The Taxation System of the Shansi-Chahar-Hopei Border Region, 1938-1945 [1]

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[1] Prepared by Maoism Library from https://www.jstor.org/stable/652028

SHANSI-CHAHAR-HOPEI was one of the largest of the Chinese Communist areas during the war against Japan and was the only one of the areas behind the Japanese lines to receive some sort of recognition from the National Government. [2] (Its boundaries were the Tat'ung-Taiyuan railway on the west and Taiyuan-Shihchiachüang-Techow railway lines in the south and it extended into Jehol and Liaoning in the north. The population under its control may have reached 20 million.) In its general level of administration, Shansi-Chahar-Hopei was probably the most advanced of the Communist wartime areas. Its government had started the earliest, at the beginning of 1938, and it was able to develop with less Kuomintang-Communist friction than other areas. It had more than the average proportion of educated officials since, as it adjoined the Peiping-Tientsin area, students or other intellectuals who decided to leave the occupied areas to take part in anti-Japanese work were most likely to come to Shansi-Chahar-Hopei. And, while much of the mountain base area west of the P'ing-Han railway was very primitive, Central Hopei had reached a fairly high level of economic and social development before 1937. [3]

The taxation system before the new government took over had been both inefficient and inequitable. (The efficiency of a tax may be assessed by the proportion of the resources taken from the public which becomes available to the government. Inefficiency may be the result of corruption, if a considerable part of what is taken from the public remains in the hands of officials and is not remitted to the government. But even an honestly administered tax may be seriously inefficient if the costs of collection amount to a considerable fraction of the yield.) Though the old land tax could, in principle, have been fairly satisfactory for a mainly agricultural economy, in practice there was quite a lot of corruption in collection and also a good deal of land was not recorded in the tax registers and so avoided taxation. Besides the land tax there were numerous miscellaneous taxes, most of which were both inefficient and especially onerous for the poor.

The Shansi-Chahar-Hopei Border Region Government abolished a large number of miscellaneous taxes and, in 1938, it relied for revenue on the land tax, on customs duties on trade with the Japanese occupied areas and on an internal loan which was issued in the summer of 1938.

By 1939 the land tax as the main source of revenue had been replaced by what was called the "equitable burden" system (*ho-li fu-tan*). The principle was to divide out a total tax assessment on the basis of estimates of ability to pay. The Border Region Government divided out quotas among the *hsien*, each *hsien* government divided out its quota among the villages

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[2] See George E. Taylor, The Struggle for North China (New York: Institute of Pacific Relations, 1940), p. 35.

[3] General Lü Cheng-ts'ao told the author in 1945 that he had found a steadily declining level of competence and efficiency as he moved farther west. His head-quarters had been in Central Hopei until a large-scale Japanese offensive in August 1942 forced him to move to the Peiyao area west of the P'ing-Han railway, and he had found the Peiyao area less efficient than Central Hopei. He was then transferred to command of the Shansi-Suiyuan Border Region which he found less efficient than the Peiyao area of Shansi-Chahar-Hopei. And finally, he had found that Shensi-Kansu-Ninghsia (the Yenan area) was even less efficient than Shansi-Suiyuan.

and, at the final stage, the elected village council divided out its quota among the families in the village. (The line of authority ran, Border Region Government-*hsien*-village, although in outlying areas a number of *hsien* were grouped under a chüan *chü* which counted as a branch office of the Border Region Government, while each *hsien* had *chü* offices which counted as branches of the *hsien* government.)

This type of taxation system had been used previously in other parts of China, for example by Feng Yü-hsiang in Kansu where the people considered it preferable to other forms of taxation. [4] And the Communists used a very similar system when they first took over Peking in 1949; tax quotas were set for the various trade guilds and it was left to the members of each association to divide the quota among themselves. Officials of the Shansi-Chahar-Hopei Border Region stated that their system had been introduced in Shansi by Yen Hsi-shan as a wartime measure.

