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## The role of cooperatives in Chinese economic reconstruction since 1928

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THE ROLE OF COOPERATIVES  
"  
IN  
CHINESE ECONOMIC RECONSTRUCTION  
SINCE 1928

By  
Alma Schocke  
"

Stockton

1946

A Thesis  
Submitted to the Department of Economics  
College of the Pacific

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In partial fulfillment  
of the  
Requirements for the  
Degree of Master of Arts

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APPROVED:

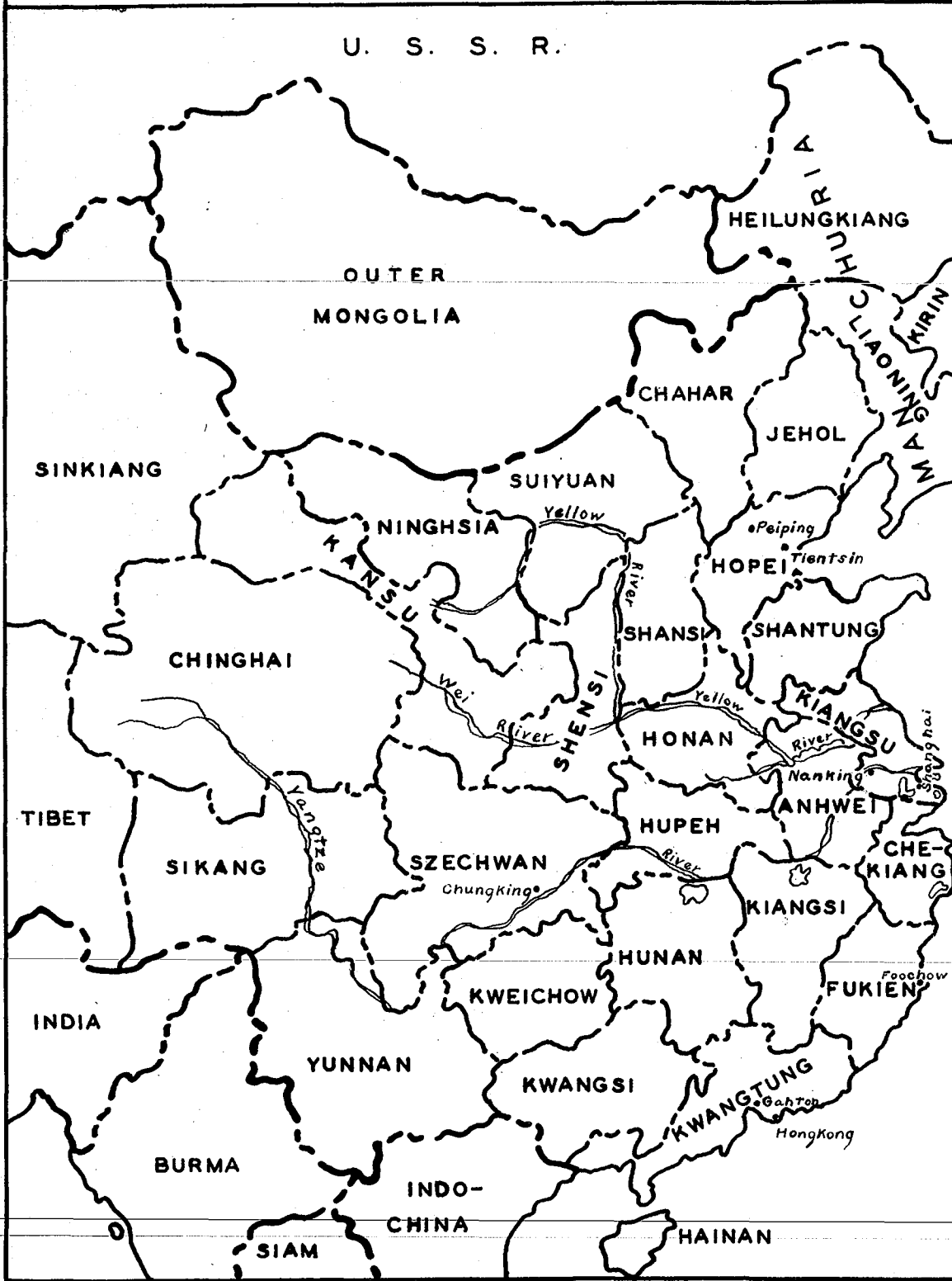
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# SKETCH MAP OF CHINA



PREFACE

The study of Chinese economic and social problems requires that certain fundamental Chinese conditions be kept constantly in mind by the Western student, lest he attempt to analyze from the contemporary economic and social viewpoints of his own country. Accomplishments and plans must both be considered in relation to what has gone before and what is within the realm of possibility under given conditions, rather than by comparison with accomplishments and plans in other countries where the basic situation is entirely different.

In this paper money is expressed in terms of Chinese National currency unless otherwise stated. Chinese terms that have no exact English equivalent have been explained in footnotes on the pages where they have first appeared.

Chinese statistics are a veritable Chinese puzzle and must be accepted as an approximation at best. The Chinese do not have our regard for exactness, and they are handicapped by the lack of trained statistical workers and a shortage of mechanical means of calculation. Statistics, for the most part, are as likely to be understated because of incompleteness as to be overstated through the inclusion of estimates. The most reliable sources available have been used and have been cited.

Reading for this paper was begun during the summer of 1941 at the Workshop in Far Eastern Relations at Mills College, sponsored jointly by the college and the Institute of Pacific Relations. Miss Dorothy

Borg, Mr. W. L. Holland, Mr. John Oakie, and Dr. George E. Taylor, all of the Institute of Pacific Relations in 1941, were of great help in suggesting materials and in making them available. Miss Ida Pruitt of Indusco, Inc., and Mr. Maurice Colombain of the Cooperative Service of the International Labour Office also furnished some of the materials not readily obtainable.

Dr. Charles Norman, under whose direction the paper was written, made many helpful suggestions, for which the writer is most appreciative.

Alma Schocke

Sacramento, California  
June, 1946

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## INTRODUCTION

The Chinese Republic, proclaimed in 1911, has had stupendous handicaps to overcome in its efforts to assume the place due a large, populous, and cultured nation. That it had made definite progress was apparent from its record in World War II, when its national unity and spirit sufficed to withstand for eight years the attack of a militarily superior enemy. The very size and age of the country, with its sense of antiquity and tradition, have made it move more ponderously than newer and smaller nations.

When the Nationalists assumed the responsibility for modernizing the country in 1928, they faced disheartening conditions. Yet from the beginning they had an ideal, the essence of which they expressed by the term "reconstruction". Sun Yat-sen, the revered revolutionary leader, emphasized this key word in all of his teachings. One of his books, The Outline of National Reconstruction, was said to have "served practically as the constitution of Nationalist China." Three other books, which together have been known as the Program of National Reconstruction, Dr. Sun called The Program of Psychological Reconstruction, The Program of Social Reconstruction, and The Program of Material Reconstruction.<sup>1</sup>

Chiang Kai-shek, China's great wartime leader, has maintained the continuity of the ideal first enunciated by Dr. Sun. A collection of Chiang's speeches bore the title, Resistance and Reconstruction, and

<sup>1</sup> Leonard Shih-lien Hsu, Sun Yat-sen, His Political and Social Ideals, pp. 38-39.

in the foreword the explanation of the title was as follows:

In almost every speech made by Generalissimo Chiang between July 17, 1937, and January 12, 1943--the first and last items in this volume--the theme of "Resistance and Reconstruction" is stressed. The dual chord was sounded from the start, in the first two messages he delivered after the outbreak of the war; it has reverberated ever since in his utterances and it has been proclaimed China's national program during and after the war.<sup>2</sup>

Unfortunately for China, Dr. Sun wrote in general rather than specific terms, and he had certain natural changes of opinion through the years. Thus his precepts were sufficiently ambiguous to lend themselves to various interpretations. No group can be found in China today that does not pay tribute to Dr. Sun's ideals of reconstruction. The Communists, who were a part of the Kuomintang in the beginning, are no exception. The only conflict is in the interpretation of Dr. Sun's words and the steps to be taken to implement them. Since the Kuomintang and the Communists have this common ground, a sincere attempt on both sides to go back to fundamental principles should make some workable compromise not impossible.

The word "reconstruction" as used by the Chinese does not mean the restoration of a former system. "Construction" perhaps would have been a more exact term; for a study of the plans for reconstruction reveals that what is envisaged is nothing less than the creation of a modern state in which the average Chinese may have an opportunity for a fuller life than he has so far enjoyed.

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<sup>2</sup> Chiang Kai-shek, Resistance and Reconstruction. Quotation from p. ix of the foreword, written by Chin-lin Hsia.

Reconstruction was the major aim of the Chinese Revolution. It was a patriotic slogan during the war with Japan, which accentuated the need for reform and rehabilitation and focused international attention on it. In peacetime Chinese reconstruction will continue to be of international interest, as world-wide reconstruction becomes a concern of the United Nations Relief and Rehabilitation Administration and of the Economic and Social Council of the United Nations Organization.

Cooperatives have proved to be of value in raising standards of living in many countries. The work of cooperatives in the Scandinavian countries and in England is perhaps best known; but before the war cooperatives in France, Italy, Czechoslovakia, Germany, India, and other countries had many accomplishments to their credit. In China cooperatives have frequently been advocated as a type of organization tending to promote the "People's Livelihood", one of the "Three Principles" of Dr. Sun.

Cooperatives alone cannot bring about reconstruction, although there is evidence available that a strong cooperative movement eventually has the effect of improving living conditions of entire communities, and in some cases has been an important factor in benefiting an entire country. Used in combination with measures to improve education, health, and transportation facilities, cooperatives could have great potential value for China.

The object of this paper is to place cooperatives in relation to the reconstruction movement as a whole, and to estimate the extent to which cooperatives are an effective instrument of economic reconstruction.

As the Kuomintang or Nationalist Party has been the governing power in China since 1928, this study is of necessity a description of co-operatives as a phase of reconstruction under the Kuomintang.

## Chapter I

ECONOMIC CONDITIONS UP TO THE NATIONALISTREVOLUTION IN 1928

Abject poverty like that suffered by most of the Chinese tends to be self-perpetuating, requiring the consumption of practically all income. Thus little or nothing remains with which to finance progress. In an effort to find means to relieve this intensive and extensive poverty, cooperatives were introduced into China by private philanthropic organizations a few years before the Nationalist Revolution. The experiment showed such promise that after 1928 the Kuomintang not only encouraged the spread of privately organized cooperatives, but also made the establishment of cooperatives a part of the program of several government agencies. It was not anticipated that cooperatives alone could combat poverty, but it was hoped that they would have a beneficial effect when used in conjunction with other methods to promote reconstruction.

Some of the conditions prevailing in China in 1928 which revealed the extent and degree of poverty, and which helped to shape reconstruction plans so that they included cooperatives, are described in this chapter. Most of the conditions are basically the same today, although the restoration of peace, it is hoped, should provide the opportunity to improve them.

### THE LAND AND THE PEOPLE

Three fundamental points to be kept in mind regarding China may be stated as follows:

1. The vast population, very densely settled in the limited fertile areas, is predominantly agricultural; modern economic and industrial development is negligible.
2. The family has been the most powerful and continuous social institution since ancient times, and it exerts a powerful economic and political influence.
3. The state in the modern and Western sense has existed less than twenty years; and its organization or even establishment has been handicapped by natural disasters and by sectional, traditional, and factional opposition, as well as by lack of experience and foreign aggression.

### Density of Population and Its Increase

As there has never been a complete census in China, all population figures represent estimates. The round number most commonly used is 450 million, although the official estimate in April, 1931, was 474 million.<sup>1</sup> A recent estimate for all China, including Manchuria, Inner and Outer Mongolia, Sinkiang, and Tibet, as well as Hongkong and the various international concessions, is that of Professor G. B. Cressey, who in 1944 arrived at the figure of 473,992,369.<sup>2</sup>

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<sup>1</sup> J. B. Condliffe, China Today: Economic, p. 5.

<sup>2</sup> G. B. Cressey, Asia's Lands and Peoples, p. 44.

China is a classic example of the operation of the Malthusian Law, that population increases more rapidly than the food supply and is kept in check only by natural disasters, disease, and social disturbances causing loss of life. That there will be little relief in China in the near future from the problem of overpopulation is predicted by David N. Rowe as follows:

It is . . . difficult to foresee any radical decrease in the Chinese birth rate during the next generation or two. As the death rate is likely to be lowered by the furtherance of internal peace and the institution of preventive medicine, it is not probable that China will soon emerge from her present overpopulation and accompanying economic poverty.<sup>3</sup>

Evidence of increase in the population has been generally observed:

Progressive subdivision of landholdings, the extension of cultivation to marginal lands on hillsides, further encroachments on the already depleted forest areas, crowding into towns, an increasing volume of migration northward to Manchuria and southward to such regions as British Malaya, a pushing out of the frontiers of settlement into the grasslands of Inner Mongolia, and a lowered standard of living—all these, while not conclusive and partly explainable by other causes, are presumptive evidence of increasing pressures of population upon available resources.<sup>4</sup>

Statistics from the National Bureau of Agricultural Research showed a 31 per cent increase in population between 1873 and 1933, with only 1 per cent increase in the area of farm land.<sup>5</sup> A survey of 150 farms in Yenshan County (Hopei) showed a decrease of 14.3 per cent in the size of farms in 13½ years, even though 13 per cent of the present generation

<sup>3</sup> D. N. Rowe, China Among the Powers, p. 32.

<sup>4</sup> Condliffe, *op. cit.*, p. 14.

<sup>5</sup> Franklin L. Ho, Rural Economic Reconstruction in China, p. 1.



had migrated.<sup>6</sup>

The significant point in a consideration of population is its density. Since China appears on maps to be a huge country, it is not generally realized that large sections are uncultivable due to mountains, desert, and erosion. There is a heavy concentration in the river valleys, and it has been estimated that six-sevenths of the total population lives in one-third of the territory. A density of 614 per square mile was found in Shantung, 657 in Chekiang, and 896 in Kiangsu; while the China International Famine Relief Commission found in certain parts of the Yangtze Valley 6,000 to the square mile.<sup>7</sup>

The family system has for centuries been the stimulating influence in the increase of population. The ritual of ancestor worship demands that there be male descendants to carry out the rites, that there be several sons in case the first does not reach maturity, and that early marriages be arranged. Concubinage has been another phase of the family system contributing to the high birth rate.<sup>8</sup>

#### Size of Farm Holdings

Of the vast population, 70 to 85 per cent is estimated to be agricultural.<sup>9</sup> The amount of farm land per family is unbelievably small, although holdings in the north are larger as a rule than those in the

<sup>6</sup> R. H. Tawney, Land and Labour in China, p. 44.

<sup>7</sup> Ibid., pp. 24-25.

<sup>8</sup> Walter H. Mallory, "Famines in China", The Annals, Vol. 152, November, 1930, pp. 96-97.

<sup>9</sup> Tawney, op. cit., p. 26.

south. Tawney stated the average for the whole country to be 24 mow<sup>10</sup> per family (3.6 acres); the average for the northeast (Manchuria), 127.5 mow (19 acres); and the average for Chekiang (typical of the south), 8.2 mow (1.2 acres).<sup>11</sup>

The average size of families to be supported on these small holdings is between five and six persons per family.<sup>12</sup> One study of the amount of farm land per head of population gave the following results: In 1865, 5.43 mow; in 1900, 2.67 mow.<sup>13</sup> Two other studies showed just over one-half and just over one-third acre per person.<sup>14</sup>

#### Fragmentation

Farmers in China usually live in villages and walk to their fields. An additional handicap is that the fields belonging to one farmer are seldom contiguous. A survey of 78 farms in Hopei revealed that there were an average of 6.1 plots to the farm; that the size of plots averaged 4.7 mow, with a minimum of .2 and a maximum of 34.0 mow; and that the distance of the plots from the farmstead averaged 1.78 li,<sup>15</sup> the nearest

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<sup>10</sup> A mow is roughly equal to 1/6 acre, although there are some local variations.

<sup>11</sup> Tawney, op. cit., p. 40.

<sup>12</sup> Ibid., p. 43.

<sup>13</sup> Condliffe, op. cit., p. 16.

<sup>14</sup> Tawney, op. cit., p. 44.

<sup>15</sup> A li is roughly equal to 1/3 of a mile.

being closely adjacent and the farthest being 6 li distant.<sup>16</sup> These scattered fields waste time and labor and hamper drainage, irrigation, and the control of pests.<sup>17</sup>

### Graves

The family system affects the land available for farming by requiring that much of the best land be devoted to graves. The most dense population is in the most fertile areas; and the more dense the population, the more space is required for graves. "The plowing up of China's old graveyards would provide sufficient rich grain land to furnish food for literally millions of people."<sup>18</sup> In some districts as much as 8 per cent of the land is in graves.<sup>19</sup>

### NATURAL CAUSES OF ECONOMIC DISTRESS

Among the natural causes of agricultural distress are flood, drought, and erosion. As was pointed out by Professor Tawney, the permanent menace of the Chinese farmer is water--either too much or too little. He called attention to the intricate system of canals, reservoirs, embankments, irrigation works, and wells, some of which were begun 3,000 years ago and

<sup>16</sup> Tawney, op. cit., p. 39.

<sup>17</sup> Ibid., p. 53.

<sup>18</sup> Mallory, op. cit., p. 97.

<sup>19</sup> League of Nations Council, Council Committee on Technical Co-operation between the League of Nations and China. Report of the Technical Agent of the Council on his Mission in China from the Date of his Appointment until April 1st, 1934, p. 19.  
(Hereafter referred to as the Rajchman Report.)

which are still for the most part being used, improved, or extended.<sup>20</sup>

Although some control of nature has thus been exercised for many centuries in China, it has not resulted in the harnessing of natural power for the maximum benefit of the people.

### Floods

Between 1920 and 1937 there were over 70 floods in China. The flood of the Lower Yangtze in 1931 was the worst in China's history, and 70,000 square miles were covered to an average depth of nine feet. The average length of time homes were submerged was 51 days, and the total loss was estimated at two billion Chinese dollars. Twenty-five million people were affected, which is approximately equal to the entire farming population of the United States.<sup>21</sup>

Dr. Walter H. Mallory explained the prevalence and destructiveness of floods by pointing out that the most densely populated areas are extremely flat in both North and South China. Most of the rivers carry great amounts of silt, which is deposited in the beds, forcing a constant heightening of dikes to keep the rivers within their courses. He stated:

It has truthfully been said that China's rivers flow on--not through--the plains, and I have often seen places where a stream bed was twenty or thirty feet above the surrounding country outside the dikes. Thus when a flood occurs, not only is a very wide stretch of country inundated, but the task of putting the river back into the elevated groove where it formerly ran is a prodigious one. In some cases this has been

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<sup>20</sup> Tawney, *op. cit.*, pp. 45-46.

<sup>21</sup> Helen Pratt, China and Her Unfinished Revolution, pp. 162-163.

impossible and the stream has been allowed to find a new course to the sea, as in the case of "China's Sorrow," the mighty Yellow River.<sup>22</sup>

Since this was written in 1930, the Hwang Ho or Yellow River has once more changed its course, when in 1938 it forced a new outlet to the sea about two hundred fifty miles south of its former mouth, which had been north of the Shantung peninsula.

### Drought

Dr. Mallory observed, however, that the worst famines in China have been caused by drought rather than by flood, and that in North China sometimes there is practically no rain over wide areas for periods of two or even three years. Both wells and streams used for irrigation dry up in the worst droughts.<sup>23</sup> In 1930 the Shensi Provincial Famine Relief Commission found that, largely because of drought, as high as 50 to 80 per cent of the land formerly cultivated in some hsien<sup>24</sup> had reverted to wasteland.<sup>25</sup>

### Erosion

Erosion has for centuries been a problem in the northwestern part of China, where the pressure of population has resulted in deforestation

<sup>22</sup> Mallory, op. cit., p. 94.

<sup>23</sup> Ibid., p. 93.

<sup>24</sup> Hsien is usually translated "county".

<sup>25</sup> Leonard T. K. Wu, "Rural Bankruptcy in China", Far Eastern Survey, Vol. 5, No. 20, October 8, 1936, p. 210.

and the cultivation of marginal land on many steep slopes. The loess soil found in this section is very fertile when irrigated but is especially subject to erosion under traditional methods of cultivation. Recently work has been started, with the help of an American soil conservation expert lent to the Chinese Government, to check the destruction of badly needed land by modern methods of reclamation and conservation.<sup>26</sup>

#### INTERNAL HUMAN CAUSES OF ECONOMIC DISTRESS

Economic distress in China, fundamentally caused by the pressure of population on the available land and by natural disasters such as flood, drought, and erosion, is intensified by certain factors more susceptible to control by man. Three types of human causes for economic distress are the predominant power held by landowners in rural areas; the low yields per man and per acre in agriculture, due to the failure to apply modern scientific methods; and the failure of the government to provide the stability and the service necessary for nation-wide prosperity.

#### Landlordism

While there have been few extremely large estates in China, the landlord class has and has had practically complete economic, political, and social control of all the country except the urban centers. Many

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<sup>26</sup> Cf. Walter C. Lowdermilk, "China Fights Erosion with U. S. Aid", National Geographic Magazine, Vol. 87, No. 6, June, 1945, pp. 641-680.

of the landlords would not be considered rich by American or European standards, and for the most part they are kindly, intelligent, and cultured; but they are the beneficiaries of traditions and customs that appear to the outsider as exploitation of the peasant class.<sup>27</sup> The land hunger of the Chinese farmer, combined with the philosophy of the family system which makes it a virtue to further the interests of the family regardless of the injustice to the public in general, has made the landlord-gentry extremely powerful and much hated and feared. Dr. George E. Taylor expressed the power of the landlords as follows:

China's great peasant population lives mainly by intensive farming, on small holdings; it has little capital and is the victim of pernicious usury, of illiteracy, ignorance, official corruption, and rapacious merchants. The secret of power in rural China is control of the land tax around which the whole structure of village and provincial government is built. The poor peasant finds that the usurer to whom he is in debt, the landlord to whom he pays half his crop for rented land, the tax gatherer to whom he pays taxes for his own small property, the village elder to whom he can appeal, the merchant who markets his rice, all are in league together--or even, at times, are the same person . . . The peasant, who has no way of protecting himself, lives on the margin of existence.<sup>28</sup>

More light is thrown on the position of landlords in rural China by the following quotation:

In every rural district the landlords, and the merchants and bailiffs whose interests are allied with theirs, are literate; the majority of the peasants are not. A large proportion of county magistrates and lesser officials, therefore, come from landlord families, and an overwhelming proportion have interests or connections allied to those of the landlords. Consequently, it is simply impossible to collect the land tax without the good will of the landlords, and

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<sup>27</sup> J. M. D. Pringle, China Struggles for Unity, pp. 38-39.

<sup>28</sup> George E. Taylor, America in the New Pacific, pp. 126-127.

usually this good will boils down to a simple proposition: The landlord must be called in to help; he must be allowed to pass on his share of the tax to the peasants, in the form of increased rent, and if the government wishes to increase its revenues, the landlord must be allowed to increase his also.<sup>29</sup>

Many of the earlier militarists and present army officers, as well as influential Kuomintang party members, are of the landlord-gentry class.<sup>30</sup> Their power increased during the war, since the Westernized industrialists and business men from the coast, who formerly opposed them on many issues, lost most of their national power when the Japanese took the coastal region.<sup>31</sup> It has been predicted that no reform of agrarian conditions can be expected from the Kuomintang Party as long as it is dominated by the landlord-gentry group.<sup>32</sup>

#### 1. Tenancy

Tenancy, according to a report of the League of Nations, is probably the "most disquieting" of the economic and social factors contributing to low productivity in China. Intensive studies completed before the League report was written in 1934 revealed that tenancy, especially in the central and southern part of China, was predominant. In the Yellow River Basin and to the north, 69 per cent of the farmers owned their land; 18 per cent owned part and rented part; and 13 per cent were tenants. In the Yangtze Basin and to the south, however, 40

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<sup>29</sup> Owen Lattimore, Solution in Asia, p. 106.

<sup>30</sup> Institute of Pacific Relations, Agrarian China, p. 107.

<sup>31</sup> Lattimore, *op. cit.*, pp. 77 and 104-105.

<sup>32</sup> D. N. Rowe, China Among the Powers, p. 53.



per cent were full tenants; 28 per cent part tenants; and only 32 per cent owned their land. It is in this section that 61 per cent of the total population live, and in some provinces the situation is much worse than the average. For instance, in Fukien 69 per cent of the cultivators were tenants, and only 9 per cent were full owners.<sup>33</sup> There was a very high percentage of tenancy around the cities, 85 per cent being tenants in the Canton Delta, and 95 per cent in the vicinity of Shanghai.<sup>34</sup>

It was observed that communism made the most headway and banditry was most prevalent in the provinces having the highest percentage of tenancy.<sup>35</sup> In Szechwan, while the tenancy was calculated to have been 43 per cent from 1929 to 1933, the most recent survey showed 47 per cent tenants, 22 per cent part owners, and 31 per cent owner-cultivators. For all of China, landlords form about 5 per cent of the total population but possess about 50 per cent of the cultivated land; poor peasants make up about 70 per cent of the population and own only about 20 per cent of the land.<sup>36</sup> Professor J. Lossing Buck, the distinguished agricultural economist of the University of Nanking, found in North and East Central China that earnings by tenants (adult male workers) were 20 per cent less than earnings by owner-cultivators.<sup>37</sup>

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<sup>33</sup> Rajchman Report, op. cit., p. 18.

<sup>34</sup> R. H. Tawney, Land and Labour in China, p. 37.

<sup>35</sup> J. B. Condliffe, China Today: Economic, pp. 35-36.

<sup>36</sup> Rowe, op. cit., p. 45.

<sup>37</sup> Tawney, op. cit., pp. 100-101.

## 2. Rent

There are many varieties and rates of rent in force in China.

Cash payments were reported to be the least usual, and payments in kind, the rule. Formerly the landlord contributed a part of the cultivator's capital in seeds and in a few cases in livestock and implements, but apparently this system has not been universal in recent years. A study made in Chekiang in 1926 estimated that the farmer paid 45 per cent of his produce to the landlord. A report to the League of Nations quoting this percentage stated that it was an under-estimate, as rents had been rising steadily since the study had been made; and that furthermore it did not include deposits paid by the tenants and seldom recovered, customary gifts to the landlord, and payments for the transport of rent-in-kind to the landlord's farm or agency. This last was said sometimes to amount to as much as an extra 8 per cent on the rent.<sup>38</sup> Figures quoted by Tawney showed that share-rent or crop-rent averaged about 10 per cent interest on the value of the land.<sup>39</sup> An economist attached to the United States Department of Agriculture wrote in 1943, "Rents of from 45 to 60 per cent of the produce were not uncommon, and other exactions in the form of presents and deposits not recovered were added."<sup>40</sup>

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<sup>38</sup> Rajchman Report, op. cit., p. 18.

