroyed by both the political tragedy and the monetary crisis.

A) Rehabilitation in Provincial and Hsien Finances

Kiangsu is one of the most prosperous provinces of China. The conditions of agriculture, education, industry and commerce in general were better than those in any other province before the War. This Province in wartime was entirely occupied by the Japanese until V-J Day. From then on the Province was put under military administration, until the beginning of 1946, when the Provincial and Hsien governments were rehabilitated. The following materials are arranged to display all finances in the once enemy occupied provinces, during the transition period from wartime financing to the enforcement of the Act of 1946.

The paragraphs below are adapted from "The Financial Rehabilitation and the Enforcement of the Act of 1946 in Kiangsu", by Mr. Cheh Tung who was at that time the head of the Department of Finance of the Kiangsu Government.

Provincial Finances

Cheh Tung described the task of financial rehabilitation in Kiangsu as difficult "to find as the end of a mass of silk thread".

From August to December 1945, this Province was under partial military administration, and the cost of the Rehabilitation of the Provincial Government was assumed by the Central Treasury, because the wartime financial scheme was still in effect and the Provincial Government (as in other provinces) had not yet been authorized to levy taxes, while the Central Government itself did not collect any tax revenue from this Province during these months.

The first post-War budget of the Province was drawn up for 1946. All the revenues of the Province were directly assigned from the Central Government. However, these funds were estimated by no means accurate, because the Kiangsu Government did not yet know what the actual needs would be, particularly since a "confused phase" existed in a considerable part of Northern Kiangsu, where Communist guerilla troops were stationed.

For the sake of convenience, the following Table compares the provincial expenditures for 1936 with those for 1946 in Kiangsu, by which a rough idea of the post-War provincial finances may be obtained.

TABLE XXXVII

Individual Expenses as a Percentage of the  
 Total Expenditures of the Kiangsu Govern-  
 ment in 1936 and 1946 <sup>1</sup>

Expenditures for	1936	1946
Administration	9.73	3.42
Judicial administration x	10.39	
Police protection	13.19	22.12
Financial Administration	4.51	0.26
Education	20.53	7.04
Construction	19.81	1.45
Debts	14.33	
Cost of Living Allowances to government employees		62.82
Others	7.52	2.81
Total	100.00	100.00
Total amount (yuan)	27,939,763	6,001,424,000

x The cost for judicial administration had been assumed by  
 the Central Government since 1942.

The most significant expenditure in the post-War provincial  
 and Hsien finances was the "cost of living allowances" which had originated  
 in the late War years. The "cost of living allowances" were paid  
 to the government employees, including the teachers of the public schools,  
 because of the steady rise in prices. This expenditure was later ex-  
 tended to the poorer high school and college students for their board and  
 room.

---

1. Cheh Tung, Pp 31-33.

Students in China are probably more politically conscious and enjoy a unique position compared with any other country. Traditionally, the student-class has played one of the most characteristic political roles in Chinese history, particularly in the Republican era. This class has made a great political contribution to the nation, but, as long as they are still in the institutes they are not socially productive and thereby, are not taxpayers of the state.

The government's had less apprehension in asking the taxpayer for an increase in their expenditures if the funds were to be spent on education or to support the non-producer-students, because the taxpayers traditionally believed that the students should not work as labourers but should be financially supported by the public.

The "cost of living allowances and police protection alone amounted to 85 per cent of the total expenditure of the Kiangsu Government in 1946.

#### Hsien Finances

By September 1945, the Hsien governments had gradually recovered in Kiangsu. However, the Hsien governments had no money available for their expenditures because they were not to impose any tax until 1946. The Provincial Government thus in November of the same year, promulgated the "Rule of Temporary Borrowings" for the Hsien governments. It was not until February 1946 that this Rule was abolished.

The borrowings were carried out between the Hsien governments and the local chambers of commerce, banks, and wealthy citizens. During these four months, total debt was 1,634,446,076 yuan - 30,000,000 yuan

per Hsien on the average.<sup>1</sup>

The funds for the repayment of these debts were provided by the Provincial Government which in turn asked for Central Government subsidies in advance at the beginning of 1946.