The major advantages of this system were its extreme simplicity, which made it efficient, and its effectiveness against tax evasion. Within a village everyone had a fairly good idea of the economic situation of every family, and the power of the Communist Party organization, which controlled the army, would have prevented any powerful local family from refusing to accept the quota fixed by the village council.

The weak points were that the division of quotas at the higher levels depended on rough estimates, and to some extent on bargaining between *hsien* representatives and the Border Region Government and between village representatives and the *hsien* government. Also, there could be a lack of uniformity at the village level. In villages where the local gentry retained a good deal of influence the division of tax might be less progressive than the Border Region Government thought desirable and, conversely, in villages where power had passed to poor peasant representatives, there might be excessive taxation of the rich.

The other important change, which was general throughout the Communist areas, was a shift from money to grain as the main accounting unit. In Shansi-Chahar-Hopei the government kept its main accounts in terms of units of millet, with another set of accounts for money which was of less importance. Other grains were valued at equivalents in millet. The tax quotas were in terms of both millet and money and, in some areas, there were other assessments in kind. For example, in Central Hopei where fuel was scarce there was an assessment of grass for fuel. The village was responsible for its tax grain and could be called upon to deliver it to a *chü* storage depot.

On the expenditure side, all salaries were reckoned in terms of millet, while the army and all government employees were on a supply system which provided all necessities. The small part of salary which was paid in money was only pocket money. The supply officer for any unit would draw the allowance for his unit from the government, the grain for direct consumption and the money for buying vegetables, oil, etc.

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[4] Information from Professor T. I. Dow of Florida Atlantic University who was living in Kansu at the time.

A very important part of the system was "grain tickets" (*liang p'iao*) which were issued to troops on the move or to anyone who was travelling. These were issued in multiples of eleven ounces of millet, half a day's standard ration. Troops on the move could go to any village, present their "grain tickets" and draw on the village store of tax grain. When the village had to account for its taxes it could either deliver the grain or else "grain tickets" showing that it had already been used on government account. And, since the "grain tickets" did not require transportation, the village preferred to account for its taxes in this way.

Thus, troops anywhere in the Region could get supplies locally through the regular tax system. The only complications arose when military developments, such as a Japanese offensive, produced a heavy concentration of troops in a poor area. The demand might then go beyond the regular tax quota of the area and supply officers would have to negotiate with the villagers for advances of grain against promises of future repayment from government stocks.

The Border Region Government obviously realized that the system was of vital importance and concentrated its best administrators on implementing it. The accounting system was proper double entry with separate sets of accounts for millet and for money. And the rules were enforced fairly strictly. Every month each organization had to submit its accounts for the past month and its budget for the next month, and the finance department would not issue delivery orders or "grain tickets" for the next month until the accounts for the past month had been received. This rule was only relaxed during Japanese offensives when all units would be issued with "grain tickets" for their estimated requirements.

Large parts of this system were common to all the main wartime Communist base areas in North China. An important result was to insulate the army and the government administration almost completely from the effects of currency depreciation. Each of the main Communist areas had its own currency. Because almost all the external trade of Shansi-Chahar-Hopei was with the Japanese-occupied areas their currency (SCH$) was most closely related to the currency of the Federal Reserve Bank (set up by the Japanese-sponsored North China Government in 1938), which started to depreciate rapidly in 1942 but, in the spring of 1944, the SCH$ was still worth about five Chüngking dollars, judging from the relative prices of items common to both areas such as eggs or pork. The Shensi-Kansu-Ninghsia currency had depreciated even more than National Government currency by 1944; Shansi-Suiyuan currency was in between Shensi-Kansu-Ninghsia and Shansi-Chahar-Hopei; while depreciation was said to be smallest in Shantung. But the effects of currency depreciation were much less serious in the Communist areas than in the National Government areas because, for all important purposes, the Communist regimes operated in terms of a non-depreciating accounting unit of grain.