<sup>39</sup> Tawney, op. cit., p. 66.

<sup>40</sup> Owen Dawson, "Agricultural Reconstruction in China", Foreign Agriculture, Vol. 7, No. 6, June, 1943, p. 125.

### 3. Credit

The margin on which the average farmer works is so small that he needs a short-term loan practically every year to tide him over between the sowing season and the harvest season.<sup>41</sup> There has been no systematic provision for credit; instead, the peasant, who in good years barely makes a living, in times of emergency secures credit wherever he can find it. As recently as 1937, the year the Japanese war began and fourteen years after cooperation had been introduced into China, a study of the sources of credit showed a wide variety:

Table I

Sources of Farm Credit in the North China Provinces<sup>42</sup>

(Figures Showing Percentages)

<u>Sources</u>	<u>Hopei</u>	<u>Shantung</u>	<u>Shansi</u>	<u>Chahar</u>	<u>Suiyuan</u>	<u>Average</u>
Banks	3.3	6.1	4.9	---	2.9	3.44
Cooperatives	1.2	3.4	1.3	---	5.8	4.48
Pawnshops	5.1	3.5	18.9	---	2.9	6.08
Native Banks	10.7	16.3	13.1	12.5	8.8	12.28
Village Stores and Shops	13.8	15.4	11.4	18.7	5.8	13.02
Landlords	13.2	15.5	14.4	25.0	20.7	17.76
Well-to-do Farmers	19.8	19.6	13.4	12.5	17.7	16.60
Merchants	22.2	20.2	22.6	31.1	35.4	26.30

The article from which this table has been quoted dealt only with

<sup>41</sup> Tawney, op. cit., pp. 58-60.

<sup>42</sup> Sih, Tien-tsung, "Economic Conditions in North China", Information Bulletin, Council of International Affairs, Nanking, Vol. 4, No. 3, June 9, 1937, p. 66. (Figures quoted by author from a study of 22 provinces published by the National Agricultural Research Bureau of the Ministry of Industry. The columns do not total 100%.)

the provinces listed, but the sources of credit probably would have been similar for the whole country. The low percentage borrowed from co-operatives in Hopei is especially significant, since that is the province in which the China International Famine Relief Commission worked most intensively to establish credit cooperatives.

The Rajchman Report to the League of Nations stated that it was very difficult to obtain figures showing the rate of interest on rural loans, but that Professor Dragoni, one of the League experts, "came to the conclusion that the average was 35 per cent and that in some cases, not very rare, it reached more than 100 per cent."<sup>43</sup> In 1930 the normal rate charged by banks in the interior on loans with good security varied from two to three per cent per month, or 24 to 36 per cent annually, although the pawnbroker and the moneylender charged more. The rate of interest increased in proportion to the poverty of the borrower, and in famine years went up at once.<sup>44</sup> The preferred security was a mortgage on land, although the most common security was the crop. It was stated that in Hopei rich people lent to cotton dealers at 12 per cent, and the dealers lent to the producers at from 36 to 60 per cent; whereas the legal maximum was 20 per cent.<sup>45</sup>

A survey made by the Central Agricultural Research Bureau showed that 62 per cent of the farm households in 737 hsien of 20 provinces

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<sup>43</sup> Rajchman Report, op. cit., p. 21.

<sup>44</sup> Walter H. Mallory, "Famines in China", The Annals, Vol. 152, November, 1930, pp. 92-93.

<sup>45</sup> Tawney, op. cit., p. 61.

investigated were in debt.<sup>46</sup> The extent of debt in one district in Kiangsu was disclosed in a study made in 1928 by the Kiangsu Farmers' Bank among 426 members of 22 credit cooperatives:

Table II

Members' Annual Income and Output<sup>47</sup>

<u>Condition</u>	<u>No. of Members Concerned</u>	<u>Percentage of Total Members</u>
Income over expense	134	31.5
Income and expense equal	108	25.3
Expense over income	184	43.2
Total	426	100.0%

Table III

Debts Borne by Members<sup>48</sup>

<u>Amount of Debt</u>	<u>No. of Members Concerned</u>	<u>Percentage of Total Members</u>
No debt	44	10.3
\$50 or less	84	19.7
\$51-100	108	25.4
\$101-200	91	21.4
\$201-300	66	15.5
\$300 up	33	7.7
Total	426	100.0%

(Total debt, \$61,695; average, \$145.10; maximum, \$1500; minimum, \$5.)

<sup>46</sup> Leonard T. K. Wu, "Rural Bankruptcy in China", Far Eastern Survey, Vol. 5, No. 20, October 8, 1936, p. 211.

<sup>47</sup> Paul C. (Hsi-hsu) Hsu, "Rural Cooperatives in China", Pacific Affairs, Vol. 2, No. 10, October, 1929, p. 621.

<sup>48</sup> Ibid.

The seriousness of debts to the amounts stated in Table III should be judged in relation to incomes. The International Famine Relief Commission survey in 1922 was the most extensive that has been made, covering the five provinces of Hopel, Kiangsu, Shantung, Anhwei, and Chekiang. It comprised 240 villages, with 7,079 families, of 37,191 members. They found 17.6 per cent of the families in the eastern villages and 62.2 per cent of those in the northern, had incomes of less than \$50 a year. Investigations of Professor Buck indicated a median income of \$131.08 in families in nine villages in the North, and of \$213 in eight villages in East-Central China.<sup>49</sup>

#### 4. Marketing

Since many landlords act also in the capacity of merchants and grain dealers, or have interests allied to theirs, marketing is related to the excessive power of the landlord class. Farming in China is for the market as well as for subsistence, with more than a quarter of the articles consumed by the farmer being purchased. Food crops are sold as well as commercial crops like tea, cotton, tobacco, and silk, although agricultural families tend to consume the inferior foods and to sell the higher priced produce. Because of economic necessity, more than half of the crops are disposed of immediately after harvest, when prices are lowest because the supply has been replenished. The farmer gets only a small fraction of the price that his goods are sold for in the final

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<sup>49</sup> Tawney, op. cit., pp. 69-70.

market, due partly to taxes and inefficiency of transportation, but also due to the large number of middlemen. While a large number of middlemen is not in itself an evidence of inefficiency in marketing and is more necessary in China than in countries with better transportation systems, instances have been cited in which goods have left the middleman in worse condition than when they reached him. Thus at least some middlemen in China have not fulfilled efficiently their economic function.<sup>50</sup>

There are many small local markets with violent price fluctuations, and speculation is widespread. Cases in West China have been noted in which farmers sold rice at \$10 a picul<sup>51</sup> after harvest and had to re-buy it in the spring at \$28 for the same quantity. Tea passed through the hands of ten middlemen, with a variation in price from \$1.50 a picul in Anhwei to \$14 for the same amount in Shanghai. It was found that prices in Chingho, eight miles from Peking, had no relation to city prices.<sup>52</sup> In Kiangsi the Provincial Reconstruction Bureau furnished figures which showed that the difference between prices paid farmers in the province and charged to consumers in Shanghai in many cases amounted to 100 per cent.<sup>53</sup>

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<sup>50</sup> H. D. Fong, "Cooperative Marketing of Cotton in Hopei Province", Nankai Social and Economic Quarterly, Vol. 8, No. 3, October, 1935, pp. 552-553.

<sup>51</sup> A picul varies locally but is about 133 1/3 pounds.

<sup>52</sup> Tawney, *op. cit.*, pp. 54-57.

<sup>53</sup> Rajchman Report, *op. cit.*, p. 22.

### Inefficient Methods of Cultivation

Another internal human cause for economic distress in China is the failure to apply modern scientific methods of farming on a wide scale.

Chinese agriculture is characterized by traditional methods and low yields. There is little local specialization because of the difficulties of transport, and the small size of plots requires a type of farming that resembles gardening. There is a parsimonious use of space and materials, of animals, implements, waste products, and of everything except human labor.<sup>54</sup> Animal husbandry is practically unknown south of the Yangtze,<sup>55</sup> as there is not enough land for grazing or growing grain for feed. Animal products will not feed as many people as the grain that could be raised on the same amount of land. The grass which might be used for pasture is used instead for fuel, and the ground "shaved bare as with a razor."<sup>56</sup>

#### 1. Low Yields

The output is low both per man and per acre, even in rice, in which China was formerly thought to excel. Crop averages reported to the League of Nations for 1918-1931 showed China to have next to the lowest rate of production of all the countries studied, in wheat, rice, and cotton.<sup>57</sup> The output per worker is likewise low, and this is the factor

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<sup>54</sup> Tawney, op. cit., pp. 46-48.

<sup>55</sup> Rajchman Report, op. cit., p. 17.

<sup>56</sup> Tawney, op. cit., pp. 26-28.

<sup>57</sup> Cf. Rajchman Report, op. cit., p. 17.



determining the standard of living. Winter wheat in Eastern United States requires 10 hours per acre, and on large 3,000 acre ranches using machines in Montana requires only one hour per acre. In China, in the districts studied, the average was 243 man-hours per acre. Cotton in the southern part of the United States requires from 35 to 125 hours, but in China the average was 656 hours.<sup>58</sup> This low productivity in physical and value units per worker is of utmost importance. It is the resultant or end product of all of the detrimental factors discussed and to be discussed in this chapter.

## 2. Inexhaustible Supply of Labor

Where there is a very limited amount of land and an excess population, labor is the only production factor found in abundance, and needless to say, wages are low. Machinery is almost completely absent, and is not even used where it might be, as in pumping and threshing.<sup>59</sup> Even the tools like plows are primitive and unsatisfactory. Human labor, though abundant, is not cheap to the farm operator, making up 63.5 per cent of total farm expenses, exclusive of the operator's own labor. Furthermore, labor is badly distributed during the year, and farmers are idle several months each year.<sup>60</sup> One observer stated that the farmer

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<sup>58</sup> J. Lossing Buck, "Agriculture and the Future of China", The Annals, Vol. 152, November, 1930, p. 112.

<sup>59</sup> Tawney, op. cit., p. 53.

<sup>60</sup> Buck, op. cit., p. 112.

was unemployed about three-fourths of his possible working time; while another claimed that in North China only about 70 to 90 days a year were spent working on the land, and that the farm families almost hibernated in the winter so as to save exertion and thus save food.<sup>61</sup>

### 3. Exhaustion of Soil Fertility

About half of the total cultivated area is double cropped, and in some parts of South China as many as four crops are raised in a season. Frequently a second crop is sown between the rows while the first is growing. Every scrap of vegetation is gathered and saved for fuel, so there is almost no residue to be plowed back into the soil. There is little use of chemical or animal fertilizer, although the need to grow as much as possible has resulted through the centuries in the use of human waste.<sup>62</sup> The farming of hillsides formerly in forests has resulted in erosion, especially in the Northwest, where the topsoil in some places has been washed away clear down to bedrock.<sup>63</sup>

### 4. Poor Seeds, Plant Pests, and Animal Diseases

In spite of the lack of mechanization in agriculture and the depletion of the soil, experiments in scientific selection of seeds and in

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<sup>61</sup> J. B. Condliffe, China Today: Economic, p. 86; J. B. Tayler, Farm and Factory in China, pp. 25-26.

<sup>62</sup> Buck, op. cit., p. 111; Tawney, op. cit., p. 48.

<sup>63</sup> Walter C. Lowdermilk, "China Fights Erosion with U. S. Aid", National Geographic Magazine, Vol. 87, No. 6, June, 1945, p. 648.

the control of plant and animal diseases have shown that much greater yields can be secured than are customary. This, and rightly so, is the phase of rural reform that had first attention in China, being pioneered by a number of colleges and missionary establishments, as well as by both national and provincial research stations.<sup>64</sup> Since this sort of reform does not affect existing economic and social arrangements, it is not faced with much opposition and is a wise introductory step. Sometimes, however, it has been found difficult to disseminate the results of research because of the conservatism of the farmer.<sup>65</sup>

#### Failure of Government and Independence of Provinces

Still another internal human cause for economic distress in China is the failure of the government to maintain the stability and to provide the services essential to the prosperity of the people. The present government inherited from the old Manchu regime all the problems that had developed through the breakdown of the old controls during the 19th Century. The Revolution of 1911-1912 was followed by a still greater deterioration of government functions, while various factions struggled for supremacy in the new state. Central Government control was only nominal in parts of the country up to the beginning of the Sino-Japanese war in 1937, and was not complete in some sections of Unoccupied China

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<sup>64</sup> Condliffe, op. cit., pp. 58-60.

<sup>65</sup> Rajchman Report, op. cit., pp. 17, 31, and 33-35.

even during the war.

### 1. Burden of Taxes

The land tax, which formerly went to the Central Government, since the Revolution has gone to the provinces. It is based on an assessment made in 1713, when the Manchu Emperor decreed that the tax was to be "fixed and immutable for all time."<sup>66</sup> Naturally it is no longer accurate, but no reform can be made without some sort of land survey. The Rajchman Report to the League of Nations stated that a moderate estimate of the cost of a land survey by the usual methods was \$150,000,000 for the whole of China, but that the cost might be reduced by making an air survey. Some of the provinces began the work of land registration, but it is doubtful if any provincial registrations were ever completed. An adequate survey would require several years.<sup>67</sup>

Unofficial registrars held the only records of taxable land owners, and these were transmitted from father to son. This held true as recently as 1934, and no doubt is still true in some regions.<sup>68</sup> This is another instance of family loyalty conflicting with European and American ideas of public responsibility.

The land tax alone, in spite of its defects, is moderate. It has acquired so many surtaxes, however, most of them imposed since 1927, that

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<sup>66</sup> Harold M. Vinacke, Problems of Industrial Development in China, p. 62.

<sup>67</sup> *Op. cit.*, pp. 23 and 30.

<sup>68</sup> Rajchman Report, *op. cit.*, p. 20.

it is now several times the original figure. The surcharges are not equally distributed, falling much more heavily on some hsien than on others. The original idea of the surtax was to provide for certain necessary functions of government for which there were no resources. At the end of the Manchu Dynasty the hsien were ordered to establish school and police systems, and were authorized to add surtaxes to the existing taxes. "That was the beginning of a hsien income. Since then it has lived on surcharges." In Kiangsu there were 147 different surcharges on land taxes; in Chekiang, 73; in Hopei and Kiangsi, 61. In 1933 out of 13 hsien in Kiangsu ten of them depended on surcharges for from 60 to 90 per cent of their total revenue.<sup>69</sup>

While the land tax and surtaxes are legally payable by the landowner, in fact it appears that where tenancy prevails the tenant pays at least a part of the tax. In Kansu the tenant was reported to pay 60 per cent of the tax and surtax.<sup>70</sup> Overpopulation and the resultant demand for land, together with the lack of industry to furnish an alternate occupation, thus force the economic rent of land in China (including taxes legally payable by the landlord but shifted to the tenant), to a height that would be uneconomic in most other countries. Even in China the economic limit, though high, is reached eventually, and accounts to a certain extent for the appeal of Communism and the prev-

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C. M. Chang, A New Government for Rural China: The Political Aspect of Rural Reconstruction, pp. 30-33.

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Rajchman Report, op. cit., p. 20.

alence of bandits, who are frequently displaced farmers without legitimate means of subsistence.

Another tax that had the effect of obstructing marketing and trade was the likin, which was introduced in the middle of the 19th Century but became particularly objectionable after 1900. It was a transit tax imposed on goods traveling by land and by river. The tax was not uniform, but was usually 3 per cent at the point of departure and 2 per cent at each inspection station. This amounted to about 10 per cent within a province, but increased to 15 or 20 per cent through several provinces.<sup>71</sup> There were seven tax barriers in the eighty miles between Tientsin and Peking until about 1930.<sup>72</sup> Likin was abolished in January, 1931.<sup>73</sup>

The tax money passes through a number of hands, and it has been traditional that the collector could take the difference between what his district had been assessed and what was collected. The salaries of officials were low, and this was considered one of the legitimate emoluments of office. In the old days no questions were asked as to how money was raised as long as the sum expected was transmitted to the Imperial Treasury. In 1908 it was estimated that collections were at least three

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<sup>71</sup> Vinacke, op. cit., pp. 67-68.

<sup>72</sup> Tawney, op. cit., p. 56.

<sup>73</sup> Gideon Chen, Chinese Government Economic Planning and Reconstruction since 1927, p. 33.

times as great as the amount turned over to the central government.<sup>74</sup>

The failure of the central government to receive its tax revenues was stated by Professor Coons in 1930 to be ". . . the outstanding problem in the fiscal relations in China." He gave instances as follows:

One notes then that of the salt revenues for 1924, 41.4 per cent was "appropriated by provincial authorities and military commanders" without consent, and altogether 47.2 per cent was not available to the Central Government since the balance . . . was "retained by local authorities with consent of the Central Government." . . . For the wine and tobacco taxes and license fees for the years 1921-1923 inclusive only 18.5 per cent of the total collections was received in Peking.<sup>75</sup>

## 2. Burden of Armies

Particularly between 1912 and 1928, but also both before and after these dates, control of China was being contested by at least two factions, and at times by half a dozen simultaneously. Almost every province had its warlord with his private army, although the troops of the central government gradually became supreme, by defeating some opponents and by absorbing others. The proclamation of supremacy of the Kuomintang in 1928 was followed shortly thereafter by the split between the right and left wings of the party, with the latter developing its own Communist army, which became the only important armed force not under the control of the central government.

Bandit gangs were sometimes formed into armies, reverting to the status of bandits again when the armies were disbanded. Indeed, many

<sup>74</sup> Vinacke, *op. cit.*, pp. 71-72.

<sup>75</sup> A. G. Coons, The Foreign Public Debt of China, pp. 124-125.

landless peasants found no other way to make a living but by banditry. The rural population bore most of the burden of supporting these rival military forces, who not only lived off the country but also collected the legal taxes and imposed new ones.

The frequency with which military conflict took place shows the chaos which prevailed. "From 1912 to 1934 there were over 160 military outbreaks of civil war. . ." <sup>76</sup> In describing the province of Szechwan, Lin Yutang wrote as follows:

It is a country as big as France and has a population of forty-five millions. . . I remembered that there were four hundred and seventy-three minor civil wars in Szechuen in the first twenty years of the Republic after 1912. . . Only in the year before the war did the influence of the Central government begin to penetrate to this province, and only since the removal of the national capital to Chungking has the authority of the government had real control here. General Yang Sen, a former Szechuen "warlord," has made his army completely a part of the national army, and he has been fighting and serving on the Hunan front all these war years. <sup>77</sup>

Szechwan is the province in sections of which taxes were collected from 5 to 41 years in advance between 1931 and 1933! <sup>78</sup>

The burden that was imposed on certain areas may be imagined from the fact that between October, 1930, and March, 1931, four districts in southern Shansi had to furnish military requisitions amounting to 2,216 per cent of the main annual land tax. <sup>79</sup> The publication of percentages

<sup>76</sup> A. G. Coons, Economic Reconstruction in China, p. 20.

<sup>77</sup> Lin Yutang, The Vigil of a Nation, p. 184.

<sup>78</sup> Chen Han-seng, "The Agrarian Problem of China", Document II, Problems of the Pacific, 1933, Institute of Pacific Relations, p. 284.

<sup>79</sup> D. N. Rowe, China Among the Powers, p. 48.



of national expenditures showed that military establishments accounted for 48.2 per cent of the total in 1928-1929 and 45.5 per cent in 1929-1930.<sup>80</sup>

### 3. Lack of Transportation and Communication

Poor transportation and communications have largely been responsible for the lack of unity in China, for the lack of specialization in agriculture, and for the stagnation of trade. In 1928 China possessed a little over 9,500 miles of railway, of which 4,790 were under government control and 3,770 were in the hands of concessionaires, some foreign. The number of persons per mile of railway was about 2,200 in the United Kingdom; 1,722 in Germany; 460 in the United States; and over 50,000 in China. Five provinces, including Szechwan, had no railways at all, while others had only a few miles. No important railway extension took place from 1920 to 1930 except in Manchuria, where the railways were largely controlled by Japan and Russia. Militarists seized rolling stock as well as railway receipts, and for long periods the public did not secure any benefit from some of the lines.

Highways were more extensive, being estimated in 1929 as 34,810 miles suitable for motor traffic; 5,055 miles under construction; and 31,099 projected. Most of the roads had been built after 1920, and 90 per cent were dirt roads. As late as 1925 there were said to be no roads at all in the province of Kweichow, with a population of 14,000,000; and that transport was almost entirely by manpower.<sup>81</sup>

<sup>80</sup> Condliffe, *op. cit.*, p. 125.

<sup>81</sup> R. H. Tawney, Land and Labour in China, pp. 85-87.

A glance at the map of China will show that it is well provided with streams, which carry a good proportion of the transport of freight.<sup>82</sup> In addition to the great rivers, there are innumerable lesser streams, canals, and lakes. Because this network of waterways flows mostly from west to east, the main railways were built from north to south.<sup>83</sup> The worst wartime handicap, however, resulted from the fact that practically all of the railways and most of the modern roads were built in the eastern seaboard region, where they were quickly overrun by the Japanese in the first years of the war.

Tremendous efforts have been made since the 1920's to extend the transportation system, but modern means still account for only a small proportion of the traffic. D. N. Rowe, writing in 1945, stated the situation as follows:

The overwhelming bulk of transport is still carried on by those same primitive means which have been in use for centuries. Wind or currents of water are used for moving boats; animals are used in some regions to carry or haul loads, but the chief motive power for transport comes from man himself. Most goods are carried from place to place on the backs of coolie porters, or are pulled or pushed along by them in boats, rickshas, carts, or wheelbarrows. . .

Even in regions where motor roads exist, great quantities of freight are still transported by human and animal carriers. For example the exchange of goods between China and Soviet Russia over the western route between Alma Ata and Lanchow depends heavily on camel caravans and coolie porters. In 1941 these methods of transport moved more than 500,000 tons of goods a total distance of 19,000

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<sup>82</sup> Walter H. Mallory, "Famines in China", The Annals, Vol. 152, November, 1930, p. 92.

<sup>83</sup> Sir Arthur Salter, "China and the Depression", The Economist, Vol. 118, No. 4734, May 19, 1934, Supplement, p. 12.

miles between the two countries. . .<sup>84</sup>

Unmechanized transport is very expensive. In 1934 the cost of moving a ton of freight one kilometer by wheelbarrow was found to be six times greater than the cost of moving imperishable and bulky goods by rail; in 1940 in West China the cost of coolie carriers was 33 1/3 per cent higher than the cost of motor transport, in spite of the exorbitant cost of motor fuel.<sup>85</sup> In certain sections of the country it was found that the expense of moving wheat fifty miles exceeded its price in the place where it was grown.<sup>86</sup>

#### 4. Monetary Confusion

Defects of the monetary system in China have been a factor contributing to the speculative character of business and the lack of economic stability. Before 1928 many types of money were in circulation, since the sectionalism caused by warlord control and the lack of transportation facilities made the country a myriad of isolated and independent cells. There was no coin for a tael, but it was supposed to be an ounce of silver and the principal standard of value. It differed in purity and weight from one locality to another; and furthermore, there were different taels used throughout the country for different purposes: The Haikwan tael, which was the standard in all foreign trade and customs transactions; the Tsao Ping tael, the standard for

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<sup>84</sup> Rowe, op. cit., pp. 99-100.

<sup>85</sup> Ibid., p. 99.

<sup>86</sup> Tawney, op. cit., p. 56.

general purposes; and the Kuping tael, the standard for estimating the value of all revenue payments to the government. In addition there were various types of dollars having varying rates of exchange against the tael; and silver and copper coins having varying rates against the dollar. In April, 1933, the tael was abolished.<sup>87</sup> Paper money issued by the government and by many provincial and private banks many times has not been backed up by reserves and has frequently depreciated in value.<sup>88</sup>

#### 5. Lack of Flood Control and Irrigation Facilities

From earliest historical times one of the functions of government in China has been water control. This was not always undertaken with humanitarian motives, but was essential to the production of large crops and the provision of grain tribute, the chief resource of the Imperial Treasury.<sup>89</sup> During the decadence of the Manchu Dynasty and during the period of civil war, large-scale projects were not maintained, and both flood control and irrigation works deteriorated. One of the greatest tasks facing the new government in 1928 was the restoration of these public works and their improvement through the use of modern engineering science. This task is of even greater importance now because of the

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<sup>87</sup> H. D. Fong, Toward Economic Control in China, p. 52.

<sup>88</sup> Harold M. Vinacke, Problems of Industrial Development in China, pp. 95-100.

<sup>89</sup> Chi Ch'ao-ting, Key Economic Areas in Chinese History, (as Revealed in the Development of Public Works for Water-Control), pp. 1-10.

destruction and neglect of these facilities during the war.

#### 6. Illiteracy and Lack of Technical Training

Public education did not exist in China prior to 1900, and has been developed almost entirely since 1920. It is understandable that up to the present it has not been possible to extend it very widely. In the field of primary education it was estimated in 1932 that perhaps one in five children between the ages of 6 and 12 attended school for some period of time. Too much memory work and too little practical and experimental work, as well as a slavish adoption of foreign courses, have characterized the schools of China. The greatest defect, however, grows out of the ancient tradition of reverence for the pure scholar, the educated person being quite remote from the common people and having a tendency toward theories rather than practice.<sup>90</sup> This has been a grave handicap in view of the need that China has for applied research, engineering, and technical knowledge. The Mass Education Movement, primarily adult education which is essentially practical, was begun in 1924 and has long been pointed to as one of the most encouraging experiments in education in the Orient.<sup>91</sup>

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<sup>90</sup> Tawney, *op. cit.*, pp. 182-192; League of Nations, International Committee on Intellectual Co-operation, Report of the Committee on the Work of its Sixteenth Plenary Session, Geneva, 1934. Appendix 3, "Collaboration of the Intellectual Co-operation Organisation in the Re-organisation of the Educational System in China", by F. Maurette, pp. 21-27.

<sup>91</sup> Pearl S. Buck, "Tell the People", Asia and the Americas, Vol. 45, No. 1, January, 1945, Section 2, pp. 49-71, *passim*.

## 7. Inadequate Civil Administration

The literary tradition has been responsible for one of the failings of administrators, which Professor Tawney noted as follows:

The belief that to write words on paper is to perform an act seems to be almost ineradicable. The result is that politics too often end where they should begin, with the assertion of intentions . . . Conference follows conference, programme programme, and report report . . . Mountains of paper are accumulated; but there is no adequate machinery for transmitting power, and the wheels do not turn.<sup>92</sup>

Laws and regulations are regarded as ideals which must be adjusted to circumstances rather than as rules to be adhered to strictly. Responsibility generally cannot be fastened on an individual, as he is part of a group of persons who shield one another; and family system pressure is involved both in appointments and in the execution of regulations, in hsien and provincial governments even more than in the national government.<sup>93</sup>

### EXTERNAL CAUSES OF ECONOMIC DISTRESS

The foregoing internal causes of economic maladjustment would have been enough alone to keep China in an extremely weak economic position, but the situation was further complicated by the political and economic privileges exacted from the decadent Manchu rulers by imperialistic powers during the 19th Century. The first of Dr. Sun Yat-sen's "Three Principles of the People" has usually been translated as "national independence", and its aim was to remove the "unequal treaties" and to

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<sup>92</sup> Tawney, op. cit., p. 174.