In 1946, the Hsien governments in Kiangsu drew up their budgets. For a better understanding, Table XXXVII sums up the comparison between the budgets of 1936 and 1946, though minor taxes and expenditures are not stated in detail. The budget of 1946 does not include the financial affairs of those Hsien where Communist troops were stationed.

It can be seen in Table XXXVII that before the War, the Hsien governments had heavily depended on the surtax on land while revenue from the public properties was of little importance. But, at present the Hsien "autonomy taxes" were the greatest revenue; and receipts from public properties came next because the Hsien governments administered those properties, the owners of which had died in the war.

Among Hsien expenditures, that for education was the greatest before the war, but now it was of little importance, because the cost for police protection, subsidiary salaries and the emergency reserve fund totalled 82 per cent of the total in the Hsien budgets; moreover, the public schools had begun to collect tuition, which was not stated in the budgets.

---

1. Cf., Cheh Tung, Pp 35-8.

TABLE XXXVII

Revenues and Expenditures as a Percentage of  
the Total in the Hsien Budgets of 1936 and  
1946<sup>1</sup>

Revenue from	1936	1946
Hsien autonomy taxes	9.7 x	38.7
Farm land tax	73.9	22.4 xx
Public properties	0.5	26.8
Donations		4.3
Subsidies from the Provincial Government	5.2	0.9
Others	10.7	6.9
Total	100.0	100.0
 Expenditure for		
Administration	11.5	6.5
Education	32.5	2.6
Police protection	20.4	15.5
Construction	8.0	1.9
Subsidiary salaries		53.8
Reserve for emergency pur- poses		12.8
Others	27.6	6.9
	100.0	100.0

x Including Hsien title deeds tax, butchering tax, and Hsien sur-tax on only.

xx Including other revenue grants from the Central Government.

1. Cf., Cheh Tung, Pp 35-8.

B) Enforcement of the Act of 1946Provincial Finances

From July 1946 on, the Act was enforced in each Province.

The provincial revenue sources were largely reduced, in comparison with the pre-War situation. Because of the continuous Fapi inflation and the political crisis, the provincial governments as a whole could no longer restrict their expenditures, especially so far as the subsidiary salaries were concerned. The following selected materials will illustrate the post-War provincial financial difficulties.

The political situation in Kiangsu in 1946 was worse than that in the previous year. Only 31 out of 63 Hsien in this Province were under the Provincial Government's control; 17 were in a confused administration, the other 15 Hsien were entirely in the hands of the Communists.<sup>1</sup> In other words, the Kiangsu Government had lost one half of its total revenue sources even if it still had the same financial power as before the War.

One estimate made by the Kiangsu Government in regard to the enforcement of the Act of 1946, shows the critical financial difficulties in the latter half of the fiscal year of 1946, which reads as follows:

---

1. Ibid., p. 42.

## Kiangsu Provincial Financial Estimates

for July to December of 1946 <sup>1</sup>

Unit: yuan

## Revenue from:

20% of the land tax	9,372,553,160
50% of the business tax	<u>1,317,242,568</u>
Total Revenue	10,689,795,728

## Expenditure for:

All provincial expenditures other than the subsidiary salaries	656,584,257
Subsidiary salaries	8,215,060,000
Supplemental expenditures for January to June 1946	<u>4,806,208,820</u>
Total expenditure	13,677,853,077
Expected required subsidies from the Central Government	2,988,057,351

The Anhwei Government had originally made budgetary estimates for the entire fiscal year of 1946 totalling 5,130 million yuan. However, this Government, like other provincial governments, could not control the cost of the subsidiary salaries which already totalled, from January to May 1946 only, 3,000 million yuan. After the Anhwei Government had introduced the Act of 1946, it required a subsidy of 6,500 yuan from the Central Government because its total revenue was lacking that amount.