In 1941 Shansi-Chahar-Hopei shifted from the "equitable burden" system to a more regular income and property tax, the "unified progressive tax" (*tung-yi lei chin shui*). As early as 1926 a Comintern program for China had included a directive, "(b) Abolish the numerous forms of taxes imposed upon the peasantry and substitute for them a single progressive agricultural tax"; [5] however, Shansi-Chahar-Hopei seems to have been the only area which actually put it into practice. The "Collected Laws" of the Shansi-Hopei-Honan-Shantung Region say nothing about taxation except for import and export taxes, while reports of a meeting on financial problems in the Shantung Region in early 1946 imply that a land tax was the main source of revenue. [6] The most likely reason for this was that the new tax system required more paper work and filling in of forms than the equitable burden " system or a land tax and was, therefore, only possible in a region where the standard of administration was especially high.

The particulars of this tax system are taken from the Collected Laws Now in Force (*Hsien-hsing fa-lieh hui-chi*), issued by the Executive Committee of the Shansi-Chahar-Hopei Border Region Government in December 1945. This gives a set of basic regulations passed by the first session of the Shansi-Chahar-Hopei Border Region Congress on 21 January 1943. (Though the Congress was, in theory, the highest order of government, the military situation had prevented a meeting before January 1943. In this case it was ratifying regulations which had already been applied.) The book also contains a number of later detailed regulations and instructions issued by the Executive Committee, which explain points on which difficulties or uncertainties had arisen and make a number of changes in the method of assessing incomes from business, which had obviously caused problems as towns were recaptured from the Japanese. (From 1941 to 1943 the Region had included only one *hsien* capital, Fu P'ing. This had never been larger than many villages and had been almost completely destroyed by the Japanese in 1938. In 1944 a number of other *hsien* capitals were recovered and, by December 1945, the Region included the large city of Kalgan.)

The first two sections of the law are general preamble. Section III states, "For adaptation to the necessities of wartime, the consolidated progressive tax shall be levied in the three forms of cash, grain and grass for fuel. The above-mentioned levy of grass for fuel shall be confined to the Central Hopei district." The remaining sections of Part 1 then define the types of income and property liable to tax.

> Section IV. Property shall be liable to or exempt from tax according to the following schedule: to property tax.
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> (a) Cultivated land, gold and silver, cash held at home, are all liable to property tax.
> (b) Uncultivated land, fallow land, uncultivated sand bank, uncultivated mountain, forest land, land growing rushes, mountain land growing medicine, irrigation ditch land, house land, newly reclaimed land, houses, investments in industry and trade, shares in co-operative societies, investments in irrigation bonds, stored grain, jewelry, loans, cash deposits in banks, stores or co-operatives, animals, investments

[5] Theses on the Situation in China by the 7th Extraordinary Plenum of the ECCI, 22 November-16 December 1926. Quotation taken from Robert C. North and Xenia J. Eudin, M. N. Roy's Mission to China (Berkeley, Calif.: University of California Press, 1963), p. 139.
I should like to thank Professor Hsiao Tso-liang for calling my attention to this document.
[6] From materials in the Hoover Library.

in subsidiary home industries, tools, property outside the Border Region and all property not falling under clause (a) of this section shall not be liable to property tax.

Section V. Income shall be liable to or exempt from tax according to the following schedule:

(a) The following kinds of income are liable to tax:

(1) Land rent and agricultural income.
(2) Income from forests, income from growing rushes, and income from growing medicine on mountain slopes.
(3) House rent, rent of irrigation ditches, interest on loans, deposits and grain deposits, and all forms of interest except land rent.
(4) Income from companies either public, joint public and private, or private, from shops, warehouses, *tso fang* [shops producing what they sell], factories, mining enterprise, irrigation enterprise.
(5) Income from small trade and private business and from small handicraft industry.
(6) Income from temporary business.
(7) All kinds of income from enemy occupied areas or from rear areas, income from brokerage and all other kinds of income except directly from labor.