<sup>93</sup> Ibid., 171-182.

restore full sovereignty to China.

### Industrial Revolution

While it may be argued that the industrial revolution has hardly been effective in the interior of China, the country nevertheless has suffered severely from its indirect results. The desire of industrialized nations for markets forced the opening of China; and spheres of influence, concessions, extra-territoriality, "most favored nation" clauses, the "open door" policy, and the "conventional tariff" were all merely the means by which economic privileges were secured.

#### 1. Foreign Imports

The products of the factories were brought to China despite the fact that the Chinese economy had been largely self-sufficient. When foreign goods were made available, however, a demand was created for them because of their novelty, their cheapness in many cases, their convenience, and their uniformity.

#### 2. Destruction of Cottage Industries and Handicrafts

Part of the surplus time of farming families was formerly absorbed by the production of simple articles of everyday use in the homes. Besides supplying themselves, the farm families concentrated on certain types of goods which they distributed to a small market in exchange for articles made by other families. Among 150 farm families investigated in North China, an average of 70 per cent of the entire needs of the family were supplied by their own efforts. The other 30 per cent were distributed largely by peddlers, temple fairs, and periodic village

markets.<sup>94</sup>

In the towns handicrafts were sometimes carried on in small workshops on commission from merchants who furnished the materials, supplied credit, and marketed the produce. In other instances the shop was owned by a master who managed his own production but sold the finished product to the merchant, or in some cases marketed it himself by establishing a store in the front part of the shop.<sup>95</sup>

In the cities the handicrafts usually grouped themselves on certain streets or in certain districts. For instance, in Peking the names of crafts have furnished the names of certain streets, such as Bead Street, Silver Street, Brass Street, Flower Street, Lantern Street, etc. In the larger establishments in addition to the family members there were generally hired workers and apprentices, who in most cases lived at the factory or shop and were treated more or less as members of the family.

In smaller towns if there were only two or three families engaged in a certain craft, they almost always had an understanding on minimum prices.<sup>96</sup> In larger centers there were well established guilds which, in lieu of government regulations, controlled all firms connected with a certain industry, trade, or service. In Peking in 1920 there were 34 guilds with 107,000 members. The guilds exercised very tight compulsions over their members, and it was impossible for an independent

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<sup>94</sup> J. B. Tayler, Farm and Factory in China, p. 16.

<sup>95</sup> Tawney, *op. cit.*, pp. 111-114.

<sup>96</sup> Tayler, *op. cit.*, pp. 43-44.



concern to survive. They regulated prices, apprentices, wages, hours, weights and measures, etc.; and infractions of rules were infrequent. They arbitrated between members and when necessary brought pressure to bear on officials and public authorities.<sup>97</sup>

The immediate effect of foreign imports was to weaken and eventually almost destroy these handicrafts and home occupations, because imported goods were generally cheaper and more convenient, if not always as artistic as the domestic article. The decay of handicraft industries was an additional burden on the agricultural population, since they were conducted as supplementary occupations in the farm families, or absorbed surplus farm population in the towns. In 1909 in one area 40 per cent of the cultivators were reported to operate simple machines for weaving their own cotton. In 1929 one hsien in Shantung was reported to have farm families engaged in making cotton cloth, hairnets, paper, incense, fire-crackers, straw braid, bean curds, and bean starch. Buck's investigations showed between 30 and 73 per cent of the farmers interviewed in various sections derived part of their income from other than farm sources, some of the other sources being home industry, labor, professional work, trading, and remittances from absent members of the family.<sup>98</sup>

One result of the war and the Japanese blockade of China was the revival, to a certain extent, of former handicrafts that became profitable once again when imports were cut off.

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<sup>97</sup> Tawney, op. cit., pp. 114-115.

<sup>98</sup> J. B. Condliffe, China Today: Economic, pp. 48-49.

### Foreign Economic Exploitation

The destruction of the pre-industrial handicrafts of China was not due to the conscious effort of the industrialized powers, but rather due to the fact that China's economic structure could not withstand the shock of competition with a more modern method of production. Sooner or later the conflict had to come about. But the peculiar circumstances of China's initiation into world economy injured the chances that she might have had to protect her people from incidental dislocations. The special privileges of foreigners in China gave them advantages over the Chinese in industry and trade.

#### 1. Tariff

The Treaty of Nanking in 1842 at the end of the "Opium War" contained the provision that the Chinese were to establish a regular tariff to replace the prior confusing system of charges on trade and shipping.<sup>99</sup> The tariff established was based on a 5 per cent ad valorem duty on both imports and exports; and except for certain revisions or adjustments, the tariff remained until 1929 a matter of treaty arrangements in which China did not have the power of decision.<sup>100</sup> The rights of foreigners to be exempt from paying likin and other internal taxes was established for imports in 1842 and was extended to exports in 1858. During the Taiping Rebellion the Maritime Customs were established with an Englishman as

<sup>99</sup> C. F. Remer, The Foreign Trade of China, pp. 5 and 11-12.

<sup>100</sup> C. F. Remer, Foreign Investments in China, pp. 46-47.

the inspector-general.<sup>101</sup> The power that accompanied the control of customs was expressed by Taylor as follows:

Thus the powers not only fixed the tariff but also collected it, and therefore could decide when and where to pay the receipts. They first took out of the customs revenues money for the repayment of loans, loans which they often forced on the Chinese government. When there was civil strife, they could also decide which side they would support with the customs revenues. The more money lent to China, the more the powers interfered in her internal affairs to see that the loans should be repaid.<sup>102</sup>

Lacking tariff autonomy, China was unable to adjust rates to protect domestic industries; and Chinese merchants, who were forced to pay likin in addition to customs duties, could not compete with foreign importers.

## 2. Taxes to Service Foreign Loans

China's foreign debts were negligible until 1895, as most of the disputes with Western powers before that date had been settled by granting territory and trade and political privileges. The treaty which China signed at the end of the Sino-Japanese war, however, included an indemnity of 230,000,000 taels payable to Japan. French and Russian diplomats secured for their financiers the loan of 400,000,000 francs at 4 per cent for the payment of the first installment of the Japanese indemnity; an Anglo-German syndicate secured the privilege of arranging for the remaining installments in 1896 and 1898. At the conclusion of the Boxer Rebellion the peace protocol added an indemnity of 450,000,000 taels (about U. S. \$330,000,000) to the foreign debt. After the Revolu-

<sup>101</sup> C. F. Remer, The Foreign Trade of China, pp. 13-14.

<sup>102</sup> George E. Taylor, Changing China, p. 55.

tion of 1912 the first president, Yüan Shih-k'ai, was judged by Western powers to be the "strong man" who would bring order to China, so a number of foreign loans were made to him for the government. One of these loans was for £25,000,000, a "reorganization loan", although Yüan did not finally use the money for that purpose. At the time that China entered the first World War, the "Nishihara" and other Japanese loans amounted to at least 240,000,000 yen for the year 1918 alone, and were secured by options on railway, mining, and industrial rights in the Manchurian provinces.<sup>103</sup> These are examples of only the more important debts and loans; but there were innumerable others, often to recognized government officials, but sometimes to either or both leaders of rival factions. Various types of security were the maritime customs receipts; the salt tax, which was a government monopoly under foreign supervision after it was pledged for loan service; likin from certain specified provinces; railway revenues and sometimes mortgages on railway property; and options on industry or natural resources.<sup>104</sup> There was such confusion that loans for supposedly productive purposes ended by being used for other purposes. A statement by the Minister of Communications in 1922 was as follows:

"All the properties and revenues of the telegraph (and telephone) administration have been pledged as security with practically nothing left. If these loans were made use of for the increase of the capital investment and for the extension of the system, then the business of the telegraph (and telephone) administration would be much more developed. But the majority of these loans was either borrowed by the Ministry

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<sup>103</sup> G. Nye Steiger, A History of the Far East, passim.

<sup>104</sup> A. G. Coons, The Foreign Public Debt of China, passim.

of Finance or spent by the Railway Administration. All spent by the telegraph administration was less than 15 per cent."<sup>105</sup>

Many of the loans were in default and China's credit standing was ruined. Loans continued to be made, but these were largely to secure political or economic advantages and were not strictly business transactions. Japan was most active in this respect, especially during the first World War.

Condliffe quoted the percentages of total national expenditures for various purposes in 1928-1929 and 1929-1930, after the Nationalist Revolution. In these two years the loan service amounted to 27.9 per cent and 29.5 per cent; indemnity service, 8.9 per cent and 7.7 per cent. For the same years military establishments accounted for 48.2 per cent and 45.5 per cent of the total expenditures. He concluded as follows:

No budget of which from 82 to 85 per cent is spent upon the unproductive services of military establishments and debt and indemnity payments can be said to be healthy. The crying need of China is for peace and a reduction of military expenditure. Less than 10 per cent of the revenue collected goes to the true functions of central government.<sup>106</sup>

### 3. Extraterritoriality Hampered Economic Control

The system of extraterritoriality, whereby foreign nationals residing in China were subject to the jurisdiction of their own laws and courts, applied to corporations as well as to individuals.<sup>107</sup> It has

<sup>105</sup> Quoted in Coons' The Foreign Public Debt of China, p. 49.

<sup>106</sup> Condliffe, *op. cit.*, pp. 125-126.

<sup>107</sup> C. F. Remer, Foreign Investments in China, pp. 43-44.

already been mentioned that treaty arrangements exempted foreigners from paying likin and other internal taxes, on the assumption that they would pay the maritime customs tariff of 5 per cent on imports and exports. The Treaty of Shimonoseki permitted foreigners to erect factories on Chinese soil, and thereafter the products of foreign-owned factories were not charged with the maritime customs duty. Another advantage afforded to foreigners because of extraterritoriality was " . . . surer protection against illegal levies and exactions by provincial and local warlords. . . ." <sup>108</sup> The treaties of the 19th Century also provided that foreign vessels could engage in coastal and inland traffic; thereafter foreign gunboats were able to protect the property of their nationals in case of civil war or anti-foreign demonstrations.

Although there was some attempt at factory inspection in Shanghai in later years, it was organized on a more or less voluntary basis and could not be enforced with foreigners because of extraterritoriality. Faced by the competition of these foreign concerns, and able to secure unlimited if poorly trained labor from the surplus population, Chinese firms on the whole paid even lower wages than foreign firms and opposed the enforcement of labor laws that were enacted. <sup>109</sup>

Extraterritoriality was relinquished by Great Britain and the United States in 1943. Other nations having extraterritorial rights in China are gradually following suit.

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108 H. D. Fong, "The Prospect for China's Industrialization", Pacific Affairs, Vol. 15, No. 1, March, 1942, p. 57.

109 Helen Pratt, China and Her Unfinished Revolution, pp. 149-152; Eleanor M. Lattimore, Labor Unions in the Far East, pp. 9-11.

#### 4. Unbalanced Economic Development

What modern industries there were in China were concentrated in the extreme eastern fringe and in Manchuria, with some development in the Yangtze basin, mainly in Hankow. For all the effect that they had on the deep interior, with the lack of transportation, they might hardly have existed. In 1930 the six provinces of Kiangsu, Liaoning, Hopei, Kwangtung, Shantung, and Hupeh, about 10 per cent of the area of China and about 36 per cent of the population, accounted for

. . . 92 per cent of foreign trade, 53 per cent of the railways, 42 per cent of the motor roads, 64 per cent of coal and iron-ore output, 93 per cent of the cotton yarn spun, 92 per cent of the silk reeled, 86 per cent of the oil pressed, and 87 per cent of the electric-power capacity.<sup>110</sup>

Two-thirds of the 1302 factories established between 1920 and 1930 were built in the four cities of Shanghai, Wusih, Hankow, and Dairen.<sup>111</sup>

Modern industry and transportation having been introduced into China by foreigners, they were naturally established in the coastal region where treaty arrangements provided the most advantages. While some Chinese learned how to use modern techniques from foreign study, observation of foreign enterprises, or association with foreign establishments, control of industry tended to remain predominantly foreign. Thus

. . . over one-quarter of China's railway mileage, over three-quarters of her iron ore, mines producing more than half her output of coal, more than half the capital invested in cotton mills, and a smaller but not negligible proportion of that in-

<sup>110</sup> R. H. Tawney, Land and Labour in China, p. 127.

<sup>111</sup> Ibid.

vested in oil mills, flour mills, tobacco factories, motor factories and banks is in the hands of foreigners.<sup>112</sup>

The problem of the Nationalist Government in 1928 was actually to "create" rather than to "reconstruct" the machinery of government. In view of the depressing economic conditions described in this chapter, the marvel is that the country had hung together at all and that it had been possible for the common people to maintain their way of life. That they had been able to do so was largely due to the strength of the family and to the tradition of local self-sufficiency and self-reliance.<sup>113</sup>

Complete unification of the country did not follow the Kuomintang assumption of national power in 1928, but the government was given at least tacit recognition by all factions except the Communists and certain more or less isolated provincial and local groups. The desire for improved living conditions in a unified, modern state expressed itself in a ferment of planning many new reconstruction projects, including the encouragement of cooperatives.

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<sup>112</sup> Tawney, *op. cit.*, p. 127.

<sup>113</sup> *Ibid.*, *passim*.



## Chapter II

VIEWS ON RECONSTRUCTION AFTER 1928KUOMINTANG VIEWS ON RECONSTRUCTION

The Kuomintang Party since 1928 has been supported by more of the elements holding power and influence in China than any other government since Western ideas began to penetrate the country. This has been especially true since 1937, when Japanese aggression caused a surge of national feeling, which was concentrated behind the party as the acknowledged force best able to conduct national defense. In general, the Kuomintang claims to follow Dr. Sun Yat-sen's doctrines. In actual practice, however, the result is often so affected by compromise that regulations are not implemented or results fall far short of what a foreign observer might expect.

Sun Yat-sen's Legacy

After Dr. Sun's death the Kuomintang built up reverence for his memory through propaganda that made it seem for a time as though he was almost being deified. His impressive tomb at Nanking was a symbol of his importance as a national hero--the devotion to this shrine probably not being exceeded in modern times except by that offered to the tomb of Lenin in Moscow.

1. San Min Chu I

The central point or slogan of Dr. Sun's doctrine that has been handed down as the ultimate goal of the Kuomintang for China is the San

Min Chu I or the "Three Principles of the People": National sovereignty, democracy, and people's livelihood or economic security.

## 2. Three Stages of Democracy

Realizing that China could not become a democracy overnight, Dr. Sun advocated three stages of development through which the goals might be attained: Military unification, a period of political tutelage during which the Kuomintang party would provide leadership to help the people prepare for the final stage, constitutional democratic self-government. The beginning of the period of political tutelage was proclaimed in 1928, and China has not yet progressed to the third stage, which will be signaled by the adoption of a constitution.

## 3. First Reconstruction Plans

Dr. Sun also bequeathed to China its first plan for national economic development, in his book, The International Development of China.<sup>1</sup> The ambitious nature of Dr. Sun's plan can be judged from its divisions:

1. Development of a communications system
  - a. 100,000 miles of railways
  - b. 1,000,000 miles of macadam roads
  - c. Improvement of existing canals
  - d. Construction of new canals
  - e. River conservancy
  - f. More telegraph, telephone, and wireless lines throughout the country
2. Development of commercial harbors
  - a. Three large ocean ports with future capacity to equal that of New York harbor, in North, Central, and South China

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<sup>1</sup> Published in New York and London in 1921.

- b. Various small commercial and fishing harbors along coast
- c. Commercial docks along all navigable rivers
- 3. Modern cities with public utilities in all railway centers, termini, and alongside harbors
- 4. Water power development
- 5. Iron and steel works and cement works on the largest scale to supply the above needs
- 6. Mineral development
- 7. Agricultural development
- 8. Irrigation work on the largest scale, even in outlying regions such as Sinkiang and Mongolia
- 9. Reforestation in Central and North China
- 10. Colonization in Manchuria, Mongolia, Sinkiang, Kokonor, and Tibet

Dr. Sun described this proposed development as "international" because it was to be financed by foreign capital. Both interest and principal were to be paid from profits. Thereafter the profits were to be devoted to paying higher wages for labor and to improving and extending the machinery of production, with any further profits going to the public in the form of reduced prices on all commodities and public services. His idea was "to make capitalism create socialism in China so that these two economic forces of human evolution will work side by side in future civilization."<sup>2</sup> Dr. Sun did not set a time limit for the completion of the plan, nor did he estimate the cost. He evolved this plan while he was a political exile with no strong backing in his own country, but when his party came to power they determined to try to carry out his plan.

After Sun Yat-sen's death in 1925, and after the establishment of the Kuomintang rule in 1928, his son, Sun Fo, was appointed Minister of

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<sup>2</sup> Gideon Chen, Chinese Government Economic Planning and Reconstruction since 1927, p. 5. (Quotation from The International Development of China, p. 237.)

Railways. In his official capacity he worked out a Ten-Year Plan called the "Outline of National Reconstruction", in which he tried to set a time limit and to estimate a budget for his father's plan. He calculated that it would require fifty years and a minimum of \$25 billion to complete it.<sup>3</sup>

### Factions within the Kuomintang

While there has been only one legal party in China from 1928 to the present time, its members have never held unanimous views. The Kuomintang, reorganized after the expulsion of the Communists in 1927, consisted of three groups who were described as follows by Dr. George E.

Taylor:

There are the rural landlords and gentry who, since the fall of the Manchu Empire, have dominated the agrarian scene, and, under the present system, are an essential element in the working of China's rural economy. Then there are what might be called the bourgeois interests, including the banks, industrialists, and rich merchants. Finally, there is the army, which binds the first two together and is itself financially dependent upon the one for the collection of land taxes, and upon the other for loans, as well as the maintenance of essential imports from abroad. The landlords and the bourgeois interests, in turn, depend on the army for the preservation of law and order.<sup>4</sup>

#### 1. Right Wing Views on Reconstruction

Dr. Taylor went on to explain that the first and last groups have had common interests and have formed the right wing of the Kuomintang.

<sup>3</sup> Gideon Chen, op. cit., pp. 3-10.

<sup>4</sup> George E. Taylor, "The Reconstruction Movement in China", Document V, Problems of the Pacific, 1936, Institute of Pacific Relations, pp. 385-386.

Their idea of reconstruction is to establish what he called the "Military-Agrarian State", favoring a paternal government, the strengthening of groups that have the most to fear from Communism, and basic industries which can support a modern army. The method advocated by this group is authoritarian. They wish to organize all phases of civilian life on a military basis, and oppose freedom of speech and public opinion. They favor strict control from above as the quickest route to the type of reconstruction that they want, which would not include much rural reform because the group is made up of landowners and the military, most of whom are landowners in their own right or from landlord-gentry families.<sup>5</sup> They favor what they call rural reform as a means of keeping agrarian disturbances in check. This group has had control of the Kuomintang and hence of most of the country ever since 1927; for the civil wars, the attempt to destroy Communism, and the war with Japan all placed the army in the first position of importance for the preservation of the country.<sup>6</sup>

## 2. Left Wing Views on Reconstruction

The left wing of the party, Dr. Taylor stated, in some ways has had the same aims as the right wing, in that they have been anti-Japanese and also in varying degrees anti-Communist. This wing has been called the Westernized group, comprising importers and exporters, industrialists, merchants, bankers, and intelligentsia, and has been united in preferring civil to military control, although being dependent on the

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<sup>5</sup> George E. Taylor, The Reconstruction Movement in China, pp. 386-387; George E. Taylor, America in the New Pacific, pp. 127-130.

<sup>6</sup> George E. Taylor, The Reconstruction Movement in China, pp. 379-380.

military for defense. While members of this group have had some divergent interests, and while many of them are the sons of landowners, they are interested in building up the institutions of centralized government and are the staunchest supporters of national economic planning. They favor currency and financial reform, safety for investments and for industrialization, tariff and tax reform, and such measures as would further the revival of agriculture and the exploitation of natural resources, the spread of education, and the expansion of the purchasing power of the peasants. In method, this group favor a process of education which would obtain the cooperation rather than the obedience of the people.<sup>7</sup>

It has been pointed out in a recent book that this latter group, with the conquest of the coastal region by the Japanese, lost its former position of power:

Of the coalition composing the Kuomintang, the bankers and industrialists, by being driven into the far interior, had lost most of the tangible property and the structure of trading connections on which their power and political influence were based. Consequently, there began a subtle change in the relations between them and the Kuomintang Party functionaries and government administrators. Once their opinions and wishes had had great influence on party decisions and government policies. Now, it was they who had to defer to bureaucrats and functionaries. The pitifully small percentage of machinery which had been salvaged from the industrial cities could not be set up again without consulting officials who knew the government's war plans. Even more important, the government, because of the terrible dislocation of the whole country's financial structure, became rapidly more important as the major source of both investment capital and working capital, provided through grants and subsidies. Government functionaries, in a word, became members of boards of directors, while former managing directors and

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<sup>7</sup> George E. Taylor, The Reconstruction Movement in China, pp. 387-388;  
George E. Taylor, America in the New Pacific, pp. 127-130.

members of boards became subsidiary business bureaucrats.<sup>8</sup>

If, as seems likely, this Westernized group regains its former position of power in the post-war period, the prospects for a type of reconstruction that will tend to benefit the agrarian population will be much brighter.

#### Financial Resources for Reconstruction

After 1927 the land tax was allocated to the provinces as their main source of revenue.<sup>9</sup> This left the customs, the salt tax, and the new consolidated tax on tobacco, flour, cotton yarn, matches, cement, beer, etc., as the main sources of national revenue, although there were a number of other taxes that brought in smaller amounts.<sup>10</sup> After the Japanese conquest of Manchuria and their encroachment into the rest of North China, Japanese-inspired smuggling became a serious problem, resulting in the shrinkage of total Chinese government revenue by 4 per cent in the year 1935 alone.<sup>11</sup>

Both the customs and salt revenues increased after 1928, through tariff autonomy and the reorganization of the Salt Gabelle.<sup>12</sup> After 1928 the budget was published annually. Through the retirement of a few of the old loans secured on the customs and salt taxes, the remission

<sup>8</sup> Owen Lattimore, Solution in Asia, pp. 104-105.

<sup>9</sup> Institute of Pacific Relations, Problems of the Pacific, 1936, p. 160.

<sup>10</sup> China Year Book, 1938, pp. 471-472 and 489.

<sup>11</sup> Problems of the Pacific, 1936, p. 160; cf. also pp. 103-105 regarding smuggling.

<sup>12</sup> China Year Book, 1938, pp. 488-489.

and cancellation of part of the Boxer Indemnities, and the reform of the monetary and banking systems, the Ministry of Finance, under Ministers T. V. Soong and H. H. Kung from 1928 to 1937, succeeded in restoring somewhat the financial standing of the country. However, there continued to be a deficit, and military outlays and debt services continued to account for more than half of the national expenditures:

Table IV

Military and Debt Expenditures<sup>13</sup>  
(in million \$)

<u>Year</u>	<u>Military Expenditure</u>	<u>% of Total Payments</u>	<u>Loans, etc.</u>	<u>% of Total Payments</u>
1929	210	50.8	158	38.3
1930	245	45.5	200	37.2
1931	312	43.6	290	40.5
1932	304	44.5	270	39.5
1933	321	49.7	210	32.6
1934	373	48.5	244	31.8
1935	368	34.4	356	33.2

After military expenses and loan services were paid, it can readily be seen that not much remained for ordinary government functions and for reconstruction. The budget for 1937-1938 allotted 7 per cent of the total for reconstruction, although sums provided for various government ministries probably accounted for certain projects under their direct supervision.<sup>14</sup>

Documents on Reconstruction

From the very beginning the Nationalist Government and the Kuomintang

<sup>13</sup> China Year Book, 1938, p. 471.

<sup>14</sup> Ibid., p. 472.



have been on record as favoring reconstruction and reform. A few documents of the Kuomintang and certain laws enacted by the government indicate the official views. Usually the party has taken a stand, and then the matter has been turned over to the government for implementation, although action has not necessarily followed. Lawrence K. Rosinger has recently written as follows:

In terms of practical politics it would be fruitless to make distinctions between the powers of the official political party and the official administrative organization.<sup>15</sup>

In 1929 the Third National Congress of Representatives of the Kuomintang passed a program entitled "Definite Fixing of the Program and Budget for Material Reconstruction in the Period of Political Tutelage." The program was to have been determined according to Dr. Sun's original plan, and one-half of the tax revenues, national and provincial, was to have been used for reconstruction. After this plan was passed in principle, it was referred to the Central Executive Committee of the Kuomintang, where it was realistically limited by assigning only the increase of customs revenue in 1929 over 1928 for national reconstruction, and any 1929 increase in land taxes for local reconstruction.<sup>16</sup>

The Land Act of 1930 was passed by the Legislative Yuan, which designated the Ministry of Industry, at that time responsible for agriculture, industry, and commerce, as the organ for enforcement. It has never been enforced to any great extent because of the lack of a complete cadastral

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<sup>15</sup> China's Wartime Politics, p. 10

<sup>16</sup> Gideon Chen, *op. cit.*, pp. 11-12.

survey, although some attempt was made after 1936.<sup>17</sup> The Rajchman Report to the League of Nations stated the following:

This act represents the programme of desired future accomplishments rather than a code of actual practice.<sup>18</sup>

The act consists of about 400 articles and provides that an absentee landlord may be dispossessed apparently without payment by a tenant who has cultivated the land for ten years; that provincial authorities are given power to limit the size of holdings and to expropriate any excess above the limit; that rent be limited to 37½ per cent of the produce; that a tenant cannot be evicted except under specified conditions and is to have the prior right of purchase if the landlord wishes to sell; that the tenant is to be compensated for improvements which he has made; that land strips may be rearranged into compact holdings if more than half the farmers of a district do not object; that the tenant may deduct from the rent any land tax that he pays; and that both central and provincial land offices be established.<sup>19</sup> If this act had been enforced, it would have removed some of the worst handicaps of the farmers.

The Provisional Constitution for the Period of Political Tutelage, promulgated June 1, 1931, after its adoption by the National People's Convention, provides that the state shall take active steps to carry out reclamation and irrigation, road-building, scientific agricultural edu-

<sup>17</sup> H. D. Fong, Toward Economic Control in China, pp. 58-59.

<sup>18</sup> League of Nations Council, Council Committee on Technical Co-operation between the League of Nations and China. Report of the Technical Agent of the Council on his Mission in China from the Date of his Appointment until April 1st, 1934, p. 26. (Signed L. Rajchman and hereafter referred to as the Rajchman Report.)