---

1. Ibid., Pp 42-3.

Hsien Finances

After the Hsien government had enforced the Act of 1946, their revenues increased considerably, because the Hsien revenue share of the land tax was increased to 50 per cent of the total land tax (before June 1946, the Hsien governments were allotted 15 to 25 per cent of the land tax from the Central Government). The Central Government originally allotted 15 to 20 per cent of the business tax to the Hsien, now, the Hsien could have 50 per cent of this tax from the provinces. Previously, the Hsien title deeds tax was 25 per cent of the total central rate, at present, the entire title deeds tax went to the Hsien only. The other former revenue grants, except that of the succession duties from the Central Government were cancelled under the new Act, but these sources had less significance in Hsien finance.

In case of Kiangsu, it was estimated that the Hsien total revenue in July to December 1946 was 460 per cent of the actual revenues received during January to June of the same year. Therefore, Hsien governments could more easily meet their expenditures.<sup>1</sup>

In Chekiang, the Provincial Government called a Provincial Financial Conference to solve the administration problems in enforcing the new Act. The resolutions suggested means of lessening the financial burden of the Provincial Government and the poorer Hsien. It was proposed that 30 per cent of the main Hsien tax-sources, such as the land tax and the business tax, be handled by the Provincial Government to subsidize the poorer Hsien.

The most significant part in the resolutions was that dealing

with education. It was recommended that the funds for the lower grade schools should be partly provided by the Hsien governments and partly provided by the "Distribution" method in all villages and towns. The people's assemblies were to administer the "Distribution" method and the Hsien governments were to be the supervisors.<sup>1</sup>

### Conclusion

A strong Hsien financial system had been originally recommended by Sun Yat-sen early in 1924, but it had not been realized until 1940 when the New Hsien System was put into effect. At the Financial Conference of 1946 the powers and the responsibilities of the three levels of government once more considered, and the Constituent National Assembly settled all the controversies concerning the financial powers of each level government and provided a final clause according to which the provinces could no longer control the nation's finances to any important extent.

It is unfortunate that when the theory of Balanced Power was put into practice for the first time after heated debates in the past twenty years, the political crisis and the monetary failure divorced this theory from reality: the original purpose, national reconstruction, was no longer the primary goal.

The Act of 1946 was still in effect in 1947, 1948 and 1949 when the Nationalists, who had dominated China for more than twenty years were fast losing out, and the Communists were on the way to the complete domination of the State. There were minor changes made by the Nationalists during these eventful years, but they will not be discussed in this Thesis.

Selected References

## CHAPTERS VIII, XIII and XIV

English:

Text of the Constitution of the Republic of China, translated by Hsieng-chih Ho', Shanghai, Commercial Press, September 1947, first edition; November 1947, second edition.

## Periodicals in Chinese:

Financial Records, Shanghai, Financial Review, July 1946.

Financial Records, Shanghai, Financial Review, October 1946.

Ma Da-ying, Comments on Article 164 of the Constitution of 1946, Shanghai, Financial Review, October, 1946.

Tung, Cheh, Financial Rehabilitation and Enforcement of the Act of 1946 in Kiangsu, Shanghai, Financial Review, October 1946.

## Periodicals in English:

China Handbook, 1937-1945.

## C O N C L U S I O N

Chapter XV - Conclusion

In this concluding chapter some striking features of the evolution of Chinese provincial and Hsien financial systems and their relationships with the Central Governments will be summarized. The following paragraphs are arranged for the purpose of stressing the trends of change from 1912 to 1946.

After the Opium War, western culture for the first time so greatly influenced the old nation, that it played one of the most important roles in her recent history; the Ch'ing Government sent its officials to European countries to investigate their government systems; and also sent students to Europe, particularly to England and France. While western practices were being applied, strong provincial governments and a national revolution were making headway against the absolutist Ch'ing Government. The influence of western culture, the rise of radical provincialism, the reluctance of the Ch'ing Government to adopt a constitution, the successive failures of the nation to deal with foreign affairs, the speedy growth of national revolutionary feeling, and the lack of a sound taxation basis for the state together produced a peculiar environment which not only led to the ultimate downfall of the Ch'ing Government, but determined the circumstances against which the Republican leaders had to struggle.