(b) The following kinds of income are exempt from tax:

(1) All living expenses and wages of party workers, army workers, government workers, co-operative managers, mass movement workers, postal workers, miscellaneous workers, soldiers, teachers, doctors, manual workers and employees who have left regular production.
(2) Income from subsidiary home industry and animals.
(3) Income of carriers, income of individual artisans.
(4) Income from allowances to the families of army men or government workers and from war pensions. The income from small trade or handicraft industry started by disabled soldiers on their pensions is also exempt from tax.
(5) Income from legally established co-operatives, income from public welfare enterprises, and income from the cultivation of land or vegetables by army or government officials above the *chü* level who have left normal production.
(6) Income from newly reclaimed waste land.
(7) Income from bonds.
(8) Income from the Border Region Bank.
(9) Income from newspapers and bookshops.
(10) Other income not falling under clause (a).

Later regulations state that, when dry land has been converted to irrigated land, the assessment should not be raised for a period sufficient to repay the expenditure, including labor, plus one year.

The next part of the tax law defines accounting units. The "standard *mou*" (*piao*-chü*n mou*) is defined as "the amount of cultivated land which on the average produces 10 *shih tou* of unhusked millet per year." Later regulations define the *shih tou* as equal to eight kilograms and standard unhusked millet as yielding 60 per cent. of husked millet.

The next unit defined is "wealth power" (*fu-li*). For the property tax four "standard *mou*" or taxable property to the value of 40 *shih tou* of unhusked millet count as one "wealth power." For income, every ten *shih tou* of unhusked millet, or the equivalent value, count as one "wealth power," but the cultivator of land can deduct one quarter of the gross product as expenses to arrive at the net income for reckoning "wealth power." In industry and trade, expenses shall be reckoned as 50 *shih tou* of millet per person engaged.

There is then a division of taxable "wealth power" into classes ranging from a 1st class (up to ½ "wealth power") to a 16th class (above 81 "wealth power"). A later clause explains that taxable "wealth power" is arrived at by deducting personal exemptions of 1.5 "wealth power" per individual in the family. For Central Hopei, where the level of production is higher, the personal exemption is 1.8 "wealth power," and *hsien* governments can grant personal exemptions of 2 "wealth power" to households of orphans and widows without labor power.

Other clauses deal with cases in which the members of a family are not living together, cases in which an individual has property in several villages, temple property (the temple counted as a household), businesses with branches (each branch was assessed separately), procedures for appeals on assessments and penalties for delays in payment.

The final stage is the conversion of "wealth power" into "points" (*fen*), according to a progressive scale which counts each "wealth power" in the 1st class as 0-8 "points", in the 2nd class as 0-8 "points," up to 2.1 "points" per "wealth power" in the 16th class. There is a tax table giving the "points" for total taxable "wealth power" up to 150 "wealth power."

The "point" was the unit determining tax payment, though there was some variation in payment per "point" in different areas to make allowance for good or bad harvests or especially serious damage from Japanese attacks. The rates in 1941 were from 1-2 to 1-3 *shih tou* of millet plus $1.50 (local currency) plus some fodder for animals per "point." In 1942 the rates were 1.326 to 1.8 *shih tou* of millet. In 1943 the average rate was reduced to 0-93 *shih tou* of millet per "point" and in 1944 it was further reduced to 0.85 *shih tou*, which was also fixed as the maximum for 1945. [7]

The rates for 1941 and 1942 give a very high level of taxation. These years were probably the most difficult for the Shansi-Chahar-Hopei Region. The advance of the Japanese fort and blockade line system was weakening Border Region Government control in the more fertile areas round the main mountain base, which itself suffered severe damage in a Japanese "mopping up" campaign in 1941. 1942 was especially difficult because a major Japanese offensive in August forced all the regular troops from the fertile Central Hopei area to move to the mountainous Peiyao area west of the P'ing-Han railway, while a drought reduced crop

[7] The rates for 1941 and 1942 are from information given to the author by members of the Executive Committee. The rate for 1943 was given in a report by the Border Region Government Chairman, Sung Shao-wen, to representatives of the Border Region Congress in February 1944. The rate for 1944 and the maximum fixed for 1945 are mentioned in some of the supplementary tax regulations.

yields. The wide variation in rates per "point" in 1942 probably resulted from concessions made to areas which had suffered most severely in 1941, or which were most seriously affected by drought. The abandonment of cash assessments after 1941 probably reflects the increasingly rapid depreciation of the currency.