<sup>19</sup> Ibid., pp. 26-27.

cation, and the "Establishment of agricultural banks and encouragement of cooperative enterprises in the rural communities."<sup>20</sup>

A Six-Year "Program for Material Reconstruction" was also passed in 1931 by the National People's Convention; a Ten-Year Plan was announced in Geneva in August, 1931; Dr. H. H. Kung's "Basic Industry Plan" had been adopted in 1928 by the Central Executive Committee; Chen Kung-po's "Four-Year Industrial Plan" for the development of the Yangtze Valley as a center of heavy industry had partly been put into effect after 1932; and a number of other plans had also been considered. Most of these plans lacked provisions for machinery to carry them out and were not hampered by any reference to costs or possible sources of money.<sup>21</sup> Dr. H. D. Fong pointed out that Sun Fo's attempt in 1928 to make his father's plans concrete called for an annual budget of \$500 million for fifty years, whereas in 1928 the total actual revenue of the national government was only \$151 million.<sup>22</sup> While these plans came to naught, they show the pre-occupation of party members and government officials with the need for reform.

Cooperatives had been begun in China in a small way in the 1920's, and finally a Cooperative Law was enacted by the Central Government in 1934, to become effective September 1, 1935. It may have been superseded by regulations issued subsequently by the various bureaus to which co-

<sup>20</sup> China Handbook, 1937-43, (A Comprehensive Survey of Major Developments in China in Six Years of War), Chinese Ministry of Information, p. 117.

<sup>21</sup> Gideon Chen, *op. cit.*, pp. 11-26.

<sup>22</sup> H. D. Fong, *op. cit.*, p. 76.

operative matters have been transferred through a decade of "administrative reorganization". It consisted of 9 chapters and 76 articles, defining cooperative societies; recognizing credit, industrial, agricultural, consumption, insurance, or other types; and providing for societies of limited and unlimited liability. The minimum number of members was set at seven, and a constitution, directors, and supervisors were required to govern operations. Societies were made exempt from income tax and turnover tax, and had to register with the competent authorities within a month of organization. Members were required to be twenty years old and to have a regular occupation, and were not permitted to belong to more than one unlimited society at a time. Each member had to hold one share, and none could hold more than 20 per cent of the total capital stock, or more than 10 per cent in a consumers' society. Par value of stock had to be between \$2 and \$20, dividends could not exceed 10 per cent per annum, and no transfer of shares was permissible without the consent of the society. Profits were to be divided as follows: 20 per cent to reserve fund; 10 per cent to emergency fund; 10 per cent for payment to the administrative council and office staff; and further profits to members in proportion to their business with the society. Equally detailed sections provided for federations or unions.<sup>23</sup>

As early as 1936, Dr. W. Mackenzie Stevens, a cooperative expert from the United States who was then in China, wrote that while the Cooperative Law was carefully worked out on the whole, it was too rigid

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<sup>23</sup> A. Lenz, "Co-operation in China", International Review of Agriculture, Vol. 29, No. 7, July, 1938, pp. 325E-327E.

for the safe and rapid development of the cooperative movement in a vast country with varying conditions, and that it did not allow the flexibility necessary to provide for the different objectives of various types of cooperative societies. He gave in detail the wording of changes that should be made in eighteen specific sections of the law to remove the deficiencies he considered objectionable.<sup>24</sup> No information has been discovered to determine whether his suggestions were followed.

The most concrete achievement of the Extraordinary Party National Congress in 1938 was the adoption of the "Program of Armed Resistance and National Reconstruction". Besides wartime measures, it included the directive that the hsien should be taken as the fundamental unit of local self-government. To carry this out, the National Government promulgated, in September, 1939, the "Organic Outline of Various Graded Units in the Hsien", to bring about the new hsien system; and it followed this up in August, 1940, with the "Outline for the Organization of Cooperative Societies in Hsien and Administrative Units below Hsien".<sup>25</sup> This wartime program included the following statement under the section on Economic Affairs:

The greatest measure of energy shall be devoted to the development of rural economy, the encouragement of cooperative enterprises, the regulation of foodstuffs with regard to their demand and supply, the cultivation of wasteland and the improvement of irrigation installations.

<sup>24</sup> W. Mackenzie Stevens, "A Critique of the Chinese Cooperative Law", Nankai Social and Economic Quarterly, Vol. 8, No. 4, January, 1936, pp. 773-823.

<sup>25</sup> China Handbook, 1937-43, pp. 103-104 and 629.

Mining shall be undertaken, the foundation for heavy industries shall be laid, light industries shall be encouraged, and handicraft industries in the various provinces shall be developed.<sup>26</sup>

The Central Planning Board was established in October, 1940, under the Supreme National Defense Council, to formulate and study all plans of political and economic reconstruction. It had completed a "Three-Year Wartime Reconstruction Plan" in December, 1941, and was compiling a "Post-War Five-Year National Defense and Economic Reconstruction Plan", and a Ten-Year Plan for the development of the Northwest provinces.<sup>27</sup>

The Final Draft Constitution of the Republic of China, published in May, 1936, but not yet adopted, does not specifically mention cooperatives, although it reiterates the responsibility to provide for the "people's livelihood".<sup>28</sup>

#### Official Policy

Government policy, as it has revealed itself in enactments and interpretation, can be said to consist of the New Life Movement in the social realm; the New Hsien Government, which emphasizes the county rather than the province, in the political field; and the promotion of state-controlled heavy industry, privately owned light industry, and the stimulation of agriculture and handicrafts, with encouragement of cooperatives, in the economic sphere.

Both the New Life Movement and the New Hsien Government are directly

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<sup>26</sup> China Handbook, 1937-43, p. 62.

<sup>27</sup> Ibid., pp. 86-87.

<sup>28</sup> Ibid., pp. 120-127.

traceable to Chiang Kai-shek, who is by background of the military group, although he also holds many civil posts. Both devices were tried out after 1934 in the recovered Communist areas, especially Kiangsi, and were found effective in organizing--one might say regimenting--the populace while a slightly liberalized version of the old agrarian system was restored. The New Life Movement is designed to revive the old virtues and is accompanied by the encouragement by the military authorities of a revival of Confucianism.<sup>29</sup> The New Hsien plan has its points as a device for stripping the provinces of some of their power; but its central idea, the pac-chia system, has been reported as being used for policing and for conscripting labor in the rural areas rather than as a workshop for democratic training.<sup>30</sup> The pac-chia system, like the New Life Movement, is a revival of an ancient system. The term was in use during the Sung Dynasty (960-1276 A.D.), although the system itself, used for military purposes, was known as early as the Han Dynasty.<sup>31</sup>

Nothing as definite as these two systems has emerged in the economic field. It is apparently the accepted idea that the state will engage in all heavy and extractive industry, while leaving the light and consumers' industries in private hands; but no definite demarcation has yet been announced.

Although the intention in this paper is to emphasize information re-

<sup>29</sup> George E. Taylor, The Reconstruction Movement in China, pp. 397-8.

<sup>30</sup> Ibid., pp. 378-379; J. M. D. Fringle, China Struggles for Unity, pp. 93-94.

<sup>31</sup> C. M. Chang, A New Government for Rural China: The Political Aspect of Rural Reconstruction, p. 39.

garding cooperatives, it must not be assumed that the plans call for a cooperative economic system. Credit cooperatives have been widely utilized for the distribution of rural credit, but the industrial cooperatives have had a good deal of opposition, as well as difficulty in avoiding the bureaucratic control to which the credit cooperatives are already subjected. During the war it appeared that all organizations, of any kind, were subject to bureaucratic control. One can only hope that this was a temporary wartime incursion on the rights of the people that the government is on record as favoring.

Government policies were so much criticized, in spite of the absence of real freedom of expression during the war, that it is doubtful if the Chinese people will submit to strict "organization" now that the war is over. Besides the Communist party, which has more or less acted as a goad to the Kuomintang in reconstruction, there are a number of other less well organized opposition parties, all of which were illegal under the one-party system. Furthermore, the Chinese have a tradition of their right and even duty to revolt against the government if conditions become unbearable. In the days of the Empire the exercise of this right brought about the overthrow of more than one decadent dynasty, which was said to have lost the "Mandate of Heaven" when it no longer provided for the well-being of the people.

The measure of success that General Marshall has had up to the present time in encouraging the reconciliation of differences makes the outlook for unity better now than it has ever been since the establishment of the Republic.



VIEWS ON RECONSTRUCTION IN THE PROVINCES

The military-agrarian group, while well represented in the national government, has been predominant in the provinces; the Westernized group, which formerly had great influence in the national government, has never made important inroads in the provinces except in a few large cities.

The committee system formerly used in some provincial administrations has given way to governors who represent the military system.<sup>32</sup> Thus the ruling classes in the provinces have worked toward the ideas of reconstruction already expressed for the military-agrarian group (See pp.51-52.)

The retreat of the central government into the interior, the establishment of government-controlled or -owned factories in the Northwest and Southwest, and the absorption of the provincial armies into the national army during the war, all strengthened the central government at the expense of the provinces. As the provincial authorities accepted central control and a certain number of national regulations, however, their leaders were usually absorbed into the national bureaucracy, where they tended to force further compromises between provincial and national points of view. Central government control has not disturbed to any great extent the position of landlords and their sources of wealth and influence in the provinces. Thus, whether the province is semi-independent or under more or less close central control, the agrarian problem remains the same.

Szechwan, chosen as the wartime base with the national capital at

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<sup>32</sup> George E. Taylor, The Reconstruction Movement in China, pp. 386-387.

Chungking, has been more affected than any other province in the curtailment of its former semi-independence. Some interior provinces have been affected scarcely at all. For instance, Sinkiang, for many years virtually independent, could throw its weight toward Russia, although it is now nominally under central government control. Yunnan, which had one of the most corrupt of the provincial governments, was only partially brought under control during the war, as is explained in the following quotation:

The autonomy of the provincial government, however, has hardly been disturbed. The dominant interest of the local regime is the preservation of its prerogatives against the day when the central government shall again move its seat eastward toward the seacoast at the end of the war.<sup>33</sup>

The Draft Constitution does not provide for any division of powers between the central and provincial government agencies, the latter being expected merely to execute the laws and orders of the central government.<sup>34</sup>

Reconstruction on the provincial level, as well as on the national level, depends on the availability of funds. There have been a number of changes in the financial resources of the provinces, the general effect of which will be to reduce provincial power. Part of the likin revenue had been used for provincial purposes, and to replace it after its abolition the business tax was provided in 1928. Thereafter the land, business, and title-deeds taxes were most productive of provincial

<sup>33</sup> David N. Rowe, China Among the Powers, pp. 135-136. It was only in October, 1945, after the end of the war, that Yunnan's provincial ruler was replaced by an appointee of Chiang Kai-shek. Cf. Time, Vol. 46, No. 16, October 15, 1945, p. 26.

<sup>34</sup> Ibid., p. 143.

revenue.<sup>35</sup>

In 1931-1932, figures from 20 provinces showed that an average of 16 per cent of the total provincial budgets were devoted to reconstruction. In 1935-1936 reconstruction accounted for 10 to 11 per cent of the total outlays in 18 provinces and 4 municipalities.<sup>36</sup>

The Second Financial Conference in 1934 issued a manifesto making the following points: The central government was to be petitioned to issue a mandate prohibiting the increase of land taxes; surtaxes and miscellaneous levies were to be reduced gradually until totally abolished; the inefficient provincial tax collection system was to be reformed; provincial and hsien revenues were to be clearly demarcated; after the abolition of exorbitant and miscellaneous taxes beginning from July, 1934, the central government was to reserve revenue from the stamp tax for subsidies to provincial governments and also to allow them to collect the tobacco and wine license tax; expenses of the judiciary, formerly paid from the provincial treasury, were to be paid by the central treasury.<sup>37</sup>

The most important change, however, if it is being enforced, was that made at the Eighth Plenary Session of the Central Executive Committee of the Kuomintang Party in March, 1941, when it was decided to authorize the national government to take over the collection of the land tax from the provinces.<sup>38</sup> This was accompanied by the attempt to distribute the

<sup>35</sup> China Year Book, 1938, pp. 471-472 and 489-490.

<sup>36</sup> Frederick V. Field, "Chinese Reconstruction in Practice", Far Eastern Survey, Vol. 5, No. 25, December 19, 1936, p. 265.

<sup>37</sup> China Year Book, 1938, p. 468.

<sup>38</sup> China Handbook, 1937-43, p. 42.

land tax burden more equitably by land registration and appraisal, and favorable progress was reported in 1944. The government also tried to meet the problems of hoarding and speculation by collecting the tax in grain and by a system of compulsory sale of foodstuffs.<sup>39</sup> This revolutionary step was caused by conditions such as were described in Szechwan in 1941:

Rice hoarding . . . has been used by provincial governments as a political weapon to combat encroachments of the Central Government. The Chengtu plain, one of Free China's "key economic areas", is owned by landlords whose loyalties are attached to the Szechwanese militarists and in whose area over 80 per cent of agricultural producers are tenants.<sup>40</sup>

The fact that the central government had the power to inaugurate the policy of taking over the land tax, even though it may not have worked perfectly, was evidence of its growing strength in relation to the provinces, the strongholds of landlord power. While this did not benefit the farmers to any great extent during the war, it may be an important factor in re-directing reconstruction toward agricultural reform in the future. The more liberal Westernized group of the Kuomintang had great influence in the national government prior to 1937; and there is reason to believe that with the end of the war they will regain their voice in national affairs and have the power to extend their influence eventually into the provinces.

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<sup>39</sup> Owen Dawson, "China's Food Problem", Foreign Agriculture, Vol. 8, No. 5, May, 1944, pp. 107-108.

<sup>40</sup> Hugh Deane, "Scarcity Breeds Repression--China's Economic Problem", Amerasia, Vol. 5, No. 6, August, 1941, p. 252.

VIEWS ON RECONSTRUCTION IN THE HSIEN

The government that most directly affects the ordinary Chinese is the hsien or county government, since it may be the only one with which he comes in contact aside from the village government, which remains on a rather informal, practical, family-compromise basis. The paucity of information in regard to local government was recorded as follows in 1932:

Local government in China is still largely an unexplored field. None of the score or more of professors of political science in the fifty odd universities of the country appear to have thought it worth while to write an account of the manner in which more than two or three of the thirty provinces, one hundred or so large cities, nineteen hundred Hsien and half a million villages are in practice governed . . . How exactly . . . taxation on land is assessed and collected, appears . . . to be an almost impenetrable mystery, on which few Chinese themselves venture to speak with confidence . . . Any general statement is at present impossible. What appears to have occurred, however, is that the reconstruction of government during the last twenty years has been largely confined to the upper storeys of the system, and that in the lower the old regime, with its old abuses, and possibly some new ones, has continued unaltered.<sup>41</sup>

This was written before the attempt to install the new hsien system, but little seems to have been written about local government since the change was attempted. Available information has been assembled, but there is no assurance that a complete picture is given by such points as are cited.

The hsien is governed by a magistrate appointed by the national government on the recommendation of the provincial government,<sup>42</sup> and the type

<sup>41</sup> R. H. Tawney, Land and Labour in China, pp. 180-181.

<sup>42</sup> China Year Book, 1938, p. 518; the proposed Draft Constitution, however, provides that the District Magistrate and members of the District Council shall be directly elected, and "all matters that are local in nature. . ." are reserved for hsien self-government. Cf. Rosinger, op. cit., p. 80.

of magistrate has a great deal to do with the fate of the people in the area. While there have been a number of cases of enlightened hsien government, and while there are certain experimental hsien displayed as models, they have perhaps received more publicity than their number and influence warrant. On the whole, the power of the landlords has hardly been touched in hsien government. Dr. Taylor wrote as follows:

Many a young American-trained magistrate broke his heart trying to reform a county administration which proved too much for him.<sup>43</sup>

Thus the viewpoints of the military-agrarian group prevail here as in provincial and national affairs.

The hsien is supposed to be the basic self-governing unit of the country, but at present no officials are elected except in the smallest subdivisions, and many times even there they are appointed. The political divisions and subdivisions below the hsien may be clarified more easily by outline than by description:

Hsien (county)

Ch'u (district)

Chen (urban subdivision)

Hsiang (rural subdivision)

Pao (borough, nominally 100 families)

Chia (ward, nominally 10 families)

The pao and chia leaders in some places are elected, but this is by no means universal. All orders are passed down from the provincial authorities, and nothing may be initiated in the hsien except with provincial

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<sup>43</sup> George E. Taylor, Changing China, pp. 83-84.

approval.<sup>44</sup>

According to a Chinese writer, each family is required to post at the door a list of the number, age, sex, and profession of family members, and the family agrees to guarantee the conduct of its members. Any visitor must be reported, and if anything unlawful happens within a chia, the leader is liable to punishment if he did not report it.<sup>45</sup>

Financial resources of the hsien for reconstruction are very limited. In the description of surtaxes it was mentioned that they were the source of most of the hsien revenues; but at the Second Financial Conference of 1934 it was decided that surcharges were to be abolished, as was the "tax-farming" system and any collection of taxes on commission. Between July 1, 1934, and the end of the year, in 22 provinces and municipalities, 3600 different items were abolished, with 1006 more abolished in the next six months. To replace these funds, the Ministry of Finance planned that 30 per cent of the annual income from the stamp tax in each province was to go to the hsien, and 10 per cent to the province. But the author then stated the following:

Because of the possession of greater authority on the part of the Provincial Government, the hsien government is often unable to claim its due share.<sup>46</sup>

Comparison of total provincial and hsien expenditures in Chekiang in 1933 showed that the former was \$1.40 per capita, and that the latter averaged 25 cents per capita. In the same year in Chinghai hsien, Hopei,

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<sup>44</sup> George E. Taylor, The Reconstruction Movement in China, p. 393;  
C. M. Chang, op. cit., p. 30.

<sup>45</sup> C. M. Chang, op. cit., pp. 38-39.

<sup>46</sup> Ibid., p. 35.

the total hsien expenditure was \$94,108, of which only 2½ per cent was spent on reconstruction.<sup>47</sup> A study of the finances of 130 hsien in Hopei in 1931 showed that 6.53 per cent, or \$542,667, was spent in all the hsien for reconstruction, or an average of \$4,200 for the year per hsien. The average number of people living in each hsien was 240,000, so the expenditure per capita was under 2 cents.<sup>48</sup>

Other information regarding the workings of local government, new style or old style, do not seem to be available, except for information on cooperatives in succeeding chapters. ( See pp. 205-207 and 212. )

#### VIEWS ON RECONSTRUCTION OF THE COMMUNISTS

The Communists were in control of the province of Kiangsi and neighboring territory from 1928 to 1934, when they were driven out by the Nationalist armies of Chiang Kai-shek. In the latter year they began the now famous "Long March" through Central and Western China, ending up in the Shensi-Kansu-Ningsia Border Region, where they remain in control today.

The Communists' ideas of reconstruction were put into effect in Kiangsi perhaps more successfully than the Kuomintang's plans have been put into effect in the rest of China, because the Communists, unlike the Kuomintang, saw no need to compromise with more conservative factions at the beginning. The effectiveness of their reforms was considerably offset by excessive ruthlessness.

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<sup>47</sup> C. M. Chang, op. cit., pp. 30-38.

<sup>48</sup> Field, op. cit., p. 265.



The principal features of the Communist program in Kiangsi consisted of the abolition of private ownership of land; the redistribution of land among the poorer peasants after the confiscation of large estates; the substitution of cooperative credit societies for private credit; the enforcement of collective agreements for minimum wages and hours in local industrial establishments; a graduated taxation system bearing more heavily on the wealthier people; the elimination of opium-growing; a literacy program for adults as well as youth; the establishment of a university and a military academy; and the inclusion of the mass of the people in political life through their active participation in organizations ranging from the local village Soviet to the government in the capital.<sup>49</sup>

The program was modified after the Communists left Kiangsi by a relaxation of measures against landlords and the bourgeois classes. The land of those who bought it with income from services was not confiscated; rich farmers whose land was confiscated were themselves entitled to a share of it; the land of merchants could be confiscated, but not their commercial enterprises; and commercial and industrial development by individual capital was encouraged.<sup>50</sup>

In 1938 another Communist group, the Hopei-Shansi-Chahar Border Government, carried out reforms in Central Hopei, a guerrilla region behind the Japanese lines. These included redistributing 15 per cent of the agricultural land which had been confiscated from traitors, from owners who fled after the invasion, and from former public lands; reducing rents

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<sup>49</sup> Problems of the Pacific, 1936, pp. 166-167.

<sup>50</sup> Ibid., pp. 167-168.

by 25 per cent; forbidding the eviction of tenants; establishing a maximum annual interest rate of 10 per cent; adjusting taxes on a graduated basis, with more than a quarter of the poorest peasants exempt; reducing the cotton area by 70 per cent to provide more land for food; and encouraging local handicrafts. It was stated that a number of former wealthy citizens returned from the towns to which they had fled, so apparently the reforms were found to be a lesser evil than the Japanese.<sup>51</sup>

The opinion of the Chinese delegation at the Institute of Pacific Relations Conference in 1936 was reported as follows:

. . . that in the last analysis the difference between the Communist and Nationalist parties was mainly one of method (violent vs. gradual), and not of aim; and that the Communists . . . had been valuable as a stimulus to improvements in the central and provincial government Civil Services in the regions occupied by the Communists, and as an influence promoting a more progressive ideal of the economic organization of society.<sup>52</sup>

#### FOREIGN REACTION TO CHINESE RECONSTRUCTION

With the exception of Japan, most of the interested foreign powers encouraged Chinese reconstruction efforts, or at least maintained an attitude of indifference. It is now generally conceded, however, that the Japanese began the recent war against China in 1937 because they feared that progress in unification and reconstruction would make China progressively a more formidable foe. From the first Sino-Japanese war of 1895 on, almost every move that Japan made in relation to China was calculated to secure political or economic advantages to the detriment of

<sup>51</sup> Rosinger, op. cit., pp. 32-33.

<sup>52</sup> Problems of the Pacific, 1936, p. 170.

## China.

While the following statement by a Chinese on the international implications of Chinese reconstruction may be criticized as epigrammatic rather than exact, it does express the essential idea concisely:

From the United States we get the training of Chinese personnel; from the League of Nations, the technical advice of experts; from Great Britain, an important portion of the money; from Japan, all the obstruction.<sup>53</sup>

As has been shown, after 1928 it was generally acknowledged by all educated classes in China, except for the most reactionary vested interests, that the mutually related problems of the abject poverty of the people and the lack of national unity required vigorous measures of reform if both civil disturbances and foreign aggression were to be avoided. Economic and political plans of all sorts were made, although the machinery of execution did not always work satisfactorily.

Cooperatives were recognized by the government as a suitable tool for reconstruction by being mentioned in a succession of plans and in the Provisional Constitution for the Period of Political Tutelage, as well as by the enactment of a Cooperative Law. Cooperatives were also a feature of the reform efforts of the Communists.

In the following chapters cooperatives established by both private and public organizations will be described.

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<sup>53</sup> Problems of the Pacific, 1936, p. 173.

## Chapter III

AGENCIES FOR RECONSTRUCTION AND  
THE INTRODUCTION OF COOPERATION, 1928-1937

The foregoing sections dealing with the scope of the problem and the attitudes of various groups toward possible remedies have revealed the fact that China's reconstruction is a problem of magnitude even when compared with the problems of post-war reconstruction of the entire continent of Europe. A more optimistic note is possible in discussing the steps taken to meet this problem, for China would undoubtedly have made rapid progress had it not been for the war. Enough had been done before the outbreak of hostilities, however, to indicate that the problem had been grasped. The preliminary steps toward reform were not only worthwhile in themselves but also provided essential experience in planning and administration, which will be of value as reconstruction is resumed.

The abject poverty which has been described had started the average Chinese farmer on a descending spiral of bare subsistence in good years, the acquisition of debts at usurious rates in years of flood or drought, followed by a still lower standard of living as the debts mounted and as his unaided efforts to extricate himself were unavailing. Thus little or no surplus was accumulated with which to finance progress.

The significance of credit cooperatives, the first type introduced into China, is best seen in the setting of this self-perpetuating poverty and the near impossibility of breaking from its vicious grip. Credit cooperatives perform two functions: First, they serve to pool or to combine the tiny individual savings of a number of persons, thus mobilizing to

the utmost the very small resources of the people; and second, and far more important, they serve as a means of introducing outside capital. They do this by providing cooperative responsibility for loans made by outsiders to selected individuals believed by the cooperators to be good risks. This same principle of cooperative or group underwriting is used by the Federal Land Banks in loans to American farmers.

#### PRIVATE AGENCIES FOR RECONSTRUCTION

Prior to 1931-1932 public reconstruction in China was almost entirely emergency work of the relief type to combat distress after some catastrophe such as flood or famine. The only positive measures before that time were undertaken on a more or less small scale by private organizations which were pioneers in experimenting and in evolving procedures that were in many cases later adopted by the public agencies for reconstruction. The credit for introducing cooperation as a phase of reconstruction new to China should go to the China International Famine Relief Commission, the Mass Education Movement, and the universities, chiefly the University of Nanking and Nankai University at Tientsin.

#### China International Famine Relief Commission

The first practical demonstration of cooperation in China was made by the China International Famine Relief Commission (hereafter referred to as "the Commission" or "C.I.F.R.C."), which was established as a permanent organization after the North China Drought Famine of 1920-1921. Throughout the period of famine and thereafter, the C.I.F.R.C. provided emergency food and cash, as well as employment, for payment in grain or

cash, on constructive projects designed to help prevent the recurrence of similar disasters. From 1921 to 1927 the Commission planned and executed nine major projects in four provinces, such as road building, construction and repair of dikes, and irrigation and river reversion work; after 1927 a canal was built in Suiyuan, a large irrigation project in Shensi, a meter road in Shensi and Kansu, dikes in Hupeh and Kiangsi, and wells in Hopei.<sup>1</sup>

While these projects were very necessary and beneficial, a more direct way to help the poverty stricken farmer was sought. In 1922 the Commission made a preliminary survey in the famine area and decided that the key to the problem lay in the lack of credit at reasonable rates. After studying various measures that had been applied in similar situations in other countries, they concluded that the cooperative method would best meet the circumstances found in China. Accordingly, a committee on Rural Cooperation investigated the existing types of credit cooperatives and chose the Raiffeisen system, which had first been used in Germany, as the simplest and most suitable.