A) The Fluctuations in the Financial Powers  
of the Three Levels of Government

For thousands of years, China had experienced a single government financial system in which only the central governments had power to

administer the financial affairs of the state; the provincial and local governments were merely agencies, collecting and disbursing the central revenues. The emperors were not unlike conquerors in the eyes of the provincial and local governments. The financial tradition of the past was based upon a slogan, "Pu Tien Tze Shia, Mo Fee Whang Tou", or "All land beneath the sky belongs to the throne".

From the middle of the nineteenth century, however, this powerful monarchy in China had gradually dwindled with the growth of importance of the provincial governments in both political and financial fields. The year 1912 witnessed the ultimate downfall of the Chinese empire.

Confronting the Republic the problems of financial development were largely a matter of political conflict. Following the death of Yuan Shih Kai, the country was ruled by a number of warlords who were termed by Sun Yat-sen in 1924 the "small emperors", or we might say, the small conquerors. The financial administration was, as a matter of course, put under a different government control, the provincial governments now being supreme. This trend changed in 1928 when the Nationalists accomplished the unification of the country. The years 1928 to 1934 were a period of settlement that followed the struggles between the central and provincial authorities. These two levels of government now undertook together the responsibility for the nation's finances, and a "bi-government financial system" resulted.

Not until 1934, did the nation develop a "tri-government financial system" in which the Hsien governments joined the Central and provincial governments to take care of financial affairs. This development, in the writer's interpretation, was the fruit of the impact of the

conflicting financial powers of the Central and provincial governments. It was expected to yield a permanently peaceful settlement. This interpretation is confirmed by the Resolution of the Financial Conference of 1946 which restored few provincial financial powers from the wartime policy, and by the Constitution of 1946 which favoured the Hsien rather than the provinces, allowing the former greater power to levy taxes.

The eventful and painful years that followed 1934 still saw progress in the nation's finances as a whole. Particularly, a sound local financial system set up during the Eight Years War is admirable. Such progresses would have continued if peace had followed. So far as the provincial finances were concerned, the attitude of the Nationalists was more or less adversely prejudiced.

#### B) Political and Financial Trends Before 1934

The financial developments of the Republic up to 1934 were largely a matter of readjustment of the political and financial trends which had evolved since 1864 under the Ch'ing Government. From 1864 to 1912, there had appeared two great tendencies, political and financial, which created considerable financial embarrassment for the Republic.

The political tendency was the decentralization in military administration. The Ch'ing Government ordered the provinces to train new troops for the state, particularly after the War with Japan in 1894. This military training, in later years, not reduced the power of the Central Government in the fields of politics and finances, but also initiated that most undesirable system in Chinese military administration by which the troops were in fact completely commanded by their own officers, instead of acting under order of the Central Governments. This trend was

one of the basic factors that brought about the overthrow of the Ch'ing Government in 1911.

When China entered the Republican era, Sun Yat-sen was no longer the de facto leader of the country: Yuan Shih-kai, the most capable and powerful military leader in the late Ch'ing period, became the President of the New Republic. Nevertheless, Yuan himself experienced the same difficulties of the Ch'ing Emperor in that, by 1916, he was already incapable of directing his troops to cope with the revolts. With the downfall of Yuan Shih-kai, the Northern Military Group, Yuan's handiwork, split into several factions, and a period of warlordism then appeared in the decade following 1917.

In this decade, the provincial finances were released from Yuan's extremely centralized financial system. The provinces under a number of warlords monopolized all the revenues raised in their districts for their own purposes. As a result of this radical change in financial administration, the central and local finances were hard pressed. During the same decade, though several central governing bodies came and went, none of them was powerful enough to enact a practicable financial system for the central, provincial, and local governments. In short, during this decade, military power was law and totally governed all the affairs of the state. Financial administration was no exception.

Because the interests and opinions of the various war-lords were never reconciled, civil wars followed. Almost all of the revenues were devoted by the warlords to military uses. The financial power of the provinces was independent indeed, but the other levels of government finances was practically destroyed. Under such an environment, to realize a

reasonable financial system for the state was impossible.