The reduction in 1943 was possible because some of the Central Hopei troops were able to return to Central Hopei, while others moved to Shansi-Suiyuan, and because a drastic economy campaign, which had started in 1941, eventually cut the number of civilian government employees by slightly over half and made some reduction in the size of the regular army. In 1944 the area under Border Region Government control was expanding rapidly and, though there was an expansion in the size of the regular army, the base area and the resources for its support were expanding still more rapidly.

The later regulations reflect a concern with the problems of extending the tax system into areas newly recovered from the Japanese. In dealing with business, the principle finally adopted was to tax the business rather than the individual or family. A table fixes tax rates on business varying from 3 per cent. on profits of less than 10 *shih tou* of millet to 30 per cent. on profits of over 500 *shih tou* with fixed standard expenses for men and animals employed. There is also a list of tax-exempt industries which the government wished to encourage. These comprise paper-making, mining, iron-smelting and founding, manufacture of agricultural implements, oil pressing, manufacture of salt, alum and sulphur, leather and fur industry, hand spinning and weaving, dyeing, soap manufacture, match manufacture and pottery manufacture.

Finally, in October 1945, there was a departure from the system of having only one tax, apart from taxes on external trade which were for regulation as much as for revenue. A tax of 6 per cent. was levied on land transfers and taxes of 30 per cent. and 40 per cent. on wine and tobacco products.

The introduction of the "unified progressive tax" required a new survey of agricultural land in terms of "standard mou." The Border Region Government did not have the personnel to make a complete survey, and the work was delegated to the village councils on the basis of a sample survey from the center. In 1942 a number of noticeboards could be seen on the edge of fields saying that some particular field had been assessed at a certain number of "standard mou." A village council could make reasonably accurate estimates of the relative productivity of different fields within the village area. By providing one or two samples in each village to define an over-all standard, the Border Region Government was able to obtain a fairly accurate complete new survey for tax purposes with the minimum of skilled personnel.

A supplementary regulation of April 1945 dealing with the application of the system to newly recovered areas gives some figures on the actual rates of taxation. This says that, in 1944 in the Peiyao area, when the levy per "point" was 0.85 shih tou, not counting village surcharge, [8]

[8] The village had a right to levy a surcharge for village purposes on the Border Region assessment but the *hsien* did not.

the highest rate on landlords was 52 per cent. of income, on rich peasants 18 per cent. on middle peasants 10 per cent. and on poor peasants 4 to 5 per cent.

It is possible to make a rough check on these figures because one of the sample areas studied in J. Lossing Buck's *Land Utilization in China* [9] is Fu P'ing *hsien* which is in the Peiyao area. The book gives the proportions of land under various crops, the yields in quintals per hectare, the average size of five classes of farm (from "small" to "very large") and the average proportion of the area which was rented in each class.

Lossing Buck's figures are not entirely satisfactory because he has obviously taken his sample from the most easily accessible, and most fertile part of the *hsien*. He gives 14-2 per cent. of the area as growing rice, which was actually grown only in the main Sha River valley. There may also have been changes in productivity, though the effects of war damage in reducing production and the effects of the Border Region Government's policies which tended to increase it would partly cancel out. It is also necessary to make assumptions about the average size of family and the relative prices of different grains. For the following calculation it is assumed that there are five persons in the average family and that, if millet is taken as 1, then wheat or rice should be reckoned at 1.5 and corn or kaoliang at 0-75.