The Raiffeisen societies established in Germany in the middle of the 19th Century were characterized by a small homogeneous membership confined to a small area or locality; gratuitous service of officers; no distribution of profits; simple loan transactions for productive purposes only; a large proportion of funds, over 75 per cent at times, borrowed from other institutions rather than invested by members; and unlimited personal liability

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<sup>1</sup> Franklin L. Ho, Rural Economic Reconstruction in China, pp. 4-6.

of all members for debts of the society.<sup>2</sup>

These basic principles were provided for in the model constitution adopted for the C.I.F.R.C. cooperatives. At least 12 members were necessary to form a society; applicants had to be introduced by two members and voted on favorably by at least three-fourths of the members; each member subscribed to one or more non-interest bearing membership shares, but had only one vote per member; members could be expelled by vote of lack of confidence of two-thirds of the members; the society borrowed on the combined credit of its members and lent only to members; interest on loans could not be higher than that prevalent in the locality; officers and committee members served without compensation; any profit realized was retained in a reserve fund and could not be divided among the members; an executive committee and an inspection committee, which audited books and certified that loans were used only for the purposes agreed upon, were elected by the full membership; the society could receive deposits and savings which bore interest; and liability of members was unlimited.<sup>3</sup>

From 1931 on, when the C.I.F.R.C. was called upon to organize cooperative relief in areas in which disasters had taken place, a preliminary step was introduced. Since immediate relief was necessary in these situations, societies had to be formed without exhaustive investigation of members and before any education in cooperative principles could be carried out. Hence, "mutual aid" or preparatory societies were formed as rapidly

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<sup>2</sup> Rudolph F. Stahl, "Credit Cooperatives in Germany", The Bridge (Credit Union National Association, Inc.), Vol. 6, No. 10, January, 1942, p. 13.

<sup>3</sup> Walter H. Mallory, "Rural Cooperative Credit in China", Quarterly Journal of Economics, Vol. 45, No. 3, May, 1931, pp. 486-487.

as possible, credit was extended, and after a reasonable length of time the societies had to meet C.I.F.R.C. standards in order to progress to the status of recognized C.I.F.R.C. cooperative societies.<sup>4</sup>

Although the Commission established some marketing and purchasing societies in later years, it is not far from the truth to say that its work was exclusively in the field of rural credit. This determined the course of cooperation in China, as the cooperative movement in early years was almost entirely a credit cooperative movement. This was true as late as 1940, when credit societies constituted 87 per cent of the total; but by 1944, while the total number of societies of all types had increased, only 47.8 per cent of the total number were classified as credit societies.<sup>5</sup>

Various institutions which later established cooperatives had their own rules and regulations. While credit societies continued to predominate, a fundamental change was made from the C.I.F.R.C. plan when other organizations began to demand security other than the mutual guarantee of members.

In considering the development of cooperatives under the auspices of the C.I.F.R.C., the period of 1922-1925 may be called the experimental period; 1926-1930, the period in which the idea took root, standards were raised, and cooperative principles and training were emphasized, and the

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<sup>4</sup> C.I.F.R.C., Series B, No. 37, Herr Raiffeisen among Chinese Farmers, (1930) pp. 8-10. Cf. also Appendix 2, pp. 36-42, for the Model Constitution for Rural Cooperative Credit, Savings, and Marketing Societies of the C.I.F.R.C.

<sup>5</sup> International Labour Office, Co-operative Information, Vol. 21, No. 11, 1944, p. 4. Figures are quoted from the Central Cooperative Administration of China.



period from 1930 on, as that in which indigenous development took place, while the societies grew in number and strength.

After the plans were discussed with certain rural leaders, several societies were established in various counties, and early in 1924 three of the societies were investigated and recognized by the Commission and the first loans granted. One society near Peking was composed almost exclusively of farmers; another in Tingsien, in Central Chihli (or Hopei), had a number of members who were village weavers; and the third, near Nanking, was composed of market gardeners. This latter society was made the responsibility of the College of Agriculture of the University of Nanking, which acted for the Commission. By the end of 1924 nine societies had been recognized, with a membership of 403, and loans of \$3,290 had been made.

Regulations were worked out for the receipt of savings by societies, and Mr. J. B. Tayler investigated cooperative credit societies in India for the Commission. To the original \$5,000 allocated for loans to co-operatives, \$20,000 was added by the Commission and \$2,000 set aside for operating costs. A Rural Improvement Department was established for inspection, organization, grading of societies, issuing loans, etc. A monthly for farmers, Co-operation News, was begun, and the first training course for the officers of the village societies was held.<sup>6</sup>

The first societies had been formed through the initiative of relief workers in Peking, but after 1924 the news spread and the villagers themselves took the initiative, forming tentative societies and sending repre-

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<sup>6</sup> Herr Raiffeisen, No. 37, pp. 5-6.

sentatives to ask for recognition. This raised the problem of ascertaining that cooperative principles were understood. It had to be emphasized that the societies were not charitable, religious, or political organizations, that the members were responsible for scrupulously handling all the funds, that the money was to be used constructively, and that members were responsible for repayment in full.<sup>7</sup> Because of the shortage of funds and the great number of requests for loans, standards for recognition were raised and preference in loans was given to the most stable and well-administered societies. This stimulated the societies to try to attain and maintain high standards.<sup>8</sup>

In 1930 the first outside interest was evidenced when the Hopei Provincial Government appointed its own Committee on Cooperation and adopted a model constitution. For a time it appeared as though the provincial government would take over control of the Commission's cooperatives, but this did not materialize. However, the societies were required to register and were given recognized legal status.<sup>9</sup>

Up to 1931 practically all the societies established by the Commission were in Hopei Province. At the time of the Yangtze Flood in 1931 the C.I.F.R.C. offered their services to the government, and they were accepted by the National Flood Relief Commission, which was engaged in distributing direct relief and in the reconstruction of dikes by labor relief. The Flood Commission made the C.I.F.R.C. responsible for relief in two sections

<sup>7</sup> Herr Raiffeisen, No. 37, pp. 19-21.

<sup>8</sup> Ibid., pp. 25-26.

<sup>9</sup> C.I.F.R.C., Series B, No. 61, Herr Raiffeisen among Chinese Farmers, 1922-1934, (1935), pp. 6-7.

of Kiangsi Province. The C.I.F.R.C. organized farm rehabilitation to enable the people to return to agricultural pursuits as soon as possible so as to end the need for outside support. The method used was similar to that used in Hopei, the organization of farmers into "mutual aid" societies; the extension through these groups of long term low interest loans without collateral security and on the collective guarantee of members; the eventual reorganization of these societies into genuine cooperatives; and the use of the returned loans as working capital for cooperative development. Work of this nature was extended after the flood to the provinces of Anhwei, Hunan, and Hupeh at the request of the National Flood Relief Commission. The staff of trained workers was largely drawn from the Hopei cooperatives.<sup>10</sup> More than \$2,000,000 was distributed in these provinces by the C.I.F.R.C. for the government.<sup>11</sup>

An innovation in 1931 was the introduction of commercial capital for cooperative loans. The Shanghai Commercial and Savings Bank signed an agreement to lend \$20,000 to cooperatives on the same terms as the C.I.F.R.C. In the next year or two this amount was raised to \$100,000, and the Bank of China and the Kincheng Banking Corporation agreed to lend \$20,000 and \$50,000 respectively, the latter amount to be used to finance cooperative marketing, which had been attempted with some success by a union in Hopei. These contracts required that the Commission participate in each loan with its own funds; but a revision of the agreement was con-

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<sup>10</sup> Herr Raiffeisen, No. 61, pp. 7-11.

<sup>11</sup> A. Lenz, "Co-operation in China", International Review of Agriculture, Vol. 29, No. 7, July, 1938, p. 324E.

cluded for \$200,000 from the three banks to be lent directly to the societies and not to or through the Commission, the latter, however, continuing its supervision of the societies.<sup>12</sup>

The C.I.F.R.C. in 1933 conducted rural rehabilitation work in Shantung, South Hopei, and Honan after the Yellow River Flood, raising its own funds through a public campaign because the government was unable to give financial support. The Commission also supplied methods and personnel to the North China War District Relief Commission of the National Government for rural rehabilitation work through mutual aid societies in North Hopei and Chahar following the Japanese hostilities in the spring of 1933, distributing almost a million and a half dollars in loans.<sup>13</sup>

Some of the detailed figures from the C.I.F.R.C. cooperatives in Hopei for the year 1929 are of interest. The size of loans granted reveals how small an amount may prove to be of great value to farmers of very limited means:

Table V

Size of Loans, C.I.F.R.C. Societies, Hopei, 1929<sup>14</sup>

<u>Size of Loans</u>	<u>Number</u>	<u>Amount</u>	<u>% of Total</u>
\$10 and below	785	\$ 6,332.50	6.26
\$10-20	2,992	52,063.30	51.50
\$20-30	679	16,716.20	16.54
\$30-40	239	8,666.00	8.57
\$40-50	105	5,059.00	5.00
\$50-150	166	12,266.10	12.13
Total	4,966	\$101,103.10	100.00%

<sup>12</sup> Herr Raiffeisen, No. 61, pp. 12-15.

<sup>13</sup> Ibid., pp. 15-18.

<sup>14</sup> Herr Raiffeisen, No. 37, p. 80.

The terms of loans indicate that the farmers could not make use of loans for much less than six months, but it was found that those of moderate means did not venture to contract loans that run for more than a year:

Table VI

Terms of Loans, C.I.F.R.C. Societies, Hopei, 1929<sup>15</sup>

<u>Length of Time</u>	<u>Members Borrowing</u>	<u>Total Amounts</u>	<u>% of Total</u>
6 mos. and less	516	\$ 11,621.30	11.49
6 mos. to 1 yr.	4,041	81,812.80	80.92
1 yr. to 1½ yrs.	239	4,544.00	4.50
1½ yrs. to 2 yrs.	161	2,920.00	2.89
2 yrs. and more	9	205.00	.20
Total	4,966	\$101,103.10	100.00%

The purposes for which loans were used by the farmers are interesting and significant, for the largest percentage of loans was used to retire debts at a higher rate of interest, as is shown by Table VII on page 85.

The interest rates of loans to the societies in various provinces ranged from 0.94% to 5.07% annually between 1923 and 1930, the variation being due to the fact that loans were first made directly by the commission as a relief measure, and later were partly supplied by the government and by commercial banks.<sup>16</sup>

That all was not smooth sailing can be gathered from excerpts from the Famine Commission Bulletin. In December, 1927, some of the village

<sup>15</sup> Herr Raiffeisen, No. 37, p. 80.

<sup>16</sup> Ibid., p. 134.

Table VII

Use of Loans, C.I.F.R.C. Societies, Hopel, 1929<sup>17</sup>

<u>Purposes</u>	<u>Members Borrowing</u>	<u>Total Amounts</u>	<u>% of Total</u>
Repaying old debts	1,247	\$ 24,078.00	23.82
Animals	765	16,164.00	15.99
Food	729	13,116.50	12.97
Implements	425	8,266.50	8.18
Repairing houses	255	6,812.20	6.74
Seeds	291	5,143.00	5.09
Redeeming land	198	5,103.60	5.04
Fertilizers	221	5,031.00	4.98
Reclaiming land	229	4,828.30	4.77
Irrigation	50	1,503.00	1.48
Marriages and funerals	64	1,434.00	1.42
Others	492	9,623.00	9.52
Total	4,966	\$101,103.10	100.00%

elders reported that the hsien magistrates, working under orders from the Civil Governor of Hopel, were investigating the societies preparatory to curtailing or suppressing them at the discretion of the magistrate. The Governor apparently issued his order at the instigation of the Ministry of Agriculture and Labor, "since these societies should be promoted by the Government and since the model constitution contains objectionable features." This was at a time that the national government had just announced a program for rural rehabilitation which contained provisions for cooperatives. The issue of the bulletin for February, 1928, stated that as a result of personal calls at the ministry it was found that the government did not intend to discourage the movement but "aimed to eliminate any possible undesirable elements that may be existing".<sup>18</sup>

<sup>17</sup> Herr Raiffeisen, No. 37, p. 81.

<sup>18</sup> Ibid., pp. 110-114.

The societies in Hopel grew from 8 in 1923 to 541 in 1933; membership, from 256 in 1923 to 23,753 in 1933; total capital, from \$286 to \$122,709.49 in the same years.<sup>19</sup> Savings and deposits, largely from members, amounted to 3 per cent of the total capital in 1925; 15.2 per cent in 1930; and 27.9 per cent in 1933.<sup>20</sup> A very good record was maintained by the farmers in repaying loans, although due to banditry, natural causes, and military disturbances, loans had to be extended from time to time.<sup>21</sup>

The recognized and unrecognized cooperative societies under the direction of the C.I.F.R.C. as of June, 1934, were as follows:

Table VIII

C.I.F.R.C. Cooperatives in June, 1934<sup>22</sup>

<u>Province</u>	<u>Recognized</u>	<u>Unrecognized</u>	<u>Total</u>
Hopel	474	571	1,045
Anhui	476	1,921	2,397
Kiangsi	368	186	554
Hupei	111	121	232
Total	1,429	2,799	4,228

Early in 1936 the C.I.F.R.C. turned over its societies to the Co-operative Department of the Ministry of Industries, following the enforcement of the Cooperative Law after September, 1935, and the establishment

<sup>19</sup> Herr Raiffeisen, No. 61, pp. 32-33.

<sup>20</sup> H. D. Fong, "The Cooperative Movement in China", Monthly Bulletin on Economic China, Vol. 7, No. 5, May, 1934, p. 191.

<sup>21</sup> Herr Raiffeisen, No. 37, p. 67.

<sup>22</sup> Herr Raiffeisen, No. 61, p. 191.

of this government bureau for supervision.<sup>23</sup>

A Chinese economist wrote as follows in 1937:

It is well known in China that among all the cooperatives those directed by the China International Famine Relief Commission are the best organized and most strictly supervised.<sup>24</sup>

### The Mass Education Movement

The Chinese Mass Education Movement is not known primarily as an agency for establishing cooperatives, although it has engaged in cooperative extension as a phase of its work. The movement is a result of the vision and energy of James Yen, who first conceived of it as a literacy movement after his experience in welfare work among the Chinese labor battalions in France during the first World War. He evolved a kind of basic Chinese which he taught to the coolies, and then he found that he had to follow it up by supplying reading matter, as all available material used a more literary type of language.<sup>25</sup>

After the war James Yen continued to work on his idea of teaching literacy; and as he interested others, the Mass Education Association was formed, demonstration schools were established in several villages, and from them grew "People's Schools", staffed and supported by the people themselves. The reason that the movement became more than a mere literacy

<sup>23</sup> Lawrence M. Chen, "The Cooperative Movement in China", Information Bulletin of the Council on International Affairs, (Nanking), Vol. 1, No. 12, September 1, 1936, p. 24.

<sup>24</sup> Chen Han-seng, "Cooperatives as a Panacea for China's Ills", Far Eastern Survey, Vol. 6, No. 7, March 31, 1937, p. 75.

<sup>25</sup> Pearl S. Buck, "Tell the People", Asia and the Americas, Vol. 45, No. 1, Section 2, January, 1945, p. 50.



movement was explained by James Yen as follows:

We soon began to see that when the minds of the people were liberated, they wanted more and they needed more. We realized that literacy alone was not enough. Literacy isn't education--it is only a tool for education, a means to the whole end. The people had to get an education which involved the whole of their life. And life in China for them is very unsatisfactory. So their education, if it is of the right kind, should be not so much to fit them for life as to re-make life. . . .we tackled public health, agriculture, economics and local government.<sup>26</sup>

Tingsien, a county seat in Hopei Province, was selected as a laboratory for carrying this movement to the people. It was "a typical sort of place"--there were 400,000 people in the county, the people raised cotton, and while they were poor, "they were not too poor." The intellectuals who began this experiment in the country found living quarters with the farmers and became a part of the community, where their example brought about a number of improvements in living conditions.<sup>27</sup>

After schools had been established and groups were taught, they formed "Fellow-Scholar Associations", alumni clubs whose members aimed to continue learning and to reconstruct the community. The members also volunteered to teach others what they had learned, so the number being trained was increasing all the time, while leadership from the people was being developed. The content of the lessons used in the schools was related to the situations met with in the student's environment, such as health, agricultural and home improvements, child-care, and cooperatives.<sup>28</sup>

<sup>26</sup> Buck, op. cit., pp. 54-55, quoted from James Yen.

<sup>27</sup> Ibid., pp. 58-59.

<sup>28</sup> Ibid., pp. 60-62.

In the winter when the farmers had more leisure, they began to develop village industries and Self-Help Societies or cooperatives. They found that two-thirds of the families in Tingsien were in debt and that the banks were not interested in making rural loans, although capital was piling up in the cities for lack of investments. There were 200 "local banks" in this area making loans at 40 per cent interest; but after two years' cooperation, all the "local banks" had to close, causing opposition to the movement from this group. Credit, marketing, and purchasing cooperatives were formed, and accounting methods for the societies worked out. Figures to indicate the extent of this development do not seem to be available. However, in one instance a cotton marketing cooperative was established which sold directly to the mills in Tientsin; and in three years their business, with improved seeds and grading, grew from \$120,000 to \$1,800,000. The average income of the Tingsien farmer was almost doubled, and the most significant thing about it to the farmer was the idea that he was improving his standard of living through cooperating with others. In other words, he was shown the value of working with a larger group than the clan or family, and he developed a sense of pride in the village, which is the first step toward patriotism.<sup>29</sup>

In 1932, after a thorough investigation of the work at Tingsien by the Ministry of the Interior, Mr. Yen was asked to become the president of the Institute of Political Reconstruction for the province. Then, as he stated, "We learned what it was to arouse bitter jealousies." They developed a new organization for hsien government, putting in public

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<sup>29</sup> Buck, op. cit., pp. 62-64 and 69.

health, adult education, agriculture, and cooperatives as integral functions of the hsien government.<sup>30</sup>

Besides the experiment at Tingshien, others were begun at Hengshan, Hunan, and at Hsin-tu, Szechwan. In the latter place they developed a People's Militia, took a census of the whole hsien, and conducted a land survey in 1936 which revealed an apparent increase of 66,000 mow of rice fields alone, representing an evasion of taxes by powerful gentry and local warlords. Pressure was brought to bear, and the governor dismissed the magistrate who had permitted these innovations; but after Chiang Kai-shek took over the province, he was so impressed by the progress of the experiment that in 1939 he recommended the New Hsien Government System for the entire country.<sup>31</sup> That this new system does not work perfectly when given unsympathetic leaders has already been suggested. (See pp. 68-69)

After the war began Tingshien was "occupied" by the Japanese. But the people conducted guerrilla warfare and local reconstruction at the same time in their district and served as leaders for all the neighboring counties. Of 472 villages in Tingshien (county), the enemy was able to occupy only 21, all the rest of the villages being under the supervision of two magistrates elected by the people, both men formerly connected with the People's Schools.

The Governor of Hunan asked James Yen to help train a corps of new civil service men to assist the provincial government in mobilizing the

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<sup>30</sup> Buck, op. cit., p. 66.

<sup>31</sup> Ibid., pp. 66-67.

30 million regular population and thousands of refugees who had fled the war. They trained about 5,000 of the educated refugees for higher offices in hsien government, and about 30,000 village heads. The military leaders said that Hunan's resistance to the Japanese was due in no small part to the effective cooperation of the hsien and village governments. Another wartime step of the Mass Education Movement was the establishment in 1940 of the National College of Rural Reconstruction near Chungking to train men and women for rural reconstruction work.<sup>32</sup>

It has been the policy of the Mass Education Movement to keep out of politics, even to avoid being completely subsidized by the government for fear of being controlled. Its value is that a way has been found to instill in the people a desire for education and progress, and that while leadership is necessary in the beginning, it really represents building from the bottom up rather than a system imposed from the top.

### Universities

The University of Nanking and Nankai University of Tientsin, both refugee institutions during the war, were outstanding in furthering reconstruction, although other universities also did a great deal of research and agricultural work of value. Cooperation was one phase of reconstruction work actively promoted by these universities.

The agricultural research done for the University of Nanking by Professor J. Lossing Buck has already been mentioned. Much experimental work was done in developing improved seeds and combating plant and animal

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<sup>32</sup> Buck, op. cit., pp. 69-70.

diseases; and rural cooperatives were promoted by the Department of Agricultural Economics from 1923 on.

From 1923 to 1936 a total of 50 societies were organized, consisting of 2 cotton producing and marketing, one wool weaving, one home industry, and 46 credit and productive societies. The total membership was 1272, and a total of \$40,785 was lent. The loans were 70 per cent for productive purposes, such as the purchase of seeds, fertilizers, implements, and animals; and 30 per cent for non-productive purposes, such as taxes, food, retiring old debts, etc.<sup>33</sup>

The Extension Department of the University of Nanking concentrated on developing a model rural community at Wukiang, about 30 miles from Nanking. In 1930-1931 the Wukiang Extension Center was operated jointly by the college and the Central Agricultural Extension Committee of the national government, but in the fall of 1931 the government stopped its monthly allowances. In the flood all seed, crops, food, animals, clothing, houses, and fuel were lost by the farmers in the area. The university organized rural credit societies which secured cash loans from the National Christian Council and the Shanghai Commercial and Savings Bank, and wheat loans from the National Flood Relief Commission. The total lent to farmers in this locality after the flood was \$72,491.

From 1931 to 1934 in this district, the Extension Department organized an irrigation cooperative, 31 rural credit societies, and a union

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"Eighteenth, Nineteenth, and Twentieth Annual Reports of the College of Agriculture and Forestry and Experiment Station, 1931-1932, 1932-33, 1933-34", University of Nanking Bulletin, Vol. 8, No. 2, pp. 23-25.

to consolidate the credit societies. A cooperative granary was formed by 12 cooperatives in 1932 to hold their surplus for a better price, and a gain of \$1 a picul was realized. In 1933 a cotton marketing cooperative of 400 to 500 members was formed for ginning and marketing, and a profit of \$4 a picul was secured over the price that would otherwise have been received. The cotton merchants tried to force this cooperative out of business by offering higher prices to independent farmers, but the mill at Wusih was pleased with the higher quality of the cooperative cotton. The Extension Department also conducted schools, night schools, and a one-month course for farmers.<sup>34</sup>

Nankai University faculty and students were among the leaders of independent study in sociology and economics in North China, and were also accused by the Japanese of being leaders of anti-Japanese activity before the war. The university was the first and one of the very few parts of Tientsin completely destroyed by Japanese bombing at the time of the Marco Polo Bridge incident that opened the war in 1937.

Professors Franklin L. Ho and H. D. Fong of the Institute of Economics of Nankai University have both been influential writers on economics and reconstruction in China. Under Professor Fong's direction a series of surveys was made in rural areas, which added considerably to the understanding of economic conditions in China. Both men have been outspoken regarding abuses and weaknesses that have limited the effectiveness of reconstruction plans, and both have been advocates of the cooperative method to develop credit facilities and to revive handicraft

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<sup>34</sup> "Eighteenth, Nineteenth, and Twentieth Annual Reports", op. cit., pp. 40-41.

industries as a supplementary pursuit for the rural population.

In 1932 the North China Industrial Service Union was formed to experiment with machines suitable for village use, methods of training workers in the use of these machines, and the possibility of organizing villages for decentralized industry. The C.I.F.R.C. offered to cooperate in the new field insofar as it was concerned with cooperative organization, but the technical problems were undertaken by associated universities and laboratories.<sup>35</sup> Just how this organization was connected with Nankai University has not been ascertained, but the president of the university, Dr. Chang Fo-ling, was chairman. The union developed a locally made carding machine for wool which resulted in the doubling of spinning speed; started a training school for foremen and workmen, which drew more pupils than could be accommodated; and eventually was responsible for weaving being started in 18 local centers in 7 different provinces. When the article containing this information was written, problems of organization for marketing and cooperation had not been solved, but it was planned to develop the project in a cooperative way.<sup>36</sup> The union also was experimenting, in association with the C.I.F.R.C., with the marketing of cotton in 10 villages. All the cotton growers were members of local cooperatives affiliated with the Hsintseh (or Shentseh) Cooperative Union in Hopei. In 1933 the C.I.F.R.C. took over the work begun by the union.

In 1934 the work was on a larger scale and was transferred to the

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<sup>35</sup> Herr Raiffeisen, No. 61, pp. 25-31.

<sup>36</sup> J. B. Tayler, "The Possibilities of Rural Industry in China", Monthly Bulletin on Economic China (Nankai Institute of Economics), Vol. 7, No. 2, February, 1934, pp. 54-57.

Joint Committee on Research and Extension of Agricultural Products in North China, which was composed of the Kincheng Banking Corporation, the Tingsien Experiment of the Mass Education Movement, the National Tsing Hua University, the College of Agriculture of the University of Nanking, and the Nankai Institute of Economics. The Joint Committee had departments of research and of extension and was exclusively engaged in the cooperative marketing of cotton. Attempts were made to standardize the crop by producing standard seeds at Tingsien. In 1934 there were 406 cooperative marketing societies with 8,091 members working through this committee. This was only a small proportion of those engaged in cotton production in Hopel, representing only 14 out of 81 cotton-producing hsien; and the Joint Committee and the C.I.F.R.C., both marketing cotton cooperatively, handled only 1.19 per cent of the total cotton produced in the province. However, in the hsien where the first marketing cooperative was established, 14.23 per cent of the entire hsien crop was marketed cooperatively in 1934. The cost of marketing per picul was found to be \$7.60 through commercial channels, and \$1.97 to \$2.19 by the C.I.F.R.C and the Joint Committee cooperative marketing methods.<sup>37</sup>

### Banks

That some of the banks entered the field of cooperative finance through association with the C.I.F.R.C. and the universities has already been stated. After 1928 agricultural banks, which lent to cooperatives organized by the provincial governments, were established in Kiangsu and

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<sup>37</sup> H. D. Fong, "Cooperative Marketing of Cotton in Hopel Province", Nankai Social and Economic Quarterly, Vol. 8, No. 3, October, 1935, pp. 556-574.



Chekiang, as well as in other provinces later. When Generalissimo Chiang's military headquarters adopted the policy of suppressing communism by economic as well as military and political means, the workers attached to field headquarters in the Yangtze Valley began establishing cooperatives with funds mainly from the Four Provinces Agricultural Bank (Hunan, Hupoh, Anhwei, and Kiangsi). The Generalissimo's headquarters appropriated a total of \$600,000 as an initial fund to establish cooperatives in Kiangsi, and finally in 1935 the headquarters issued regulations ordering the establishment of separate treasury funds for cooperatives in the various provinces.<sup>38</sup>

In 1937 it was stated that the Kiangsu Agricultural Bank controlled over 2,000 cooperatives, to which it had lent more than \$24 million. It had 9 branches, 3 sub-branches, 17 agencies, and 211 grain warehouses. The Chekiang Agricultural Bank had 9 branches, 29 sub-branches, and 11 being organized. The Four Provinces Agricultural Bank, renamed the National Farmers Bank of China, had rural investments of \$11 million, of which \$4½ million was in the 3,000 cooperatives directly controlled by the bank in 11 provinces.<sup>39</sup>

While this appears to be a rapid increase in cooperative investment by the agricultural banks, their share of the loans was only about 30 per cent of the total, with commercial banks investing about 70 per cent in the last years before the war. The commercial banks were interested in

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<sup>38</sup> Chen Han-seng, "Cooperatives as a Panacea for China's Ills", Far Eastern Survey, Vol. 6, No. 7, March 31, 1937, pp. 72-73.