Bearing in mind the abuses of warlordism, in 1924, Sun Yat-sen drew up a "Fundamentals of National Reconstruction" which became the organic law of the National Government in the same year in Canton. In this project, Sun Yat-sen recommended the principle of Balanced Power for dividing the rights of the various levels of government in the Nationalist China which was expected to come. According to the theory of Balanced Power the position of the provinces was tacitly considered to be an intermediary between the Central and Hsien governments. This proposal was the basic principle of the Financial Conference of 1934, which worked out the Demarcation of the Provincial-Hsien Taxation System. The provincial governments, not only were forbidden by the Financial Conference of 1928 to administer the military affairs, but also were directed by the Financial Conference of 1934 to transfer a considerable portion of their annual income to the Hsien governments. The year of 1934 not only witnessed the end of the prolonged provincial struggles against the central authorities after several decades, but also saw the beginning of the attempts of the Nationalists to realize the Balance Power theory.

The other or financial tendency which developed prior to 1912 was the overall expansion of governmental obligations. In the late Ch'ing period, the provincial governments were required to supply a more effective police service to replace the old; and to provide new public educational facilities to supplement private institutes which were concerned only with Chinese literary works. The other major expansion in provincial obligations was the military program which has been described in the preceding pages. One must remember that when these new obligations were

referred to the provinces, there were no funds for such activities provided by the Ch'ing Government. The provincial governments, therefore, developed surtaxes on the central levies, such as those on farm land and salt. The Likin levies were also essential for these purposes. Furthermore, they raised the assessment of the old levies or imposed new levies, such as the imposts on merchants, transportation facilities, improvements, and title deeds. There were no systematic planning of these expanded obligations and revenue collections. As a result, the provincial financial system developed confusedly and the tax burden on the people was never considered as a whole. Still, the tax sources widely explored, particularly during the decade of warlordism after the Republic had come into being.

The Financial Conference of 1928 first effectively redistributed the tax sources and obligations between the Central and provincial governments. The Financial Conference of 1934, further distributed the nation's tax sources to the Central Government, provinces, and Hsien in accordance with the theory of Balanced Power. The Hsien tax sources were wider than those of the provinces. The obligations of both the provinces and Hsien were similarly described. From 1934 on, the custom developed that the Hsien governments provided elementary schools while the provinces would provide high schools and colleges. The Hsien governments were to look after public works, communications, and public health in the areas within their respective jurisdiction, while the provinces were responsible for the inter-Hsien affairs and works.

During the decade of warlordism, the provincial authorities merged the Hsien finances to strengthen their own positions. But after

1928, and particularly after 1934, there was no possibility of annexing the finances of the Hsien. This was because the provinces surrendered their military power to the Central Government and their budgetary deficits were paid off by the central treasury. Consequently, financial co-operation emerged among the Central, provincial, and Hsien governments for the first time.

After 1928, the Central Government controlled the provincial budgetary procedure. Parallel with this, a general subsidy system was established in order to stabilize the provincial and Hsien finances. The adjustments in revenue sources and financial obligations of the provinces succeeded. Apart from the pros and cons of the budgetary control and a general subsidy system, the provincial and Hsien finances did move in the direction of greater stability and wider resources after the Nationalists came into power.

### C) Trends in Provincial Financial Power

From 1912 to 1926, except for the rise of provincial dictatorships over the nation's finances immediately following the collapse of Yuan's centralization, nothing worthy of discussion occurred. China is not completely averse to provincialism, however, its lack of democratic spirit virtually nourished the growth of warlordism. The warlords rarely provided services to the people, but were preoccupied in the use of force. As a result, no plans were made for revenue collection and public welfare, even military budgets were chaotic.

1926 to 1928 was a period of struggle between strong provincial government and the newly founded National Government. In 1928, the nation was finally unified by the Nationalists. They granted relatively great

financial power to the provinces, as proposed in their Financial Conference of 1928. Because of their fear of a possible revival of warlordism, they set up a Financial Control Department subordinate to the Chairman of the Central Government, which was to supervise the provincial budgetary procedures. The provinces themselves could no longer exercise freely their financial power.