Lossing Buck gives the average area of the "small" farm as 0-84 hectare and the average proportion of rented land as 52-3 per cent. The total yield works out at a millet equivalent of 115 *shih tou* which equals 192 *shih tou* of unhusked millet and the area is 19-2 "standard mou." The rent on 52-3 per cent. of the area at the legal maximum of 37-5 per cent. comes to 37.6 *shih tou* of unhusked millet, leaving the farmer with 164.4 *shih tou.* The area owned by the farmer is 9-16 "standard mou." The calculation of tax is then as follows:

From ownership of 9·16 "standard *mou*" at 4 *mou* per "wealth power"			2·29
Total crop (unhusked millet equivalent)		192 *shih tou*	
Less 25 per cent. expense allowance	48		
Rent	37·6	85·6	
Taxable income		106·4	
"Wealth power" from income at 10 *shih tou* per "wealth power"			10·64
Total "wealth power"			12·93
Less personal exemption allowances for five members of family			7·5
Taxable "wealth power"			5·43

[9] University of Chicago Press, 1939.

Calculation from the rates for different classes, or the tax table, shows that 5-43 "wealth power" are equivalent to 5.702 "points." At a tax rate of 0-85 *shih tou* of millet per "point" this works out to 4-85 shih tou, which is equivalent to 8-083 *shih tou* of unhusked millet, which is 5.24 per cent. of income after paying rent.

Similar calculations show the tax on five-member households to be 15.2 per cent. of income for Lossing Buck's average "medium large farm, 20-5 per cent. for the "very large" farm and 45 per cent. for a landlord family owning 300 "standard mou" and living entirely on rent.

These figures agree reasonably well with those given in the supplementary regulations. The higher figure of 52 per cent. given in the regulations for the maximum taxation on landlords is understandable, as there may have been families owning more than 300 "standard mou" in the more fertile parts of the Peiyao area such as the Fu To Ho valley in P'ing Shan *hsien*, though such families must have been rare because even the income from 300 "standard mou" goes beyond the tax table.

The tax system was an instrument of social policy as well as a means for raising revenue. Its most important feature was a rather sharp discrimination against income from rent, since the landlord had to pay both income tax on his rent and property tax on his land. Thus, in the examples worked out above, the income before tax of the landlord family is 675 *shih tou* and that of the "very large" farmer renting 43-8 per cent. of his land is 593 shih tou, but the landlord's tax is more than double.

This discrimination, combined with the effectively enforced 37-5 per cent. maximum on rents, gave landlords a strong economic inducement to sell land to their tenants and to put their capital into trade or industry, where it did not incur property tax or, even better, into the forms of industry which were completely tax exempt.

This process of landlords selling out to their tenants and re-investing their capital in other ways did actually start, not only in Shansi-Chahar-Hopei, but also in other wartime Communist base areas where the "equitable burden" tax system could be manipulated to produce the same sort of result. The more competent and energetic farmers could buy land and become prosperous and, at the time, were praised as "labor heroes" in the Communist press. (It would be a very interesting, though at present impossible, piece of research to investigate the fate of the "labor heroes" of the period from 1940 to 1945 under the subsequent more extreme Communist agrarian programs.)

If one projects the natural results of a continuation of the wartime Chinese Communist policies, one can envisage a different possible line of development for China which provides a standard by which to judge the results of actual Chinese Communist policies. A decision on policy is a choice among alternatives and one cannot make a proper judgement about the policy actually chosen except by comparison with other possibilities which were rejected.

Even with tax rates lower than their very high wartime levels, slight modifications of the tax regulations would have maintained a situation in which land was a very poor investment for someone who got rent from it and a fairly good investment for someone who cultivated it. The result would have been a land reform on a "land to the tiller" (*Keng-che yu ch'i t'ien*) basis.

And the system would have prevented any new concentration of land ownership, except in so far as the more efficient farmers expanded their holdings towards the most efficient size for a family farm.

Some landlord families would have become farmers and some would probably have fallen into poverty, but others would have successfully made the transition into trade or local industry. And a system which made land a poor investment and put effective restrictions on usury would have had important effects on economic development. One influence slowing economic development in pre-Communist China was that a high proportion of savings went into non-productive investment. The purchase of land or the use of funds for usury created transfer incomes from rent or interest for the investor, but did nothing to increase production. Making the main forms of non-productive investment unprofitable would have channeled savings into productive investments.