<sup>39</sup> Ibid., p. 73.

cooperatives purely from a business standpoint, because they had idle funds which had fled to the treaty ports to escape the chaotic conditions in the interior. But the great increase in the number of cooperatives could not have been attained had it not been for the banks, which were so eager for this field of investment that they began organizing directly and even for a time competed with each other for the privilege of granting loans.<sup>40</sup>

The Shanghai Commercial and Savings Bank in 1933 had 5 per cent of its total investments in rural areas, but by 1935 this had grown to nearly 20 per cent. How much of this was invested in cooperatives was not known. During the last half of 1934 the Bank of China had \$2 million in cooperatives, and \$59 million invested in grain dealing. About 1936 this bank invested over \$1 million in the tea districts in Anhwei through cooperatives. The Bank of Communications had direct control over 500 cooperatives in Shensi. All of these banks had their own committees and field workers organizing cooperatives as rapidly as possible according to their own rules and regulations. They did not use the C.I.F.R.C. system of mutual guarantee and no security for loans, but required security.

To avoid conflict and competition, in the winter of 1934 a joint banking concern, called the Loan Consortium for the Chinese Agricultural Cooperatives, was formed by the Shanghai Commercial and Savings Bank, the Bank of Communications, the National Commercial Bank, the Kinchang Bank, and the Four Provinces Bank. Later five more banks joined the consortium, which divided the territory and the amounts to be invested. In 1936 the

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<sup>40</sup> Chen Han-seng, *op. cit.*, p. 73; Ho, *op. cit.*, pp. 51-52.

organization had \$2½ million for investment in cooperatives. Total investments in cooperatives in 1935 by agricultural and commercial banks was almost \$10 million.<sup>41</sup>

#### PUBLIC AGENCIES FOR RECONSTRUCTION

Public reconstruction activity in China, aside from relief activities for flood and famine, began shortly after the establishment of the Nationalist regime in 1928. Real progress was slow in the beginning, and it was not until the 1930's that the complicated problem was approached simultaneously from many different angles. After 1928 the establishment of cooperatives, especially credit societies, was a phase of government reconstruction policy. In the government impatience for quick reform, cooperatives were established so rapidly in the 1930's that adequate training was not carried out; and the process became one of organization from the top, under government orders, rather than a true cooperative movement growing out of the desire of the people.

It has been pointed out that the following convergence of catastrophes in 1931 and immediately afterwards stimulated reconstruction and shaped its course:

1. The anti-Communist campaigns were expensive of money and energy that might have gone into reconstruction; but about 1931 and 1932 the government realized that the only way to combat radicalism was to try to eradicate the reason for its strength, the poverty of the people. Thenceforth social, economic, and political measures, as well as military, were used.

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<sup>41</sup> Chen Han-seng, op. cit., pp. 73-74.

2. The Hwai and Yangtze Floods occurred in the summer of 1931; and the National Flood Relief Commission, which was organized to cope with the disaster, recognized the necessity for preventive as well as relief measures.

3. The world economic depression was late in reaching China, but it hit in full force in the winter of 1931-1932, chiefly in the form of the collapse of the export market; the stoppage of the remittances from overseas Chinese, which had helped the balance of trade; and the silver crisis. Furthermore, the world depression made it clear that China could not expect outside help and would have to rely on herself.

4. The Japanese occupation of Manchuria and the battle of Shanghai in 1931-1932 resulted in the loss of property, territory, raw materials, and customs receipts, as well as in the loss of the Manchurian market for Chinese industry and handicrafts. The immediate result was the imposition of higher taxes, which heightened the rural crisis; and the eventual result was the conditioning of reconstruction along military lines.

Thus agrarian reform was necessary to oppose Communism, water control to eliminate floods, financial reform to relieve the depression and to control the effects of the depreciation of foreign currency, new taxes to replace lost revenue, and military control to establish conditions necessary for national defense.<sup>42</sup>

#### National Economic Council

The most important public agency for reconstruction in China, and

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<sup>42</sup> Frederick V. Field, "The Call to Reconstruction in China", Far Eastern Survey, Vol. 5, No. 24, December 2, 1936, pp. 255-256.

one which included cooperatives in its program, was the National Economic Council (hereafter referred to as "the Council" or "N.E.C."). It was organized in 1931, but did not accomplish much until 1933 because of the crises listed above. However, when the N.E.C. was inaugurated in November, 1931, by General Chiang Kai-shek, then chairman of the national government, he stated that the object of the government was to create an advisory council in which the principal ministers might have the benefit of expert help from outside the country; and that while the council was an advisory body, plans could be executed through acceptance of council policies by the various ministerial members. He stated the task of the council to be that of considering plans in the archives of the various ministries, correlating them, establishing priority, and executing the plans as rapidly as possible. The functions of the council were explained as follows:

All State projects for economic reconstruction or development for which the requisite funds are either borne or subsidised by the National Treasury must be first investigated and considered by the National Economic Council before submission to the National Government for approval.<sup>43</sup>

The N. E. C. began its work by continuing the water conservancy measures started by the National Flood Relief Commission, by taking over various road construction projects and health services, and by surveying agricultural and educational conditions.<sup>44</sup>

In October, 1933, when the work of the N.E.C. began in earnest, the

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<sup>43</sup> League of Nations Council, Council Committee on Technical Co-operation between the League of Nations and China. Report of the Technical Agent of the Council on his Mission in China from the Date of his Appointment until April 1st, 1934, pp. 11-12 (Hereafter referred to as the Rajchman Report.)

<sup>44</sup> Ibid., pp. 12-14.

Standing Committee was composed of the Prime Minister, Wang Ching-wei; the President of the Legislative Yuan, Dr. Sun Fo, the son of Sun Yat-sen; and the Minister of Finance, Dr. T. V. Soong. Dr. Soong resigned as Minister of Finance soon after, and in December the Standing Committee was enlarged to five by the inclusion of the new Minister of Finance, Dr. H. H. Kung, and the Chairman of the Military Affairs Commission, General Chiang Kai-shek; and by the retention of Dr. Soong on the committee despite his resignation from the Finance Ministry.<sup>45</sup> The make-up of this committee is interesting in that all the members are connected by family except for Wang Ching-wei, who became the puppet ruler of the Japanese in occupied Nanking.

Dr. Soong acted as chairman of the Standing Committee; and the Council itself consisted of the Ministers of Finance, Railways, Communications, Industries, and Education, in addition to unofficial members from industrial and intellectual circles.<sup>46</sup> The work of the Council was carried out through the following agencies: committees to act in an advisory capacity; bureaus to act as executive bodies of the Council's secretariat; and autonomous commissions composed of representatives of organized interests in various spheres, which received power to prosecute their programs through adoption of their plans by the Council. Bureaus in 1933-1934 consisted of a bureau of the chief secretary, including administrative and technical staff and eight expert advisers on agriculture, hydraulics, industrial chemistry, commerce, fishery, and

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<sup>45</sup> Rajchman Report, pp. 5-8.

<sup>46</sup> Ibid., p. 14.

mining, and a foreign staff of six advisers; a bureau of public roads; a central field health station; and bureaus of activities in the field, including agriculture and water conservancy.

Wherever possible the Council utilized existing institutions to avoid overlapping, and cooperated with other government departments, the Academia Sinica, and the National Geological Survey. Autonomous commissions were constituted only for the improvement of the silk and cotton industries. Between 1931 and September, 1933, the Council expended \$4,550,000 supplied by the National Government.<sup>47</sup>

For 1934 the government determined to utilize for reconstruction work the proceeds of a loan from the U. S. Reconstruction Finance Corporation. A number of provincial governments, government ministries, and private agencies applied for subsidies or loans, to the total of more than \$400,000,000, with more than half of the projects being associated with the improvement of agriculture, including hydraulic and irrigation work. The Standing Committee, which had finally appropriated \$15,000,000 for reconstruction, decided to continue road construction and public health in the provinces where it had been begun, and merely to assist provincial governments with technical advice in carrying out their plans. Further, it proposed to confine its work for the year to comprehensive regional reconstruction in two areas only, the Northwest and Kiangsi. Both of these areas are agricultural, and the acuteness of the agrarian situation had been revealed in a number of enquiries.

In Kiangsi the devastation wrought by guerrilla warfare with the

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<sup>47</sup> Rajchman Report, p. 15.

Communists required urgent measures of rehabilitation. The report on Kiangsi to the Council recommended further studies on which to base a reform of land tenure and taxation; the extension of the cooperative movement; and social welfare and amelioration. The cooperative movement was felt to be in a rudimentary stage of development. For instance, in Kiangsi, with a population of 27,563,000, there were in 1934 only about 10,000 cooperative members, "most of whom are probably not active members."

These were members of about 300 societies, which were under the C.I.F.R.C. and the Kiangsi provincial cooperative office, involving some duplication of work and staff. The N.E.C. experts therefore proposed the following:

1. The amalgamation of the two central organizations and the formation of a Central Co-operative Council, which, in addition to the general work of promoting and directing the co-operative movement, would establish small industrial plants;
2. The extension of the existing co-operative societies;
- 3.<sup>48</sup> The formation of new buying and selling co-operatives.

Social welfare and amelioration in Kiangsi was proposed by means of the establishment of a Provincial Welfare Center in Nanchang, with departments of mass education, agriculture and agricultural education, health, and the new Co-operative Office; and the establishment of ten rural welfare centers in which local machinery should be set up to carry out the work of the provincial departments in the rural areas.

The details of the problem in the Northwest differed in that it had

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<sup>48</sup> Rajchman Report, pp. 21-25.



not been the scene of fighting, but it was a region subject to famine, drought, and pestilence. The problems of taxation and the need for better credit facilities, however, were the same. Work planned for this section consisted of irrigation projects, afforestation, road building, health work, and agricultural cooperation.<sup>49</sup>

Of the \$15 million appropriated for the activities of the N.E.C. in 1934, \$900,000 was allocated to the support and extension of cooperative societies. Kiangsi was to receive \$500,000 for this purpose, and the northwestern provinces of Shensi and Kansu, \$400,000. In addition, the sum of \$1,000,000 allotted to the Cotton Commission was to be spent chiefly for improving the yield of the cotton crop, for encouraging cooperative societies, and for establishing research institutes to develop technical methods and to disseminate information of such methods.<sup>50</sup>

The N.E.C. report to the Central Executive and Supervisory Committees of the Kuomintang in December, 1934, stated that up to that time a total of 6,000 cooperative credit societies had been established by the Council in Anhwei, Hunan, Hupeh, and Kiangsi.<sup>51</sup> The National Bureau of Agricultural Research had also been established under the Ministry of Industry.<sup>52</sup>

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49 Rajchman Report, op. cit., pp. 25-26.

50 Ibid., pp. 61-62.

51 China Year Book, 1935, pp. 105-106.

52 League of Nations, Council Committee on Technical Co-operation between the League of Nations and China, Report Submitted to the Secretary General by the Director of the Council Committee, on his Mission in China (January-May, 1935), p. 45. (Signed Robert Haas and hereafter referred to as the Haas Report.)

In the Northwest the Shensi Bureau for Rural Cooperation had been established through the collaboration of the Shensi Provincial Government, the N.E.C., and the C.I.F.R.C. Twenty experienced cooperative workers by the end of 1934 had set up 251 mutual aid societies, of which 235 were recognized, with a total membership of 8,038, and with \$63,469 in loans outstanding.<sup>53</sup>

A National Conference on Cooperation was held at Nanking March 13-17, 1935, and was attended by 114 representatives of provincial governments, cooperative unions, banks, leading universities, and central government departments. The conference discussed the administrative system governing cooperative work and cooperative law; methods of conducting cooperative business, credit cooperation, marketing, and auditing; the introduction of capital into rural regions and the increase of cooperative funds; and the training of cooperative organizers and supervisors. A result of this conference was the authorization of the Ministry of Industry to establish a Department of Cooperation equal in rank with the Departments of Agriculture, Industry, Commerce, Labor, and Mining.<sup>54</sup> At about this same time a Cooperative Commission was established under the N.E.C. It was organized for the following purpose:

. . . to remedy the precarious situation created by the uncontrolled growth of co-operative societies . . . during recent years. Not only have such societies grown rapidly (for instance, from 5,000 in 1933 to nearly 15,000 by the end of 1935) but their development has been lacking in order. In the absence of a standardized pattern and an organized system of registration, co-operative societies have been freely established by banks, by universities,

<sup>53</sup> Haas Report, op. cit., p. 46.

<sup>54</sup> Ibid., pp. 44-45.

Government bodies, and philanthropic associations, according to their own individual schemes. The Government authorities felt that if they did not intervene, the majority of the societies would become insolvent and the movement would fall into disrepute.

Consequently the Co-operative Commission was set up to give technical advice to the many private institutions and provincial authorities which are organizing societies, and to coordinate their activities. The Commission also undertakes to arrange for the supply of capital from the banks to the societies, and to train technical personnel for practical field work.<sup>55</sup>

In July, 1936, this Cooperative Commission was transferred to the Ministry of Industries and combined with the Department of Cooperation already under that ministry.<sup>56</sup>

The Cotton Commission of the N.E.C. reported that 40 cooperative societies were established in 1934, and a central marketing office founded in Shanghai to purchase the cotton from the societies and sell it to the mills. Commercial banks had extended loans of \$1,436,924 to the societies. The commission also established a number of societies of the utilization type for the purchase of cotton-gins and packing machines, and made a number of direct loans at low interest.<sup>57</sup> By 1936 the Cotton Commission reported the increase of societies under its control to 1,096, with 77,300 members. By the end of 1935 the N.E.C. had lent these societies \$2,364,480.<sup>58</sup>

The work of the National Economic Council was not without weaknesses.

<sup>55</sup> China Year Book, 1936, p. 36.

<sup>56</sup> China Year Book, 1938, p. 199.

<sup>57</sup> Haas Report, op. cit., p. 48.

<sup>58</sup> China Year Book, 1938, p. 199.

For instance, the N.E.C. did not always receive the cooperation of provincial and local governments in areas where work was undertaken;<sup>59</sup> and it, like all other agencies for reconstruction in China, never had more than the most meager funds with which to carry out a complicated task in an area the size of Europe. On the whole, however, it was generally agreed that it was the most effective agency that China had ever had for reconstruction.

#### Technical Cooperation with the League of Nations

Technical cooperation between the League of Nations and China, while relating only in minor part to cooperatives, which they did recommend, is of special interest at present as an example of a way in which the United Nations Organization might assist in reconstruction within a member state. The significance of the cooperation established was stated as follows by the League of Nations Secretariat:

The collaboration thus established has no parallel in international life . . . such collaboration had not been possible before the creation of the League; it may truly be said to have initiated a whole new procedure whereby the most competent authorities in the international community were made available by an international agency to one of its Member States without involving its national prestige or endangering its national interests. Here, indeed, was a common service carried out to the best interests of all.<sup>60</sup>

The first phase of the League's technical cooperation with China, in the 1920's, was exclusively in the field of health, when contacts were

<sup>59</sup> George E. Taylor, "The Reconstruction Movement in China", Document V, Problems of the Pacific, 1936, Institute of Pacific Relations, pp. 395-396.

<sup>60</sup> League of Nations Secretariat, A New Procedure in International Life, p. 4. (mimeographed)

made in 1922, 1926, 1929, and 1930.

The second phase of collaboration began in the spring of 1931 and continued until after the beginning of the Sino-Japanese war in 1937. A telegram from the Chinese government to the League in April, 1931, stated that a National Economic Council was being set up to plan national reconstruction, and requested League help in planning and organization, in execution, in training Chinese officers, and in selecting advisers.<sup>61</sup>

An educational survey group sent by the League Committee on Intellectual Cooperation, including Professor Tawney, was en route to China when the Yangtze Flood took place. China thereupon appealed to the League for an adviser for relief work, and Sir John Hope Simpson, formerly of the Indian Civil Service and one of the most experienced field workers connected with the League, was sent. Upon his arrival he was made Director General of the National Flood Relief Commission.<sup>62</sup> As has been stated, the National Flood Relief Commission was responsible for the introduction of credit cooperation in the provinces of Kiangsi, Anhwei, Hunan, and Hupeh after the flood, through its invitation to the C.I.F.R.C. to take the responsibility for cooperative organization in those provinces. (See pp. 81-82.)

Most of the rural surveys of the N.E.C. were made by or under the direction of League experts. Among them were the following: A general report on agricultural conditions by Professor Carlo Dragoni, formerly of

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<sup>61</sup> League of Nations Secretariat, op. cit., pp. 2-4.

<sup>62</sup> Report of the China National Flood Relief Commission, 1931-1932,  
pp. 19-20.

the International Institute of Agriculture of Rome; a survey of Kiangsi by M. Briand-Clausen for agriculture and by Dr. Stampar for health and rural reconstruction; a study in Chekiang under the direction of Sir Arthur Salter; a report on sericulture by M. Benito Mari;<sup>63</sup> advice on hydraulic questions by M. Boardrez; advice on road and transport problems by M. Coursin;<sup>64</sup> and a report on the reorganization of the educational system by M. Fernand Maurette.<sup>65</sup> Mr. W. H. K. Campbell, a cooperative expert, advised the government on cooperative development. Altogether there were no less than 30 League technical advisers who visited China, every province being visited by one or more of them. In addition, a number of Chinese were sent abroad, either to study under League direction, or to get practical experience in posts arranged through the League.

In June, 1933, the Chinese government applied to the League for the appointment of a technical agent to act as liaison officer between the N.E.C. and the technical organizations of the League in plans to accelerate the work of reconstruction. On June 30, 1933, the League Council appointed the Council Committee on Technical Cooperation between the

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<sup>63</sup> Rajchman Report, *op. cit.*, pp. 13-14.

<sup>64</sup> League of Nations, Report on the Work of the League 1935/36, Part I, "Technical Co-operation between the League of Nations and China", pp. 160-161.

<sup>65</sup> League of Nations, International Committee on Intellectual Co-operation, Collaboration of the Intellectual Co-operation Organisation in the Re-organisation of the Educational System in China: Report submitted to the Committee by M. Fernand Maurette, Assistant Director of the International Labour Office. Appendix 3, pp. 21-28 of the Report of the Committee on the Work of its Sixteenth Plenary Session.

League of Nations and China. At a meeting in Paris, July 18, 1933, the committee named Dr. L. Rajchman, Director of the Health Section of the Secretariat, as technical delegate. Dr. Rajchman arrived in China in October, 1933, for his year's appointment.<sup>66</sup>

Cooperation between the League of Nations and China continued in full effect for six years, but the hostilities with Japan caused many activities to be abandoned or at least retarded. The third phase of collaboration began in 1937, when in September the Chinese delegation at Geneva proposed that all technical collaboration be concentrated on sanitary and relief measures because of the war. The League voted a maximum non-recurrent appropriation of 2 million Swiss francs for an anti-epidemic campaign among the refugees, and sent three medical units from Europe with supplies to start field work. In September, 1938, the League Assembly placed 1½ million francs in the 1939 budget for the continuation of the work. The plan was modified, however, the number of League experts reduced, and special units absorbed.

In 1938 at the Chinese government's request, Mr. W. H. K. Campbell, the cooperative expert who had spent eighteen months in China as a League expert before the war, returned to continue advising the authorities in maintaining, as far as possible, the recent development of agricultural cooperative societies, in which the government had placed great hope for the improvement of conditions of rural life.

After 1938 there was no further development of collaboration with the League, and advisers remaining in China acted as private individuals

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<sup>66</sup> Rajchman Report, op. cit., pp. 6-7.

under appointment from the Chinese government.<sup>67</sup>

In general, the advice of the League experts emphasized the importance of rural reform. Professor Dragoni's report questioned whether it would be possible to avoid serious agrarian revolt if conditions were not improved. Sir Arthur Salter stated the following:

Since . . . China's industrial development must depend mainly on the purchasing power of the Chinese people, it cannot be too emphatically stated that, for China, industrialization is not an alternative to agricultural development.<sup>68</sup>

Most of the reports included the advocacy of the cooperative method for extending rural credit.

While the general consensus of opinion was that the assistance of the League of Nations was invaluable to China, at least one Chinese critic pointed out that the technical experts usually only remained for about six months, and that

. . . their usefulness oftentimes ends at the moment their recommendations are written up . . . serving no other purpose than the satisfaction of having added another paper plan to the government archive.<sup>69</sup>

One of the League representatives emphasized that much of the work for which the foreign experts got credit was in fact done by capable Chinese, and that the country in the long run had to rely mainly on her own trained engineers, scientists, and technicians.<sup>70</sup>

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<sup>67</sup> League of Nations Secretariat, op. cit., pp. 5-14.

<sup>68</sup> Sir Arthur Salter, "China and the Depression", The Economist, Vol. 118, No. 4734, May 19, 1934, Supplement, p. 13.

<sup>69</sup> H. D. Fong, Toward Economic Control in China, p. 83.

<sup>70</sup> Haas Report, op. cit., pp. 11-12.



### Other National Agencies of Reconstruction

There were a number of other national agencies for reconstruction besides the National Economic Council, although they did not approach it in scope and effectiveness, and they did not deal with cooperatives. The National Reconstruction (or Construction) Commission was established in 1928 and controlled, quite efficiently, about eight specific projects, mainly electric installations and coal mines.<sup>71</sup> The National Bureau of Agricultural Research and the Bureau for Testing and Inspection of Commercial Commodities, both of the Ministry of Industries; the Rural Rehabilitation Committee of the Executive Yuan; the National Flood Relief Commission; and the Bureau of Natural Resources, were all organized between 1931 and 1933. Besides these special organizations, the Ministries of the Interior, Industry, Communications, and Railways all were concerned with various phases of reconstruction. Often all these bodies worked without coordination, "in water-tight compartments", and there was much overlapping.<sup>72</sup> Professor H. D. Fong stated that there was " . . . a civil war in civil administration, not only in politics at large." He formulated a plan of reorganization, but concluded,

Such a reorganization will undoubtedly represent a forward step . . . , but its realization will have to depend on a successful reshuffling of numerous political forces and interests involved.<sup>73</sup>

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<sup>71</sup> Gideon Chen, Chinese Government Economic Planning and Reconstruction since 1927, pp. 28-29.

<sup>72</sup> Haas Report, op. cit., pp. 11-12.

<sup>73</sup> H. D. Fong, Toward Economic Control in China, pp. 77-79.

Provincial and Hsien Reconstruction

All the provinces established Provincial Bureaus of Reconstruction or of Industry, and many of them organized Cooperative Committees under these bureaus or under the Provincial Party Headquarters. The results varied from province to province, and in some of them definite progress was made. In general, progress was greater in the seaboard and Yangtze Valley provinces than in the interior. Plans were uncoordinated, and in some cases were designed to make the province more or less independent of its neighbors. Provincial interest was mainly on highway and water conservancy work, but Shantung was doing promising work in rural rehabilitation, including cooperatives and supplementary industries, under the direction of the Provincial Bureau of Industry; Kiengsu established a provincially owned agricultural implements factory; Kwangtung established a cement factory; Chekiang improved and extended power facilities; and a number of provinces established farmers' banks through which rural credit could be distributed.<sup>74</sup>

Hsien reconstruction was outstanding in the few experimental self-governing hsien such as Tingsien, but there were all too few of these. In other hsien sometimes nothing was done, although there was a multitude of model villages, committees, commissions, bureaus, welfare centers, etc., which had at least one thing in common--"a chronic lack of funds".<sup>75</sup>

Reconstruction in this period before the war was making progress

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<sup>74</sup> Gideon Chen, *op. cit.*, pp. 44-45.

<sup>75</sup> George E. Taylor, The Reconstruction Movement in China, p. 384.

nationally under the aegis of the Westernized group of the Kuomintang, although results had had little opportunity to filter down to the provinces and hsien, except in sections where conditions were particularly favorable. With the beginning of the war, attention had to be shifted to national defense, and many of the most progressive areas were the first overrun by the enemy. Information as to the fate of reconstruction projects in the occupied areas has not yet been made available; from what is known of Japanese methods, the prospect for survival of any organizations that could in any way be described as democratically inclined, is slight, unless some of them were able to continue to work underground.

#### COOPERATIVE DEVELOPMENT, 1928-1937

##### Extent and Growth of Societies

The rapidity with which cooperative societies increased in China is shown by the following figures:

Table IX

#### Growth of Cooperation in China, 1927-1937<sup>76</sup>

<u>Year</u>	<u>Societies</u>	<u>Membership</u>
1927	584	---
1928	722	---
1929	1,612	---
1930	2,463	---
1931	2,796	56,432
1932	3,978	151,212
1933	3,087	184,587
1934	14,649	557,521
1935	26,224	1,004,402
1936	37,318	1,643,470
1937	46,983	2,139,634

<sup>76</sup>

The figures for years 1927-1930 were taken from Franklin L. Ho, Rural Economic Reconstruction in China, p. 40; source, Directorate of Statistics. The figures from 1931 on were taken from China Handbook, 1937-43, p. 626; source, Cooperative Bureau of the Ministry of Social Affairs.

### Location of Societies

The cooperative societies were very unevenly distributed in China, as shown by the following table:

Table X

### Geographical Distribution of Cooperative Societies

in China, 1935<sup>77</sup>

<u>Province</u>	<u>Societies</u>	<u>Percentage</u>	<u>Members</u>	<u>Percentage</u>
Kiangsu	4,077	15.5	138,369	13.8
Hopei	6,240	23.8	135,723	13.5
Kiangsi	2,038	7.8	131,447	13.1
Shantung	3,637	13.9	106,143	10.6
Honan	1,761	6.7	100,324	10.0
Anhwei	2,284	8.7	73,673	7.3
Chekiang	1,972	7.5	70,666	7.0
Shensi	671	2.5	63,690	6.3
Hupoh	1,228	4.7	60,122	6.0
Hunan	963	3.7	56,486	5.6
Kwangtung	307	1.2	23,315	2.3
Fukien	312	1.2	11,678	1.2
Shansi	453	1.7	6,692	0.7
Kansu	33	0.1	2,906	0.3
Suiyuan	54	0.2	1,115	0.1
Kwangsi	14	0.1	592	0.1
<u>Cities</u>				
Shanghai	123	0.5	17,197	1.7
Nanking	50	0.2	3,236	0.3
Peiping	7	—	1,028	0.1
<b>Total</b>	<b>26,224</b>	<b>100.0</b>	<b>1,004,402</b>	<b>100.0</b>

Ten provinces in the table above account for 95 per cent of the societies and 93 per cent of the members. It must also be noted that the

<sup>77</sup> Ho, op. cit., p. 41. The table in this article included another column which has been omitted here, showing the average number of members per society in the various provinces.

following provinces, exclusive of the Manchurian provinces, are not listed: Chahar, Ninghsia, Sinkiang, Chinghai, Sikang, Szechwan, Kweichow, and Yunnan. This may indicate that there were no societies in these provinces, that statistics were not available, or perhaps that the responsible provincial authorities did not cooperate by reporting the information requested.