From 1942 on, provincial finances were incorporated into the central finances. This ended in 1946 when another Financial Conference was called, which restored a few provincial financial powers. In the same year, the new Constitution, which regarded the provinces as mere dependents of the Central Government, was adopted. The provinces, which had been the most powerful governing bodies of the state from 1864 to 1928, when they had lost free financial power, now, in 1946, were stripped power and the last vestiges of their authority.

#### D) Trends in Hsien Financial Development

In the years following 1928, the Hsien finances were still directed by the provinces, though the local independence was particularly emphasized in the Fundamentals of National Reconstruction.

The Hsien governments were tacitly permitted to impose the Chuan levies and surtaxes on provincial levies in the five years after 1928. By 1937, the Hsien Chuan levies and other surtaxes totalled up to 90 per cent of the aggregate Hsien income.

After the outbreak of the War, the most Hsien resorted to the "Distribution" method in order to meet their extraordinary expenditures.

Not until 1940 when the New Hsien System was introduced did they develop their finances on an adequate basis, levying new taxes of

greater significance. This wartime Hsien financial scheme was continued in the post-War years, and in 1946, both the Financial Act and the Constitution confirmed the independent position of Hsien finances. In other words, the financial policy of the Nationalists was to divorce the Hsien finances from the provincial scheme and to place the provincial scheme under the control of the Central Government.

E) The Role of the "Unsuccessful"  
Financial Conference of 1934

The Financial Conference of 1934 was the most striking step on the road to detailed planning of finances by the Nationalists. While there had been numerous preceding changes in the Central-Provincial division of powers, this Conference reversed all Chinese financial tradition by authorizing the Hsien governments to levy important property taxes, such as the land tax and the improvement tax. Further still, it proposed "revenue-transfers" among the three levels of government, in order to secure financial cooperation. Though little of this plan was carried out, its finding seemed to be the climax of the reconsideration of the powers of the three levels of government. When, finally, the Financial Conference of 1946 was called to reconstruct a peacetime system from the wartime framework, this new outlook was accepted in full. And, the "unsuccessful" Conference of 1934 made its impression at last.

Conclusion

In the financial history of the Republic, one governmental expenditure has been outstandingly important throughout the entire development of the nation's finances. In the case of the Central Government, it was military expenditures; in the case of provinces and Hsien, the cost of police protection. Taking the relatively stable situation from 1928 to

to 1937, police protection in some cases absorbed as much as 50 per cent of the total provincial and Hsien revenues. After 1946, however, the greatest expenditure in the provincial and Hsien budgets became the cost of living allowances. This new burden plus the old cost of police protection together required more than 80 per cent of the total provincial and Hsien spendable funds.

Before the last Sino-Japanese War, a general subsidy system was set up to assist provinces and Hsien governments in local reconstruction after the civil war against the warlords. But, subsidies from the Central Government after the War had ended, had to be almost entirely devoted to the ever increasing cost of living allowances and other governmental services were neglected.

Before 1937, the provinces and Hsien usually stabilized their finances, balanced their budgets, and performed their responsibilities. After 1946, however, the finances of these two levels of government became chaotic in the extreme. This was inevitable because of political crisis and destructive inflation.

In the whole chain of financial programs one important Nationalists' platform had not been accomplished by the end of their domination. This was the readjustment of the levying methods of provincial and Hsien taxes, such as the farm tax. Some proposals had been made in this field before the ascendancy of the Communists. But, at present, these adjustments are still awaiting a satisfactory solution which will put a systematic and understandable burden on the various classes of taxpayer.

Thus, we see that the Chinese Republic, by a series of breaks

with financial tradition, has succeeded in redividing the powers of her three levels of government; at the moment of success, however, this accomplishment had become a mere digression, for civil war and inflation have destroyed the structure.

... E N D ...

## B I B L I O G R A P H Y

Chinese

Ben Yu-sing, Hsien Finance, Chungking, Commercial Press, February 1945, First edition; Shanghai, Commercial Press, November 1945, Shanghai-first edition; April 1948, Shanghai-second edition.