The resulting organization of agriculture would have retained the family farm as the basic unit of production, with the development of co-operatives where they would be really worthwhile to the individual farmer, such as for marketing or purchases, and with technical assistance from the government. Co-operatives of this type were developing rapidly in the Communist areas during the war against Japan and some of the regional governments were doing quite a lot to provide technical assistance in spite of interruptions by military operations. In Shansi-Chahar-Hopei, many villages had shifted to improved varieties of poultry, better varieties of seed were coming into use and the government department of agriculture was working on methods to deal with serious insect pests.

The development of agriculture along these lines would almost certainly have been more productive than under actual Communist policies. Similar reformist policies produced a rapid rise in agricultural productivity in post-war Japan and in Taiwan after 1949, even though, in both cases, agriculture started from a higher level of technical efficiency than on the Chinese Mainland. Articles in the Chinese Communist press at the end of 1957 admitted that individual middle peasants had been producing 20 per cent. or 30 per cent. more per acre than the great majority of collectives. [10] And the difference might well have been greater if the government had continued to encourage and assist the most efficient individual farmers as "labor heroes" instead of penalizing them as "rich peasants."

With agricultural production 20 or 30 per cent. higher, the regime could have maintained the same level of investment in heavy industry, transportation and large-scale public works, while leaving the peasants better off and allowing the development of a private sector of local light industry. The resulting growth of national income would have been considerably more rapid than under actual policies. The effectiveness of the wartime taxation system refutes the argument, which the Chinese Communists themselves do not use, that collectivization was necessary to extract from the agricultural sector of the economy the

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[10] E.g., editorial in Jen-min jih-pao (People's Daily) (Peking), 11 October 1957, translated in Survey of the China Mainland Press (SCMP) (Hong Kong: U.S. Consulate General), No. 1635; Teng Tzu-hui, Director of CP Rural Work Department, in Jen-min jih-pao, 14 November 1957, in SCMP, No. 1659; and survey of farming in Hopei province, in SCMP, No. 1626.

resources necessary for industrialization. The Chinese Communists knew from their wartime experience that they could extract large resources from an agriculture based on family farms.

The poorer peasants are the only group who may have gained through actual Chinese Communist policies. On the alternative line of development, they would not have had the resources to buy land as the landlords sold it, and many might have lost their land to become under-employed laborers as the more prosperous peasants expanded their holdings towards the optimum size for family farms. They could only have improved their economic position if there had been a very rapid expansion of local industry providing alternative employment. And, though the alternative line of development would have produced a more rapid expansion of non-agricultural employment than actual policies, the expansion might not have been fast enough to absorb the surplus labor from agriculture.

However, collectivization has benefited the poorer peasants only by giving them a larger share of a smaller agricultural output. Collectivization does nothing to remedy a situation in which the number of people trying to get a living from a given area of land is greater than the number really required to cultivate it efficiently. It can only conceal the problem by reducing efficiency and increasing the labor required for cultivation.

There are indications that the Chinese Communist leaders considered the possibility of the sort of alternative line of development outlined above. In 1944 and 1945 Mao Tse-tung told foreign visitors to Yenan that the Chinese Communist Party did not propose to return to its former policy of confiscating and redistributing land. And the attacks on Liu Shao-ch'i in 1967 accuse him of having advocated in 1950 an uncollectivized agriculture in which most farmers would be rich peasants and an expanding private sector in industry. [11]

The decisions which were actually taken are consistent with a set of priorities which rate economic progress or the material well-being of the Chinese people lower than the concentration of power in the hands of the Communist Party or conformity with orthodox Communist doctrine. It would have been hard for the Communist Party to maintain the same degree of exclusive control in a society where agriculture was dominated by prosperous, land-owning peasants and in which there was a growing middle class in industry and trade. A policy which only eliminated landlordism, while giving landlords the opportunity to transfer to other occupations, would have conflicted with the doctrine which asserts the necessity of class war and the liquidation of landlords as a class. And collectivized agriculture as an essential part of the transition to socialism is a theme which has been repeatedly stressed in Chinese Communist publications.