### Types of Societies

A classification of cooperative societies by types is shown in the following figures:

Table XI

Functional Distribution of Cooperative Societies  
in China, 1935<sup>78</sup>

<u>Type</u>	<u>Societies</u>	<u>Percentage</u>	<u>Members</u>	<u>Percentage</u>
Credit	15,429	58.8	426,004	42.4
Marketing	2,293	8.7	117,587	11.7
Purchase	738	2.8	67,243	6.7
Utilization	1,069	4.1	74,422	7.4
Production	2,321	8.9	106,510	10.6
Multiple Purpose	4,374	16.7	212,636	21.2
Total	26,224	100.0	1,004,402	100.0

It was stated that practically all the multiple purpose societies also act as credit societies. If one considers the credit and multiple purpose societies together, credit societies, according to this table, account for 75 per cent of the total societies and 63 per cent of the total members.<sup>79</sup>

<sup>78</sup> Ho, op. cit., p. 42.

<sup>79</sup> Ibid., p. 42.

### Characteristics of Chinese Cooperation

It has been pointed out that Chinese cooperation is a policy, not a movement--an imposition on the rural population from above and not a spontaneous growth.<sup>80</sup> This is true of cooperation in Japan and India as well, and is an inevitable result of a large and depressed rural population, with illiteracy as a complication at least in China and India.

Another characteristic of cooperation in China is that it is almost entirely rural and agrarian in nature. A study made in 1933 of over 70,000 members of various cooperative societies showed that 86 per cent of them were farmers.<sup>81</sup> Credit societies are by far the predominant type. The amount of funds contributed to the societies by their members is very small, more than half of the societies having total subscriptions of less than \$100 in 1933.<sup>82</sup> This also is inevitable until general conditions in the rural areas have improved.

### Effectiveness of Cooperatives

It is evidently not denied that the rapid extension of cooperative societies in China has made available to the rural areas sources of credit at lower interest rates than were hitherto possible. When that has been said, however, not much remains to be added on the optimistic side, except that it should be emphasized that cheaper credit was the primary aim in

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<sup>80</sup> H. D. Fong, "The Cooperative Movement in China", Monthly Bulletin on Economic China, Vol. 7, No. 5, May, 1934, p. 196.

<sup>81</sup> A Lenz, "Co-operation in China", International Review of Agriculture, Vol. 29, No. 7, July, 1938, p. 329E. The percentage was quoted from the Central Office of Statistics.

<sup>82</sup> Chen Han-seng, "Cooperatives as a Panacea for China's Ills", Far Eastern Survey, Vol. 6, No. 7, March 31, 1937, p. 76.

developing credit cooperatives.

### Weaknesses of Cooperatives

When cooperatives are imposed from above, the policy is effective only when the policy making and executing body functions properly. Professor Fong stated in 1934 that it was doubtful if, aside from the C.I.F.R.C., the cooperative promoting and financing agencies were functioning properly. He stated that the provincial and hsien farmers' banks were generally organized with tax and public revenue funds, and that political manipulation and "squeeze" were sometimes present; that there was a lack of responsibility in the granting of loans; that provincial cooperative departments and committees, which took the place of cooperative unions in other countries, had insufficient as well as unstable funds, the amounts available sometimes being reduced without notice; that there was an inadequacy of qualified staff, due to lack of funds and lack of training; and that in general the societies were "borrowing societies" instead of societies for "saving in order to borrow". He stated that the difficulties were not irremediable, but grew out of the government's impatience for reform; and that he was hopeful of its success as a policy, if not as a movement, from the trends he observed at the time he wrote.<sup>83</sup>

Another weakness in the Chinese cooperative system was the lack of coordination of the agencies involved. No doubt this was corrected to some extent by the centralization of registration, supervision, and law

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H. D. Fong, "The Cooperative Movement in China", Monthly Bulletin on Economic China, Vol. 7, No. 5, May, 1934, pp. 196-198.

enforcement under the Department of Cooperation of the Ministry of Industries in 1935. The competition of commercial banks for cooperative business in the same areas has already been mentioned, and in Hopei the Joint Committee and the C.I.F.R.C. in some cases competed in marketing cotton in the same districts, while other parts of the province had no cooperative marketing at all. It was claimed that some cooperative organizers did not understand cooperation; that they sometimes formed a society and then moved on, never revisiting it except to examine its annual application for a loan; and that auditing appeared quite unfamiliar to organizers, directors, and members of societies.<sup>84</sup> In 1936 the following difficulties in promoting cooperatives were reported by the hsien governments in 14 provinces: ignorance, lack of organizer or organizing institutions, lack of financial institutions, bandits, poor communications, poverty of farmers, lack of promotion funds, and opposition from the gentry and from money lenders.<sup>85</sup>

While the rate of interest charged was lower than before, it still was not as low as in countries where capital was more plentiful. In 1937 it was stated that the banks charged the societies from 0.8 per cent to 1.5 per cent monthly, and the societies usually charged their members from 1.3 per cent to 1.6 per cent monthly. Over 70 per cent of the societies investigated charged more than 1 per cent monthly. Abuses cited included charging members more than the nominal rate of interest, using

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<sup>84</sup> Ho, op. cit., pp. 50-54.

<sup>85</sup> Lawrence M. Chen, "The Cooperative Movement in China", Information Bulletin of the Council of International Affairs, (Nanking), Vol. 1, No. 12, September 1, 1936, p. 21.



cooperative funds for loans to non-members, permitting members to re-lend to outsiders, and even utilizing the cooperatives as a means to collect arrears of rent and taxes.

The size of loans available, which averaged \$20 to members, was not large enough for permanent farm improvements, so the farmer was seldom able to do more than maintain his status. Even so, loans to cooperative members from banks generally required security, contrary to the original plan for cooperative credit societies in China, in which the mutual guarantee of members was to take the place of security. In one section of Shantung, no one with less than 10 mow of land was eligible to join a cooperative; in Hopei, the cooperative members had an average of between 30 and 40 mow of land. Thus the poorest farmers, those most in need of help, were not eligible for the benefits of credit cooperatives in some sections of the country.

Just before 1937, an investigation of rural loans in 900 districts throughout the country showed that barely 5 per cent of loans in rural areas were made by banks and cooperatives, while 80 per cent were still made by individuals, such as landlords, merchants, and well-to-do peasants. Thus, up to the time of the war in 1937, cooperative credit societies, the most widespread type of cooperative society in China, were of only minor importance as a source of rural credit. <sup>86</sup>

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86 Chen Han-seng, op. cit., pp. 75-76.

## Chapter IV

CHINESE INDUSTRIAL COOPERATIVES, 1937-1945

The types of cooperatives that have already been presented were continued and extended in Free China during the war, as will be described later. The Chinese Industrial Cooperatives, a distinctly new and independent movement, grew directly out of wartime needs and must, therefore, be considered against the background of economic changes resulting from the war.

With the Japanese attack in 1937 the economic situation in China almost immediately deteriorated, and it became progressively worse as the war continued. The major changes consisted of the early Japanese seizure of the coastal area, the section containing most of the industries, transportation facilities, and modern cities; the retaliation by the Chinese through the use of the "scorched earth" policy, followed by the attempt to salvage irreplaceable machinery by moving it westward; the evacuation of large numbers of the population to the west; the blockade from the east and eventually from the south as even the Burma Road was made untenable; the Japanese exploitation of the population and resources of the conquered areas; smuggling from the occupied to the unoccupied areas; and the inflation and speculation in Free China which resulted from the shortage of goods, the hoarding of raw materials, the lack of industry, and the blockade.

China's great expanse of territory and her huge population were her two most important assets. Her defense policy was unavoidably one of

"trading space for time", and her armies attempted to make up for lack of equipment by sheer numbers and bravery. Although the Japanese held practically all of the most important roads and railways, they found it impossible to police all the intervening territory. Thus areas of guerrilla activity developed behind the Japanese lines, and guerrilla attacks were made even on the outskirts of some of the large cities held by the Japanese from the early days of the war.

Like other countries engaged in the war, China found it necessary to reorganize so as to attain the economic and political control necessary to prosecute the war. This was especially difficult in China because of poor communications, illiteracy, factionalism, and the decentralization of a pre-industrial economy. Although the government had wide emergency powers, it was found impossible to enforce effectively the measures taken to establish systems of priorities, rationing, and price ceilings; to combat speculation, hoarding, and inflation; to stimulate production; and to control industry and labor.<sup>1</sup>

As has already been stated, cooperatives had been under the supervision of the Cooperative Commission of the National Economic Council, but were transferred in 1936 to the newly established Department of Cooperation in the Ministry of Industries. (See pp. 105-106.) After the beginning of the war, the Executive Yuan established under its own

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<sup>1</sup> Detailed information regarding wartime economic conditions and measures of control is available in the following publications: Hubert Freyn, Free China's New Deal; Chinese Ministry of Information, China After Five Years of War; Maxwell S. Stewart, War-time China; International Labour Office, Economic and Social Policy in Free China; and Owen L. Dawson, "Agricultural Policies in Unoccupied China since 1937", Foreign Agriculture, (U. S. Department of Agriculture), Vol. 5, No. 10, October, 1941, pp. 407-422.

authority a Ministry of Economic Affairs, which replaced the Ministry of Industry. Thereafter cooperative affairs were handled by the Central Cooperative Administration of the Ministry of Economic Affairs, until this administration was transferred, in 1939 or 1940, to the Ministry of Social Affairs, where it remains today.<sup>2</sup>

For reasons that will be made clear later, the Chinese Industrial Cooperatives were never brought under the control of the Cooperative Administration of the Ministry of Social Affairs, which supervises all other cooperatives in China.

The Chinese Industrial Cooperatives (C.I.C.) were undoubtedly the most significant and original economic development which grew out of the war in China. There was scarcely a book, pamphlet, or periodical article dealing with wartime economic conditions in China which failed to devote a section or at least a few paragraphs to this experiment, which caught the imagination of the public as a brave attempt at economic self-defense, and potentially significant as a plan of organization well suited to the Chinese economic scene.

While the industrial cooperatives unquestionably helped many Chinese to support themselves and their families during the war and supplied a portion of the consumers' goods so much needed in the interior, they were prevented by unforeseen organizational difficulties and capital shortages from developing on the scale desired by the originators of the plan. In the beginning it had been hoped that a network of 30,000 small coopera-

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<sup>2</sup> International Labour Office, Economic and Social Policy in Free China, pp. 22-30.

tives could be established, but the highest number claimed was about 3,000 in 1940,<sup>3</sup> while the greatest number of societies officially recognized by the Central Headquarters of C.I.C. was only 1,867.<sup>4</sup>

#### IDEA AND ORGANIZATION

The plan, in brief, was to replace the lost coastal industrial base with a multitude of cooperative producers' societies in the interior, which would utilize the unexploited natural resources in various regions by unemployed refugee and local labor, thus providing civilian and military necessities not otherwise available.

#### Sponsors

The scheme was not indigenous, in that it did not originate with a group of workers evolving a plan for their own participation and benefit. As has been stated, illiteracy, destitution, provincialism, and the philosophy of the family system in China have hindered the masses of the population from working together in the furtherance of large-scale projects for the benefit of the people as a whole.

In the spring of 1938, when at least 80 per cent of all Shanghai factories and workshops had been destroyed or expropriated by the Japanese,<sup>5</sup> a small group of people met in Shanghai to discuss the possibility of taking some constructive step to rebuild an industrial base for China, and

<sup>3</sup> Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, p. 48.

<sup>4</sup> China Handbook, 1937-43, p. 457.

<sup>5</sup> Helen Foster Snow (pseud. Nym Wales), China Builds for Democracy: A Story of Cooperative Industry, p. 37.

to relieve as soon as possible the starving refugee laborers. In April, 1938, the Preparatory Committee for the Promotion of Industrial Cooperatives in China was organized by Hubert S. Liang, Hsu Singloh, Lu Kuang-mien, four other Chinese, Rewi Alley, Mr. and Mrs. Edgar Snow, and a young British official. Shortly after this, Frank Lem, C. F. Wu, and K. P. Liu, two American journalists, the wife of a Chinese official, several engineers, and Y.M.C.A. and Y.W.C.A. workers joined the group. Rewi Alley had been chief factory inspector of the Shanghai Municipal Council; Hsu Singloh was manager of the Shanghai Commercial Bank and the first Chinese to be elected to the Shanghai Municipal Council; Liu, Lem, Wu, and Liang were all "Baillie Boys", trained in engineering by an American missionary, Joseph Baillie, who later arranged for these men and others to receive practical experience in the Ford plant in Detroit; Lu Kuang-mien was a cooperative organizer of long experience, had studied at the London School of Economics, had visited Scandinavian cooperatives and Kagawa's cooperatives in Japan, and had organized the North China Industrial Service Union.<sup>6</sup> (See pp. 94-95.)

Rewi Alley is the individual most responsible for the development of the industrial cooperative movement. He is a New Zealander whose father was interested in agricultural cooperation, and as factory inspector in Shanghai he was more familiar with industrial conditions than perhaps any other foreigner in China. He had many loyal friends among Chinese, Western-educated and ordinary factory hands, in whom he had

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<sup>6</sup> Helen Foster Snow, China Builds for Democracy, pp. 39-45; Indusco News, (Bulletin of the Hongkong Promotion Committee), No. 18, April 15, 1940.

great faith and who had great faith in him and in any movement he would support.<sup>7</sup> Most of the articles dealing with the cooperatives describe him and his work in detail, and his position in the organization was a point of controversy before the reorganization of 1943, which will be discussed later in this paper.

It was realized that the workers were so near destitution that they were unable to provide their own capital for shares. It was hoped at first that funds could be secured from the Red Cross, the League of Nations, the C.I.F.R.C., some of the missions, or the Rockefeller rural reconstruction fund, and that after the experiment had succeeded the government would be willing to help. Funds were not available from any of these sources, although Rewi Alley secured a grant of \$10,000 from the Paris Branch of the International Federation of Trade Unions.<sup>8</sup> Alley, Lu Kuang-mien, Frank Lem, and C. F. Wu, were made responsible for drawing up the technical plan; and the bankers on the committee, headed by Hsu Singloh, were to formulate the plan for financing. Hsu presented the plan to Dr. T. V. Soong, who cabled Geneva for help from the League of Nations, but no action was taken by the League.<sup>9</sup>

#### The Founding of C.I.C. in Mankow

It appeared for a time as though nothing would be done, until Sir Archibald Clark-Kerr, the British Ambassador, was given a copy of the plan and realized that cooperatives might be as valuable to China as they

<sup>7</sup> Helen Foster Snow, China Builds for Democracy, pp. 54-62.

<sup>8</sup> Helen Foster Snow, The Chinese Labor Movement, p. 125.

<sup>9</sup> Helen Foster Snow, China Builds for Democracy, pp. 40-41.

had proved to be to England. He sent the plan to Madame Chiang Kai-shek and recommended that Rewi Alley be called to Hankow, where the government had moved, to organize the project. Madame Chiang studied the plan together with Dr. H. H. Kung, then Minister of Finance and head of the Executive Yuan, and in a few days Alley was asked to come to Hankow. On his arrival in June, 1938, he found certain groups unenthusiastic, but received the support of the Generalissimo's headquarters, Madame Chiang, Dr. Kung, Sir Archibald Clark-Kerr, and W. H. Donald. The "Chinese Industrial Cooperative Movement" was inaugurated August 5, 1938, with Dr. Kung as chairman; K. P. Liu, secretary-general; Frank Lem, chief engineer and head of the technical section, with C. F. Wu as his assistant; Lu Kuang-mien, director of the Northwest Headquarters; and Alley as chief advisor and later as field secretary for the International Committee at Hongkong. In 1939 Hubert S. Liang was appointed associate secretary-general.<sup>10</sup>

The C.I.C. became the only people's organization in China, with the exception of the Red Cross, that was able to remain independent of the various political factions and bureaucracy. It was established as an independent agency under the Executive Yuan<sup>11</sup> and remained independent of the Ministry of Social Affairs, which controls the agricultural co-operatives and labor unions, and which is said to be under the control of the powerful "C.C. Clique". This group, led by the two brothers, Chen Li-fu and Chen Kuo-fu, from whose initials it takes its name, is commonly

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<sup>10</sup> Helen Foster Snow, China Builds for Democracy, pp. 42-44.

<sup>11</sup> Ibid., p. 44; Robert W. Barnett, "Microcosm of Chinese Unity", Amerasia, Vol. 4, No. 5, July, 1940, p. 226.



thought to be the most corrupt and reactionary faction of the Kuomintang, with definite fascist techniques.<sup>12</sup> (See pp. 154-155.)

The first action taken by the new organization was the removal of industrial machinery and 1,000 refugees from Hankow to the Northwest. The responsibility for the move was on the shoulders of Rewi Alley and Lu Kuang-mien, who led the group and who set up the Northwest Headquarters of the C.I.C. after their arrival.<sup>13</sup>

### Values Sought

The C.I.C. was envisioned as a simple plan that could be put into operation much more rapidly than the government plans for large-scale industrialization, which would have required the importation of foreign machines and a mobilization of effort and resources difficult in peacetime, and almost impossible with the blockade and the loss of Manchuria with its iron ore. Among the potentialities claimed for the plan were the following:

1. The improvement of army morale by providing daily supplies for the armed forces, and by providing jobs for disabled soldiers and the families of soldiers.
2. The improvement of general economic conditions in the interior so that a large army could be maintained without undue strain on the limited power of taxation.
3. The maintenance of civilian morale by providing civilian necessities.

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<sup>12</sup> Maxwell S. Stewart, War-time China, pp. 35-37.

<sup>13</sup> Helen Foster Snow, China Builds for Democracy, pp. 44, 59, and 64.

4. The maintenance of the morale of the farmers by absorbing agricultural raw materials.
5. The removal of the necessity for trading with the enemy by providing goods and a market for raw materials.
6. The decentralization of factories that would make bombing difficult, would circumvent the lack of transportation facilities, and would provide better living conditions than the urban slums of the treaty ports.
7. The relief of refugees and unemployed who might otherwise resort to banditry to secure a living.
8. The introduction of industry to the interior, whether it took the form of a revival of handicrafts or the introduction of new industrial techniques.
9. The introduction of democracy through the training in self-government that the cooperative method implies.
10. The provision of a "middle way" that promotes "the people's livelihood", one of Sun Yat-sen's "Three Principles of the People", and which might be acceptable to orthodox Kuomintang supporters as well as to the Communists.
11. The concentration of attention and effort on the internal market, raising the standard of living, and also removing the threat of labor exploitation that might eventually cause the Chinese to undersell countries with higher labor standards.<sup>14</sup>

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<sup>14</sup> Helen Foster Snow, China Builds for Democracy, pp. 7-35.

12. The provision of a transitional system that would not conflict with plans for future large-scale industrialization, but which would even help in the training of a nucleus of workers who would be familiar with simple machines, who could read blueprints, who realized the advantages of standardization, and who had taken the first steps toward industrial discipline as contrasted with agricultural work.
13. The utilization of available capital as a revolving fund, thus spreading it ever further as a productive force.

#### Plan of Organization

The organization as it was established in August, 1938, is shown in the chart on page 131. The Central C.I.C. Headquarters was directly under the Executive Yuan and consisted of sections such as organization, finance, and technical, each of which had "line" control down through regional headquarters to local depots, where the actual work of promoting and establishing industrial cooperatives was done. The work developed largely as a regional affair, since conditions differed greatly in various areas, depending on the proximity of fighting, the extent to which industry already existed in the area, the raw materials available, the number of refugees, etc. Each region was constantly required to refer questions to the C.I.C. Headquarters, which consequently required a large central staff. There were also long, discouraging delays in receiving answers. Each section issued orders from Central Headquarters, and there was confusion in the carrying out of these orders in the depots. The heads of all regions reported weekly to a high government official, who carried innumerable other government responsibilities and who found this method inefficient and time con-

C.I.C. ORGANIZATION — 1938 - 1941

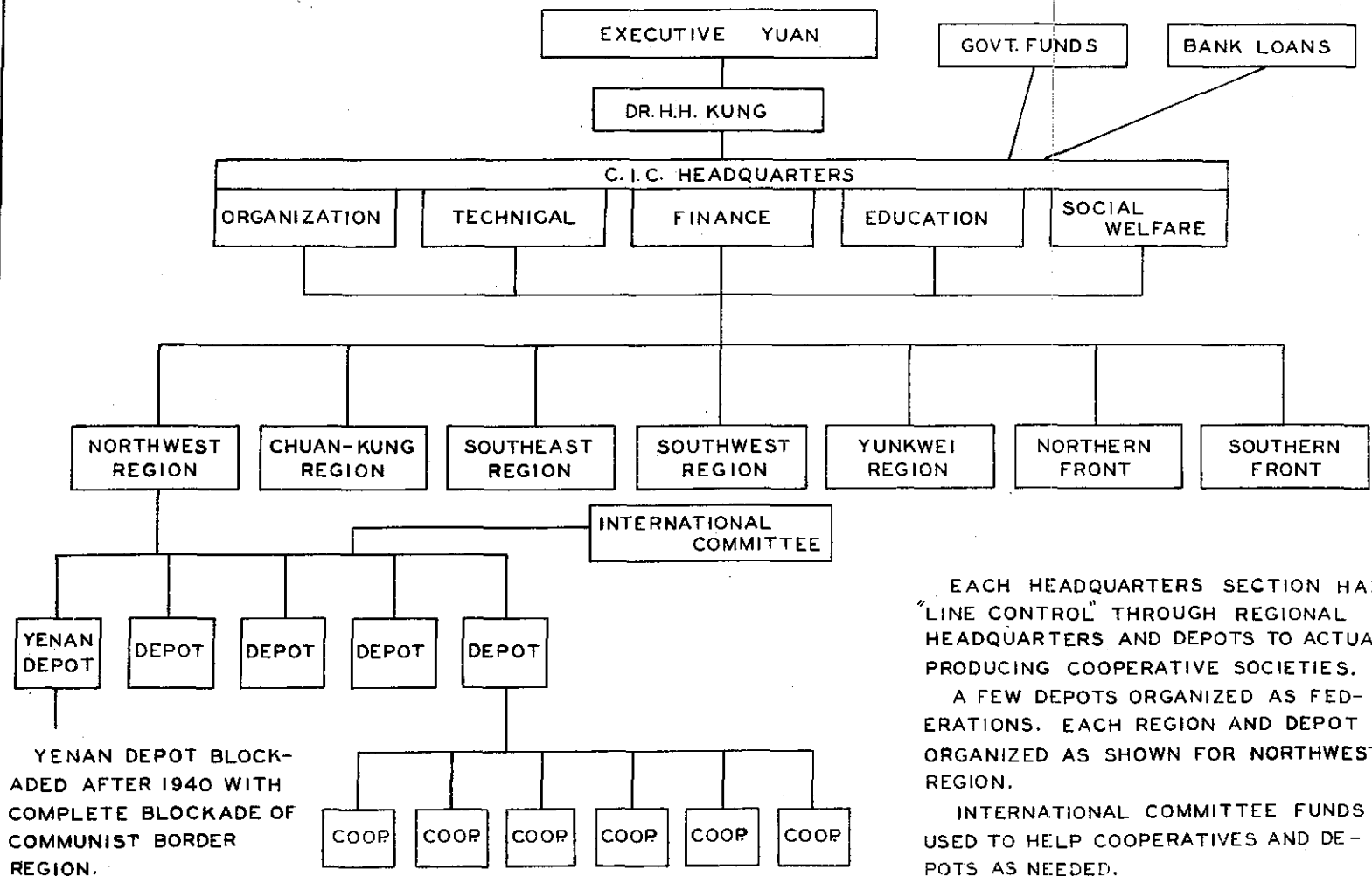


CHART COMPILED BY WRITER

EACH HEADQUARTERS SECTION HAD "LINE CONTROL" THROUGH REGIONAL HEADQUARTERS AND DEPOTS TO ACTUAL PRODUCING COOPERATIVE SOCIETIES. A FEW DEPOTS ORGANIZED AS FEDERATIONS. EACH REGION AND DEPOT ORGANIZED AS SHOWN FOR NORTHWEST REGION. INTERNATIONAL COMMITTEE FUNDS USED TO HELP COOPERATIVES AND DEPOTS AS NEEDED.

suming.

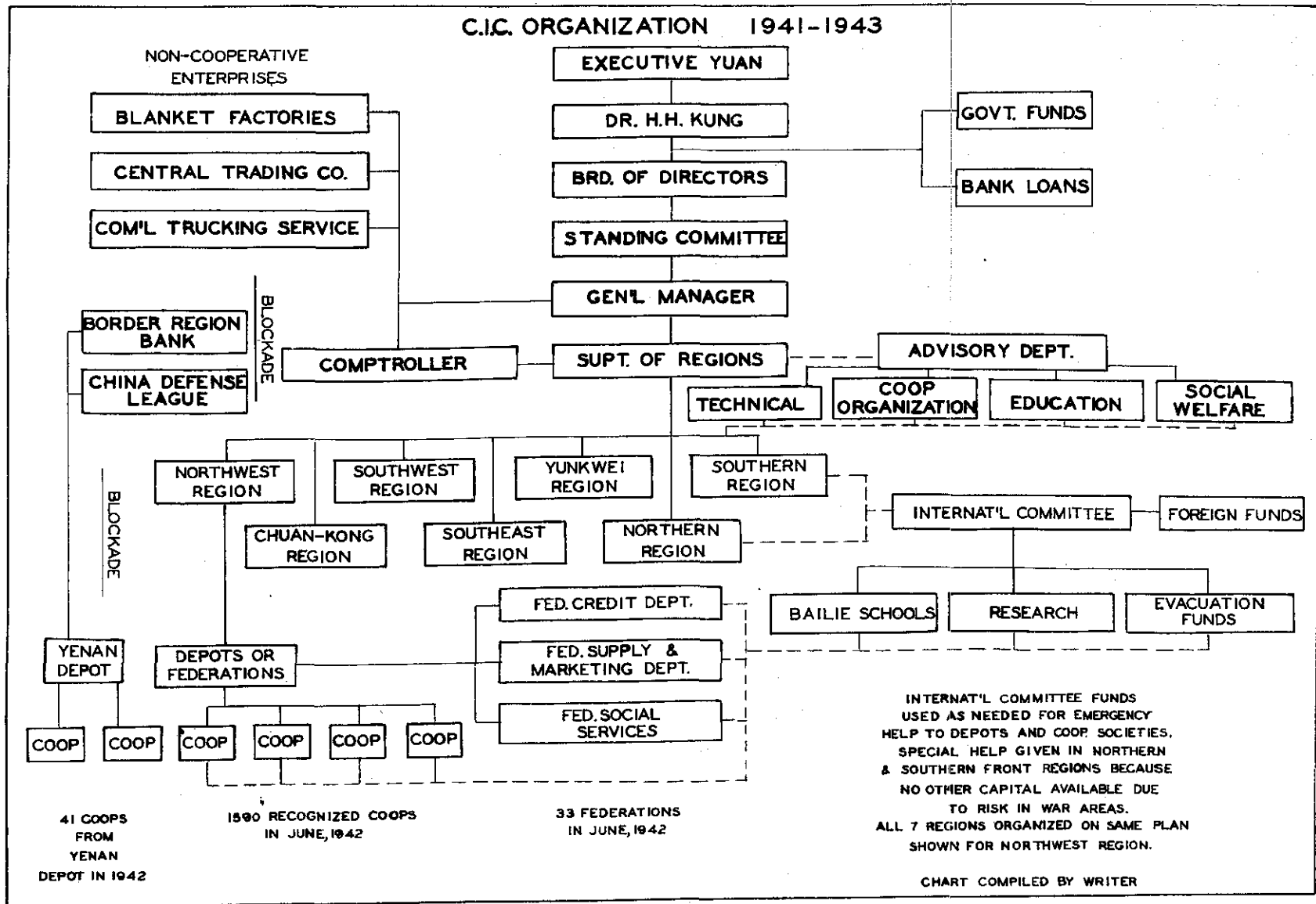
A reorganization, shown in the chart on page 133, took place in May, 1941, at the request of Madame Chiang and Dr. H. H. Kung, who apparently was the "high government official" to whom the reports had been made. This consisted of organization under an independent board, which it was hoped would prevent political complications. Technical, cooperative organization, educational, and social welfare departments were made merely advisory, to extend consultation service to the general manager and to the regions through the superintendent of regions; and the higher level inspected the lower, obviating a separate inspection department. As much autonomy as possible was given to regional headquarters, with the right to budget loan capital and promotional funds for the year without reference to General Headquarters, and with technical aid and advice at the request of regional headquarters rather than as orders from Central Headquarters. It was thought that the Central Headquarters staff could be reduced from 170 to 20 under this plan, thus freeing promotional funds to strengthen the staff in regional headquarters and depots, "where the real work is done."<sup>15</sup>

At first five regional headquarters were set up, and later two other regions were organized to help production in the guerrilla areas, extending the organization into 18 provinces. The provinces comprising each region and the number of societies and members by regions are shown in Table XIII, page 166.

