

# China a Victim of Shylocks

BY CHARLES DAILEY

WHEN Chang Ying Hua threw up his job as Finance Minister the other day, leaving but two members of the last Cabinet of Li Yuan-Hung, he said the game was hopeless. Some one, he remarked must find a way to bring the people of China to a realization of the direction in which the so-called republic was heading or the foreign nations would step in. Since the passing of Chang Ying-Hua the powers in control of what remains of a government in Peking have been looking about for a Finance Minister. It has been increasingly difficult to interest a man of real financial ability in such an office, and unless a man is a financial wizard he cannot hope to do otherwise than to become the same failure as those who have preceded him in the job.

After some looking about and many discussions the choice seemed to fall upon Wang Keh-Ming, President of the Bank of China. Mr. Wang said nay-nay several times, but the pressure was insistent. Finally, whether with his consent or not, he was nominated for the post of Acting Finance Minister by the rump of a Cabinet that sits in Peking, vice ministers being for the most part sitting around the council table. It is all of course, very illegal, but nothing is legal in China these days and the chances are the tenure of a Finance Minister would not be challenged if he was able to turn himself into a modern Herrmann and by waving his magic wand gather dollars from the air.

Mr. Wang was in a very dubious mood. Finally he was induced to start for Paotingfu and Loyang for a conference with Tsao Kun and Wu Pei-Fu. He had met Tsao, but not Wu. He had a considerable admiration for the latter and did not wish to take hold until he had formed the acquaintance of Wu Pei-Fu and obtained his approval of whatever plans he had in mind. Mr. Wang left Peking Monday and expected to be gone the better part of the week. It is known, by reason of their military requirements, that Tsao Kun and Wu Pei-Fu are great consumers of the public funds. Certain railway and other revenues are diverted for their benefit, and it is quite possible that Mr. Wang wanted to know beforehand just what revenues they were willing to free from their clutches in order that he might estimate how much money he could get his hands on, and having obtained it just how much these two warlords would require from him monthly. Mr. Wang seems to have an intensely practical mind, which is a vital asset to a banker. Marshal Tsao talked with him at length, but dissuaded him from seeing Wu Pei-Fu.

Chang Ying-Hua left an inheritance to his successor, whoever he may be, in the form of a balance sheet and a look into the future. He showed, for example, as already detailed in the *Review*, that the secured and unsecured debts of China, not counting a floating debt that no one has attempted to estimate, amount to \$1,891,780,028, including \$66,000,000 of defaulted interest. He saw no hope of China escaping bankruptcy. He remained on the job long enough to prepare a series of tables showing the helplessness of China's position, and in this he performed a good service.

But the tables prepared by Mr. Chang did not list all of China's indebtedness. The mere item of floating debt is an elastic and probably staggering one. Then there are the arrears of pay both in the civil and military divisions. Some of these arrears extend to eighteen months. At the time of the Dragon Boat festival, when Chang Ying-Hua decided the game was not worth the candle, it was necessary to go out into the highways and byways and to get money in dribs and dabs to tide over the period in order to avert strikes by the police and other necessary employees. Most of this money was obtained from shylocks at rates running as high as ten percent monthly. What the next rate will be no one can estimate.

As his valedictory Mr. Chang sharpened his pencil and compiled another table. This showed the outstanding unsecured loans, classified according to their rates of interest. These he computed on an annual basis. They do not include the loans made in June or various other sums amounting to millions gathered up here and there at any rate the lender was disposed to exact. But the list of loans he tabulated is as follows:

10 %	9,836,000
12 %	5,097,000
14 %	1,508,000
15.6%	1,013,000
16.3%	47,000
18 %	15,642,000
19.2%	10,644,000
20.4%	793,000
21.6%	4,583,000
24%	400,000
76 %	97,000
No interest	42,271,000
Total	\$494,525,000

A footnote explains that some of these loans were made on a daily basis. Those without interest were chiefly overdrafts and like accommodations which it was expected to repay immediately, each Minister of Finance passing over a crucial period by emergency loans from friends. In due time interest will be exacted for these.

Chang Ying-Hua went out of office without making any recommendations as to the solution of China's problem. He admitted frankly that it was too much for him. In compiling even a partial list of the obligations he had done more than most of his predecessors. In all China no one seems to have any concrete idea of how the financial stability of the Middle Flowery Kingdom may be restored. Tsao Kun, the political boss of the Chihli party, under whose domination the crisis has been reached, although it had been in the making since long before the overthrow of the Manchu dynasty, admits he is not a financier, although he has accumulated great wealth in the years he has been in politics, yet far less than others who have had even less power.

When asked the other day for his views on the matter of the restoration of the national credit he replied: "I advocate the creation of a commission of representative Chinese to consider the nation's foreign and domestic debts, with a man at the head of it enjoying the confidence of both the foreigners and the Chinese. A sinking fund should be created and terms for the gradual extinction of the debt fixed. The country has abundant revenues, once they are restored to the proper channels."

Note one striking phrase in the expression of Tsao Kun. It is also the view of the Chinese as a whole: a commission of representative Chinese. Nothing will be so much opposed by the Chinese as the suggestion of a foreign commission, a joint commission or even the presence of a single foreigner on the commission. On this point the Chinese appear to be united. Many of the leading men will welcome foreign advice and voluntary assistance, but not one has expressed a willingness for foreign participation as coming from the initiative of the Powers.