The tax system of the wartime Communist areas is also relevant for a judgement of National Government public finance during the same period. The steadily accelerating depreciation of the currency played a major part in demoralizing the National Government organization and in alienating popular support. And the National Government had to depend

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[11] *E.g.,* "Struggle between the Two Roads in China's Countryside," Peking Review, No. 49 (1 December 1967).

very largely on inflation for finance because it failed to organize a proper system of taxation to replace and supplement its pre-war revenue from the ports and cities occupied by the Japanese.

The land tax system in the National Government areas has been described by Arthur N. Young. [12] He cites an estimate by Professor J. Lossing Buck that about a third of all land was not even on the tax registers and quotes a remark by Sir Robert Hart that this tax "has hitherto been levied in a way that takes most from the people and hands least to the government, while both exaction and malpractices flourish under it." He then continues,

> Hart's criticism of the system was still true in 1937. In the spring of that year the government made a start by adopting a basic plan for land reform and land taxation. But the outbreak of fighting a few weeks later prevented action.
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> Thus, the government entered the war with a tax system that failed to draw significant revenue from the largest sector of the economy. This seriously handicapped any move to increase tax revenue to cover war costs. As a result, the inflation was worse than it might have been. Significantly, a major measure of the Communists, after their take-over on the mainland, was a ruthless levy on income from land, which helped them to control inflation.

Mr. Young advised taxation in kind as early as September 1937 but nothing was done until the end of 1940, and the system which started to operate in 1941 was both inefficient and inequitable.

What the Communist experience shows is that the fighting was not a valid reason for giving up the reform of taxation. All the Communist areas except Shensi-Kansu-Ninghsia were seriously affected by the fighting. In Shansi-Chahar-Hopei the extreme center of the Peiyao area may have been 40 or 50 miles from the nearest Japanese garrison, but this maximum distance was smaller in P'inghsi and smaller still in Central Hopei where the terrain presented few obstacles to Japanese raids. During the major offensives of 1941 and 1943 Japanese troops penetrated to almost every village in Peiyao and P'inghsi while, for a time in 1942, overt Border Region organization disappeared in Central Hopei. [13]

The fact that, under these conditions, it was still possible to introduce the complicated tax system described above shows that it would certainly have been possible to introduce some less complicated tax reform in areas which saw no military action except for air raids on the cities. Actually, the war was an opportunity for reform rather than an obstacle to it. The patriotic enthusiasm of the early war years would have made it possible to recruit the necessary new officials among educated people who, in peace time, would have been unwilling to face the discomforts of work in the countryside. And opposition from the vested interests against reform could have been denounced, with justification, as sabotage of the national war effort.

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[12] China's Wartime Finance and Inflation, 1937-1945 (Harvard University Press, 1965), pp. 22-26.
[13] In 1961 a Japanese informant told the author that he knew from personal experience that a Japanese officer could safely move unescorted through the countryside in Central Hopei in September 1942.

It is likely that the policy decision against tax reform was taken by default, though no one at the higher levels of the National Government facing the long-term alternatives which were actually open. These were, either to introduce a new and efficient tax system, or else to become involved in accelerating inflation which would demoralize the government's organization and weaken its support. At any moment, however, further inflation offered an easy short-run solution for immediate financial difficulties, while tax reform would have required an immediate effort for gains in the more remote future.

In contrast to this, the Communists gave a high priority to long-run problems of public finance. After 1938 almost all the costs of the war against Japan were covered by taxes and it was only in the last stages of the civil war that the Communists used inflation as an important source of revenue. Though Communist currencies depreciated between 1938 and 1945 the effects were minimized by the use of a non-monetary accounting unit for almost all public finance. This Communist superiority in public finance was an important factor in their eventual victory and one which is often overlooked.