Cheng Nien-chung, Local Self-Government, Chungking, Commercial Press, April 1942, first edition; July 1944, fourth edition; Shanghai, Commercial Press, September 1945, Shanghai-first edition; July 1947, Shanghai-second edition.

Chia Teh-huei, Financial History of the Republic of China, Chungking, Commercial Press, November 1941, first edition; Shanghai, Commercial Press, August 1946, Shanghai-first edition; July 1947, Shanghai-second edition.

Lo Yu-tung, The History of Likin in China, Department of Social Science, Academia Sinica, Non-series No.6, Shanghai, Commercial Press.

Yen Wen-chin, Wartime Bonds in China, Chungking, Financial Review, December 1943.

English

Cheng Shaw-kwan, The System of Taxation in China in the Tsing Dynasty, 1644-1911, New York, Columbia University, Longmans, Green & Co.; agents, London, P.S. King & Son, 1916.

Hawtrey, H.C., The Gold Standard in Theory and Practice, Longmans, Green & Co., Ltd., London, New York, Toronto, Calcutta, Bombay, Madras, 1927.

Ho Franklin L., Rural Economic Reconstruction in China, a paper presented to the Sixth Conference of the Institute of Pacific Relations, California, 1936.

Li Chuan-shih, Central and Local Finance in China, New York, Columbia University, 1922.

Pao Chao-hsieh, The Government of China, 1644-1911, Baltimore, The Johns Hopkins Press, 1925.

Shaw Kinn-wei, Democracy and Finance in China, New York, Columbia University Press, 1926.

## BIBLIOGRAPHY (Continued)

English (Continued)

The Constitution of the Republic of China, transl. Hoh Chih-hsiang, Shanghai, Commercial Press, September, first edition, November 1947, second edition.

Periodicals (Chinese)

Ben Yu-sing, The Central-Kiangsi Financial Problems in the Last Ten Years, Chungking, Financial Review, April 1945.

Chang Peh-yi, How to Maintain the Value of the Gold Yuan, Shanghai, Financial Review, August 1948.

Chang Peh-yi, Wartime Finance of the National Government, Shanghai, Financial Review, February, 1947.

Cheng Cheng-mo, New Land and Land Policy, Shanghai, Financial Review, November 1946.

Liang, Ping, Operation of the Issue Department of the Central Bank of China, Shanghai, Central Bank of China, Central Bankly Monthly, M October 1946.

Ma Da-ying, Comments on Article 164 of the Constitution of 1946, Shanghai, Financial Review, March, 1947.

Ma Da-ying, The Problems of the Improvement in Local Finance, Shanghai, Financial Review, October 1946.

Sun Shan-fu, The Arguments of Tax Rates on Land, Chungking, Financial Review, November 1946.

Tung, Cheh, Financial Rehabilitation and Enforcement of the Act of 1946 in Kiangsu, Shanghai, Financial Review, October 1946.

Yee Hong-ling, An Outline of Local Finance of Our Country, Chungking, Financial Review, April 1945.

Financial records, Financial Review, July 1946.

Financial Records, Financial Review, October 1946.

The Constitution of the Republic of China, transl. Hoh Chih-hsiang, Shanghai, Commercial Press, September, 1947, first edition; November, 1947, second edition.

## BIBLIOGRAPHY (Continued)

Periodicals (Chinese)-- Continued

Index Number, Shanghai, Central Bank Monthly, January 1948.

Periodicals (English)

China Handbook, 1937-1945, Complied by Chinese Ministry of Information, revised and enlarged with 1946 supplement, New York, MacMillan Company, 1947.

China Year Book, 1926, Tientsin, Tientsin Press, Ltd.

China Year Book, 1934, Shanghai, Northern China Daily News and Herald, Ltd.

Chinese Year Book, 1937 issue, Shanghai, Commercial Press.

International Year Book, 1928, New York.

Money and Banking, 1936-7, Vol.II, League of Nations.