It will be many months before China can make even a start toward financial rehabilitation. There will be political crises and possibly civil wars. Talk of foreign intervention and naval demonstrations—whatever the latter may mean—may alarm a few individual Chinese, but the masses know that it is too big a problem for any combination of powers to tackle and they will see it through in their own way. Even Japan has come to this conclusion and is the meekest of the meek these days.

China knows there can be no financial aid until a reorganization plan is worked out by the Chinese themselves. And until that point is reached the money-lenders of Shanghai and other Chinese cities will increase their interest charges to a point commensurate with the risks involved. They know their own people. China has untold resources; she is bankrupt but far from insolvent. And what she has she is going to keep for her own. The talk of foreign intervention will soon die down. There are breakers ahead for the Ship of State in China, but they will come from the Chinese and not from the foreigners. Wise businessmen in foreign countries have taken note of this. Two large concerns have closed important branches within a month. Some saw the handwriting on the wall and got from under as long as a year ago. China sometimes is said to be anti-foreign. She may seem to be anti-foreign at times. The truth is that she is pro-Chinese. She has absorbed everything that has come into it.

There are many troubles in store for Wang Keh-Ming, or whoever else accepts the thankless job of Finance Minister. The stockholders of the Bank of China appear to be much opposed to their director-general taking hold in the emergency. They are apprehensive that there might be increased issue of the notes of the bank for the purpose of paying the current expenses of the Peking government and that in the end they might be left to hold the bag. These stockholders went so far as to prepare a memorandum begging Mr. Wang not to

Interest per annum	Principal
5.6%	\$ 17,355,000
6 %	96,904,000
7 %	32,407,000
7.6%	36,000,000
8 %	207,153,000
9 %	2,775,000

enter the Finance Ministry saying that in such event the branches and agencies might sever their connection with the head bank. The Shanghai branch was particularly insistent. It had been currently reported that the forces still trying to control the Peking government contemplated the issuance of \$6,000,000 of Bank of China notes to finance the presidential election and this is what excited the stockholders. According to the *Chen Pao* the bank already has a deficit of some \$30,000,000 (perhaps this means an issue of circulation rather than an actual deficit) and for that reason Mr. Wang was urged not to accept the office tendered him.

Whoever does take the job would do well to listen to the swan song of Chang Ying-Hua. He says that a permanent constructive plan must be outlined and followed. He believed that if Wang Keh-Ming assumed the office of Finance Minister and remained in the office long enough he would use his rich financial experience to put the government on a sound basis. Mr. Chang said his own brief tenure had taught him that a Minister of Finance must have a reasonably long period of service if he expected to accomplish anything of a really constructive nature. He thought a way out lay in the readjustment of foreign and domestic loans, but offered no concrete suggestion, nor was his idea new.

Mr. Wang labored under no illusions. That is why he wanted to pin the military leaders down in the matter of their requirements and to compel them to keep hands off the revenues if his office was to supply the funds for the upkeep of their armies. It is generally estimated that the expenses of the Peking government are about \$8,000,000 monthly and the revenues in the neighborhood of \$3,000,000 leaving a monthly deficit of \$5,000,000 a sum sufficient to discourage almost any financial man. Mr. Wang did a little figuring of his own and came almost to the same conclusion. He said in an interview in the *Yi Shih Pao*:

"If I accept the office of Finance Minister it will be on the condition that I shall be responsible for raising only such amount of funds as are sufficient to cover two months' pay for the police and soldiers of the Metropolis. I shall do so much and nothing more." He estimated that he would require to raise \$5,000,000. In this Mr. Wang made it clear that no constructive work could be expected of him and that he would be only a stop-gap. But he did offer a suggestion which if he is unable to follow may at least be of value to whoever actually takes hold of the office.

"I shall issue no more revenue stamps," he is quoted in the same interview, "because there are already too many issued by the government. It is estimated that the total amount of proceeds collected from this source is \$3,000,000 a year, but the amount of such stamps issued by the government in the last few months has amounted already to \$10,000,000."

That is an instance of the reckless financing to which China has been driven. She has mortgaged her prosperity for three years in advance to cover the requirements of a few months. Mr. Wang had also another helpful suggestion. He said there were many superfluous jobs in the Finance Ministry and that great economies were possible there. When Tung Kang was Finance Minister last summer the monthly expense of the Ministry was \$80,000, but now it has swollen to \$240,000. He said about 900 officials have been appointed to sinecures since the days of Tung Kang and that every one of these was an unnecessary employee.

What is true of the Finance Ministry is true also of most of the other departments of the government. Parliament also is a heavy drain on the exchequer. It is drawing high pay and higher allowances for doing nothing. Given a business administration, calling off the expensive and wholly fruitless military expeditions into Szechwan and Kwantung, stopping graft and waste in innumerable places and the groundwork will be laid for financial reform, and through it for the regeneration of the machinery of government. The mints are running wild with subsidiary coinage and these coins, once on a parity with the dollar, are now subject to a discount of 10 percent. It is rich pickings for the money-changer. But he is only a piker compared with the banker shylocks who are taking advantage of China's extremity. In many ways they are not to be blamed. The risk in advancing money is very great and they are perhaps justified in exacting a usurious return. Chang Ying-Hua pointed out that some of the loans have been made on a daily interest basis. That they run as high as 120 percent a year he has shown. Mr. Wang has been checking up on the inheritance left by Mr. Chang. He may accept the office; more likely he will not. If he does accept he will feel like the backwoodsman down in Maine in the days when it was a Prohibition state, but in the absence of a national law the regulation was loosely enforced. The woodsman remarked to a comrade: "Well, Bill, I am down to Bangor to get drunk, and gosh, how I dread it!"

Peking, July 21.