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<sup>15</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, (Mineographed), pp. 30-31. The charts on pp. 131, 133, and 159 were prepared by the writer largely from information in this reference.

# C.I.C. ORGANIZATION 1941-1943



Within the first five years, 72 branch offices or depots were established, each having a branch manager, cooperative organizer, accountant, and engineer. The depots or branch offices were to be changed as rapidly as possible into federations run by the cooperatives themselves. The General Headquarters, regional headquarters, and depots formed the promotional organization, whose duties were to obtain capital from the Chinese government and from banks, to send it to the various regions to be lent to the groups qualified to set up industrial cooperatives, and to supply technical knowledge to the cooperators, such as information on co-operation, accounting, marketing and supply, processing of raw materials, setting up machine shops, making machinery, etc.<sup>16</sup>

The actual process of organization from a depot usually followed a definite plan. The organizers called on officials such as the magistrate, and on heads of local organizations such as the Peace Preservation Corps, the Kuomintang, and the Army, to explain the C.I.C. and to ask for their cooperation. Posters were placed, handbills distributed, and public meetings held to give a simple explanation of the plan. Then unemployed craftsmen were registered; individuals were selected according to health, experience, etc.; they were grouped according to crafts; the business to be organized was investigated as to raw material sources, market for finished goods, availability of equipment, production cost, and possible profit. If all was favorable, an organizing committee was established; the society was registered with the hsien government; the contract was

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<sup>16</sup> Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, pp. 48-49; A Nation Rebuilds, p. 28.

signed; and money lent. The depot did not then withdraw, but supervised the societies in its territory to develop democratic and cooperative management, to teach accounting procedure, and to help with the improvement of technical processes.<sup>17</sup>

The original plan called for three zones of industry: a rear zone in the safe interior provinces, in which heavy industry and larger units would be built; a middle zone behind the fighting front; and front-line and mobile guerrilla units in active combat areas. The plan for guerrilla units was not carried through very successfully, although guerrilla co-operatives developed behind the Japanese lines more or less independently of the main movement.<sup>18</sup>

### Constitution

A model constitution for the cooperative societies was written by Rewi Alley, assisted by W. H. K. Campbell, the former League of Nations adviser on cooperatives.<sup>19</sup> It provides that work be carried on according to cooperative principles: that membership be open to all qualified workers up to the maximum number justified by the conditions of the business; that each member have one vote; that interest on share capital be limited; and that net earnings be distributed on the basis of a bonus on

<sup>17</sup> Helen Foster Snow, China Builds for Democracy, p. 64; Report, Chinese Industrial Co-operatives, December 31, 1938, pp. 13-14; Chinese Industrial Co-operatives, Southeast Headquarters Report, July, 1939, pp. 25-26; Paul M. A. Linebarger, The China of Chiang Kai-shek, pp. 226-227.

<sup>18</sup> Helen Foster Snow, The Chinese Labor Movement, p. 128.

<sup>19</sup> Robert W. Barnett, "China's Industrial Cooperatives on Trial", Far Eastern Survey, Vol. 9, No. 5, February 28, 1940, p. 52.



wages. Functions consist of manufacture and sale, the right to enter into contracts for labor, the transport of passengers and goods, the purchase of materials and equipment, the arrangement for credit, and the right to federate with other industrial cooperatives. Liability is guaranteed but limited. Supreme authority is in the general meeting, although a board of directors and a supervisory committee have specific duties. Only one share may be required for admission, but a member may subscribe up to a limit of 20 per cent of the total subscribed share capital; members are required to purchase shares from profits to the extent of two-fifths of the bonus on wages until the net worth of a society is equal to half its total capital. Transfer and redemption of shares are provided for under certain conditions. Wages are fixed by the general meeting, and in actual practice they are usually similar to or higher than prevailing wages in the same local industry.

Earnings first provide for interest on loans; 20 per cent depreciation on equipment and 10 per cent on buildings; any accumulated loss; a share transfer fund of at least 5 per cent of paid-up share capital; and non-cumulative interest, if earned, on share capital, limited to 10 per cent of shares or the current rate of interest on long-term loans, whichever is lower. The remainder is net surplus and is divided as follows: 20 per cent or more to reserve; 10 per cent or more to the "common good" fund; 10 per cent only to directors and staff; 10 per cent or more to the local industrial cooperative development fund; and the balance to members and non-member workers as bonus on wages, with two-fifths given in shares until the total paid-up share capital and reserves form one-half of the

total capital, and the remainder of the bonus in cash.

To what extent the societies conformed to this plan is not clear, since Dr. Smythe stated that the model constitution, adopted at a C.I.C. conference in 1940, remained a "dead letter" up to the spring of 1944.<sup>20</sup>

### Finances

Complete figures on the financing of the Chinese Industrial Cooperatives have not been available, and the figures given here offer only an indication of the sources of funds. Complete figures, if they were available, would probably be misleading, because of the inflation that has occurred since the C.I.C. was established. There are three kinds of funds used by the C.I.C., the first two types provided by the government: capital funds, lent out to organized groups, originally at 6 per cent for long-term and 8 per cent for short-term loans; promotion funds, provided for payment of staff, travel, and headquarters maintenance; and special funds, donated by private organizations and individuals, used for the evacuation of workers and machinery, for social services, education, and research.<sup>21</sup>

When the C.I.C. was organized in August, 1938, an appropriation of \$5,000,000 was requested from the government. This was granted, although only a small part of it was made available, and the staff had a constant

<sup>20</sup> Smythe, op. cit., pp. 10-13; cf. Helen Foster Snow's China Builds for Democracy, Appendix 2, pp. 266-279, for complete model constitution.

<sup>21</sup> Helen Foster Snow, ibid., p. 194; Report, Chinese Industrial Cooperatives, December 31, 1938, pp. 11-12.

struggle to secure funds as needed.<sup>22</sup> The first 1,200 cooperatives were established with only \$2,500,000.<sup>23</sup> One writer made the following statement:

. . . some government funds have been allotted for investment in cooperative units, though both in relation to the need and in relation to the capacity of the Government to lend, these funds have been relatively small. . . The hesitation by government agencies to throw large resources behind the cooperative movement reflects a conflict within the Chinese Government regarding the objectives and the methods of China's war effort.<sup>24</sup>

The government appropriated an initial administrative fund of \$500,000 to pay the salaries and office expenses of the staff and to set up new depots. In the first 8 months, 5 regional headquarters and 22 depots were set up and operated on only \$120,000. The money was payable on a monthly basis, and in February, 1939, it was only \$40,000 a month to support 500 staff members in 14 provinces. By February, 1940, it was \$100,000 a month for 1,000 staff members.<sup>25</sup>

Of a total of \$36,631,388 set aside for the C.I.C. as of July, 1940, \$11,060,000 were government funds. Paid-up share capital subscribed by members was \$381,388. Special funds amounted to \$1,890,000, and came mostly from foreign groups or individuals abroad or in China, although it also included \$50,000 from Madame Chiang to be spent on women and children, and \$6,000 from Madame Kung for the education of C.I.C. children. Madame Kung also lent \$100,000 interest-free. Bank loans totalled \$23,200,000,

<sup>22</sup> Helen Foster Snow, China Builds for Democracy, pp. 42 and 44.

<sup>23</sup> *Ibid.*, p. 2.

<sup>24</sup> Robert W. Barnett, "Microcosm of Chinese Unity", Amerasia, Vol. 4, No. 5, July, 1940, p. 227.

<sup>25</sup> Helen Foster Snow, *ibid.*, p. 194.

although \$18,000,000 of this was restricted for large enterprises in safe areas. Of this total of \$36,631,388, however, only about \$7,000,000 had been released and put into field production as of May 31, 1940. Individual societies had received \$5,550,192 in loans, of which \$645,189 had been paid back up to May 31, 1940. With the \$7,000,000 invested, a total of \$40,000,000 worth of goods had been produced from September, 1938, to May, 1940; while monthly production as of May 31, 1940, was \$6,394,958.<sup>26</sup>

Another author stated that while the government granted \$5,000,000 for a capital fund, a year later, in the fall of 1939, only \$2,000,000 had actually been paid; and that while \$11,000,000 had been received from the government by 1941, because of the inflation this actually represented much less in terms of purchasing power than the original \$5,000,000 promised in 1938. Of a loan of \$20,000,000 from the Bank of China, contracted for in the summer of 1940, none of the money had been made available by the latter part of 1941.<sup>27</sup>

Total capitalization in June, 1942, was estimated to be \$25,000,000, of which 35 per cent was supplied by the government, 20 per cent by paid-up capital from members, and the rest largely from banks.<sup>28</sup> It was stated that in July, 1942, the Executive Yuan decided to distribute a total of \$30,000,000 to the cooperatives at the rate of \$5,000,000 a month from July to December, but that this ". . ." apparently went hand in hand with

<sup>26</sup> Helen Foster Snow, China Builds for Democracy, pp. 191-193.

<sup>27</sup> Kate L. Mitchell, Industrialization of the Western Pacific, p. 141.

<sup>28</sup> China Handbook, 1937-43, Chinese Ministry of Information, p. 459.

increased governmental control over the organization."<sup>29</sup> A report of December, 1943, estimated the capitalization of the C.I.C. as about \$150,000,000.<sup>30</sup> The executive secretary of the American Committee in Aid of the Chinese Industrial Cooperative, or Indusco, Inc., stated that by the end of 1943 the government had put \$84,000,000 into the C.I.C., and that the government banks had put in \$32,040,014. Another \$65,000,000 had been allocated by the Central Government Treasury in June, 1943, and certain federations had also been able to borrow from local banks, although the figures were not given. These figures were stated to represent amounts available for loan capital.<sup>31</sup> The value of these amounts should not be over-emphasized in view of the lowered purchasing power of the inflated Chinese money.

#### FORCES PROMOTING THE MOVEMENT

As has been stated, the Chinese Industrial Cooperative Movement was not a purely indigenous movement, but was originated and promoted through the efforts of a group of foreigners and Western-educated Chinese. Because of the international character of this group, and because the idea seemed to be something new and well adapted to China's needs, the movement was well publicized and promoted not only in China but also in various foreign countries.

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<sup>29</sup> Lawrence K. Rosinger, "China's War Economy", Foreign Policy Reports, Vol. 18, No. 17, November 15, 1942, p. 228.

<sup>30</sup> Helen Foster Snow, The Chinese Labor Movement, p. 133, quoting a report from Elsie Fairfax-Cholmeley from Chungking.

<sup>31</sup> Pruitt, *op. cit.*, p. 50.

### Chinese Support

Certain individuals and groups in China actively promoted the C.I.C., but contrary to what might have been expected, few voluntary contributions were made by Chinese philanthropists and the well-to-do. The money used was mainly from government funds and bank loans. The money made available by the government in 1938 provided for loans and administration, but did not provide for industrial experimentation, which was necessary for the improvement of small-scale processes, nor for the training of a promotional staff, leaders of federations, or members of industrial cooperatives. In 1944 the government decided to reduce by half its contribution to the Association for the Advancement of Chinese Industrial Cooperatives, the promotional organization. Mr. William Hsu, then the secretary-general of the association, hoped to organize popular support in China to replace these government funds, but lack of understanding of cooperatives in general made it impossible for the necessary contributions to be raised in China.

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#### 1. The Soong Family

If the C.I.C. did not enjoy popular support in China, at least it received the backing of all the members of China's most influential family, who have often held divergent views on other matters. Besides sponsoring the movement in the beginning, Madame Chiang Kai-shek provided funds for the C.I.C. through the Women's Department of the New Life Movement. This money was used for food and transportation for refugees moved to the North-

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32 Lewis S. C. Smythe, The Place of Industrial Cooperatives in China's War-Time and Post-War Economy, pp. 9-10. (Mimeographed copy of a speech delivered in New York, October 23, 1944.)

west to be organized into cooperatives, and for work with women and children.<sup>33</sup> Madame Chiang wrote the foreword to the General Report of May, 1939; and in her book, China Shall Rise Again, published in the United States, she included a chapter on the industrial cooperatives written by Rewi Alley.<sup>34</sup>

Dr. H. H. Kung, Madame Chiang's brother-in-law, was said to have ridiculed the idea at first;<sup>35</sup> but he reconsidered and took the presidency of the C.I.C. at the time of its organization. He was largely responsible, as Finance Minister, for government funds being made available.

Those who have been most closely connected with the movement seem to be unanimous in feeling that Dr. Kung was a staunch defender of the movement against considerable political opposition.<sup>36</sup> It may seem incongruous that one of the wealthiest men in China, a conservative banker whose interest was normally in large-scale capitalistic and orthodox enterprises, should have been so much interested in industrial cooperatives. Dr. Kung had long felt that China needed village industry, however, and he saw in the C.I.C. just the organization to stimulate it.<sup>37</sup>

After the first few years some of the political appointees, apparently connected with the movement through Dr. Kung, brought about unwise changes

<sup>33</sup> Helen Foster Snow, China Builds for Democracy, pp. 64 and 194.

<sup>34</sup> Chiang May-ling Soong, China Shall Rise Again. Chapter 22, "The Chinese Industrial Cooperatives", by Rewi Alley, pp. 261-284.

<sup>35</sup> Carl Crow, China Takes Her Place, p. 209.

<sup>36</sup> Helen Foster Snow, China Builds for Democracy, pp. 27-31 and 44; Lewis S. C. Smythe, The Place for Industrial Cooperatives in China's War-Time and Post-War Economy, p. 7.

<sup>37</sup> Helen Foster Snow, *ibid.*, p. 29.

from real cooperative practices that subsequently required thorough re-organization.

While the Generalissimo was not as closely associated with the C.I.C. as Madame Chiang and Dr. Kung were, he also supported the movement. In a nation-wide broadcast on February 18, 1940, the Sixth Anniversary of the New Life Movement, he spoke as follows:

Apart from those taking part in work at the front or in labor corps, every man and woman in the land should choose some variety of productive work in agriculture, horticulture, road-building, transport, or handicrafts, each individual putting all the energy he or she possesses into the activity chosen. . . The Government has already established a thousand or more industrial cooperatives for the large-scale manufacture of all sorts of clothing and foodstuffs. These cooperatives are simple, convenient, very rapidly effective and not dependent upon large amounts of capital. I hope that they will be taken as models for wide development along this line, in order to make the means of productive power penetrate deeply into the countryside.<sup>38</sup>

Dr. T. V. Soong secured bank loans amounting to \$1,200,000 during the first few years, and aided in negotiating additional loans totalling \$20,000,000. He has been a member of the International Committee since about 1940, and early in 1945 became acting chairman of the board of directors of the Association for the Advancement of the Chinese Industrial Cooperatives. As he is now premier, his interest in the C.I.C. should be of great value to the organization.<sup>39</sup>

Madame Sun Yat-sen was honorary chairman of the Hongkong Promotion Committee up to the fall of the city. Her support of the cooperatives is

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<sup>38</sup> Chiang Kai-shek, Resistance and Reconstruction, pp. 152-153.

<sup>39</sup> Helen Foster Snow, China Builds for Democracy, p. 27; Indusco Bulletin, Vol. 5, No. 2, February, 1945, p. 1.



significant in view of the fact that she has frequently opposed policies favored by the rest of her family, and has consistently maintained that Sun Yat-sen's doctrines were meant to be more liberal than the interpretation given them by China's present leaders. She has always been associated with the Left opposition of the Kuomintang; and since 1940, her appeals have been for the cooperatives in the blockaded guerrilla regions rather than for the C.I.C. in general.<sup>40</sup> Dr. Sun Fo, the son of Sun Yat-sen and Madame Sun, favors all types of cooperatives,<sup>41</sup> although he has not been closely connected with the C.I.C. in particular.

## 2. Liberal Support

Besides the support of well-known figures, the C.I.C. had the backing of practically all liberal and left-wing elements in China.<sup>42</sup> Cooperating organizations included the Friends of the Wounded Society, the Chinese Red Cross Medical Relief Commission, Chinese Christian churches, and the Chinese Y.W.C.A. Many of the people connected with the movement gave up better paying positions for hard and dangerous work with the C.I.C., because they felt it was of more benefit to the country. Besides foreign trained engineers, many men and women trained in the rural cooperatives, the Ting-hsien Mass Education Movement, the C.I.F.R.C., the Y.M.C.A., the Chinese Red Cross, and various universities contributed constructive work to the

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<sup>40</sup> Helen Foster Snow, China Builds for Democracy, pp. 27-28; In Guerrilla China, Report of the China Defence League, 1943, pp. 47-53.

<sup>41</sup> Cf. Sun Fo, China Looks Forward, pp. 209-210.

<sup>42</sup> Robert W. Barnett, "Microcosm of Chinese Unity", Amerasia, Vol. 4, No. 5, July, 1940, p. 228.

C.I.C.<sup>43</sup> Some of the organization reports called attention to the fine cooperation received from certain progressive officials in a few areas.<sup>44</sup>

### Foreign Support

The strong foreign support that developed for the C.I.C. was important in helping the movement to maintain its democratic character and to remain independent of the agencies controlling the other Chinese cooperatives.

#### 1. International Committee

As soon as it became known that the C.I.C. had been organized, promotion committees were formed spontaneously both in China and abroad. The first committees were formed in Shanghai, Hongkong, and Chengtu, with many volunteer members, about half of whom were British and American.

As the movement gained support, it was found that a liaison agency was needed between the various promotion committees and the C.I.C. Therefore the International Committee for Chinese Industrial Cooperatives Productive Relief Fund (hereafter called the International Committee) was formed in Hongkong in July, 1939. The Right Reverend R. O. Hall, Anglican bishop of Hongkong, acted as chairman; Chen Han-seng, associated with the Institute of Pacific Relations, acted as secretary; and S. J. Chen, manager of the Bank of China in Hongkong, acted as vice-chairman and treasurer. Rewl Alley was appointed field secretary for the committee.

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<sup>43</sup> Lowe Chuan-Hua, "China Fights Japan with Cooperatives", Living Age, Vol. 359, No. 4493, February, 1941, pp. 519-520; Helen Foster Snow, China Builds for Democracy, pp. 237-238; Chinese Industrial Cooperatives, Chengtu Depot Report, 1940, pp. 3-5 and 15-16.

<sup>44</sup> Chinese Industrial Cooperatives, Southeast Headquarters Report, July, 1939, p. 25; General Report, May, 1939, p. 7.

As has been stated, Dr. T. V. Soong has also been a member of the International Committee.

While the International Committee cooperated with Dr. Kung and the C.I.C. Central Headquarters, it was entirely independent. It acted as trustee for all loans and gifts to C.I.C. other than funds arranged through the Chinese government. Funds not especially earmarked or not used for social services were placed in a revolving fund, which was lent to cooperative societies at 5 per cent. The societies reported to the committee on the use of the funds; and as soon as repayment was made, the funds were re-lent without delay or red-tape. Since government money was restricted to administrative and loan funds, all such activities as social services and technical training programs were supported by the International Committee. Some of the front-line cooperatives were also established with committee funds, as bank loans were not available for those areas. By July, 1940, the International Committee had handled about \$1,000,000 in gifts, besides another \$1,000,000 in loans from four banks.<sup>45</sup>

When Hongkong was taken by the Japanese, most of the members of the International Committee escaped to Free China, and new headquarters were established at Chengtu.<sup>46</sup> At the election in May, 1945, the Right Reverend R. O. Hall was again named chairman of the committee; Dr. Y. C. Chen, president of the University of Nanking, and Professor J. B. Tayler, early teacher of some of the first Chinese cooperative organizers in North China before the war, were made vice-chairmen; and Dr. Lewis S. C. Smythe, head

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<sup>45</sup> Helen Foster Snow, China Builds for Democracy, pp. 177-182.

<sup>46</sup> A Nation Rebuilds, published by Indusco, Inc., p. 19.

of the Department of Sociology of the University of Nanking was re-elected treasurer, a position he has held for a number of years. Rewi Alley was re-named field secretary.<sup>47</sup>

## 2. Overseas Chinese

Chinese living abroad have always had a strong interest in, and influence on, their home land; and they are generally less conservative than the Chinese in China. They contributed considerable sums of money to launch the Chinese Revolution in 1911 and to support Sun Yat-sen when he was an exile. They also were among the first to support the Chinese Industrial Cooperatives.

The most effective aid from overseas Chinese before Pearl Harbor came from the Philippines. In the first two years after the committee was formed in the Philippines, over \$700,000 was raised. While the major part of the money came from Chinese, many other people were also active supporters, including Mrs. Paul McNutt and Mrs. Francis B. Sayre.<sup>48</sup>

Overseas Chinese in Saigon, Singapore, Batavia, Bandoeng, and Soerabaya in 1939 pledged half a million dollars to the C.I.C. A considerable proportion of the funds raised in the Philippines were earmarked for guerrilla cooperatives in the occupied areas of China.<sup>49</sup>

## 3. England and the British Commonwealth

In June, 1939, the Anglo-Chinese Cooperative Development Society,

<sup>47</sup> Indusco Bulletin, Vol. 5, No. 7, July, 1945, p. 2.

<sup>48</sup> Helen Foster Snow, China Builds for Democracy, pp. 182-184.

<sup>49</sup> C.I.C. General Report, May, 1939, p. 27; Helen Foster Snow, ibid., pp. 110-118 and 184.

Ltd., was formed in London, with four members of Parliament among the members, as well as the manager of the London Cooperative Society. The society planned to sell shares to cooperatives at £1 to raise a loan of £100,000, but the outbreak of the war in Europe prevented the execution of the plan. In 1940 Sir Stafford Cripps visited some of the cooperatives in China and later gave several enthusiastic lectures on them in Washington and New York. The movement was well publicized in England, and a total of \$349,000 had been contributed from British Relief Funds through 1940.<sup>50</sup>

In May, 1945, two representatives of the Anglo-Chinese Cooperative Development Society visited China to establish closer relations with the C.I.C. They took £500-worth of micrometers, calipers, and gauges to the Lanchow Bailie School. It is planned to send some machinery from England to the cooperatives as soon as possible.<sup>51</sup>

The Australia-China Cooperative Movement was organized in Melbourne in January, 1940, and some funds were sent to the C.I.C. from this committee. A number of individuals in Canada and New Zealand contributed, but there was no organized support in these countries.<sup>52</sup>

#### 4. United States

At the end of 1939 Miss Ida Pruitt, who had organized the Hongkong C.I.C. committee, came to the United States to interest the American public in the industrial cooperatives. The first large meeting, with Pearl Buck and Sir Stafford Cripps as speakers, was held in New York in April, 1940,

<sup>50</sup> Helen Foster Snow, China Builds for Democracy, pp. 185-187 and 192.

<sup>51</sup> Indusco Bulletin, Vol. 5, No. 5, May, 1945, pp. 1-2.

<sup>52</sup> Snow, *ibid.*, p. 187.

and sponsored by Admiral Yarnell, John Gunther, and Nathaniel Peffer. Indusco, Inc., the American Committee in Aid of Chinese Industrial Cooperatives, was incorporated in September, 1940. Some of the other well-known people associated with the organization were Mrs. Franklin D. Roosevelt, Owen Lattimore, Ray Lyman Wilbur, Gifford Pinchot, Marshall Field, Robert A. Millikan, Philip Murray, Congressmen Walter H. Judd and Jerry Voorhis, Lieutenant-Colonel Evans F. Carlson, Laughlin Currie, Henry R. Luce, Maxwell S. Stewart, Michael Straight, and Edgar Snow. Since 1941 Indusco, Inc., has been one of the organizations affiliated with United China Relief, and has received funds from the National War Fund.<sup>53</sup>

From September, 1940, to December, 1944, the total funds sent from Indusco, Inc., to the C.I.C. amounted to US\$2,109,676.63. This contribution from the American public represented almost all the supplementary funds sent to the organization after Pearl Harbor. The International Committee, through whom the funds were distributed, reported the following allocations for the month of November, 1944: for the purchase of new machines; to federation treasuries for loans to cooperatives hard hit by the inflation; for the new Bailie School in Sandan, West Kansu; for training cooperative members in accountancy; for technical experimentation by the Man and Machines Office; and for emergency evacuation from fighting zones.<sup>54</sup>

Besides Indusco, Inc., other agencies in the United States have cooperated with the C.I.C. The Office of War Information on a number of

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<sup>53</sup> Helen Foster Snow, China Builds for Democracy, pp. 188-190; A Nation Rebuilds, p. 32 and back cover.

<sup>54</sup> Indusco Bulletin, Vol. 5, No. 1, January, 1945, pp. 1-2; Lewis S. C. Smythe, Industrial Cooperation in China During the War, p. 9.

occasions sent by air valuable technical microfilm reels. Henry A. Wallace, on his trip to China in 1944, carried technical data assembled by the Department of State for the C.I.C. He also visited the cooperatives, as did Wendell Willkie in 1942. In the spring of 1944 two United States representatives of U.N.R.R.A., Dr. Eugene Staley and Mr. Owen Dawson, visited some of the cooperatives to investigate the possibility of using the C.I.C. to help in the rehabilitation of liberated areas. When Major General Patrick Hurley and Donald M. Nelson went to China in 1944, they took fifty pounds of small tools purchased by Indusco, Inc., and sent by arrangement with the State Department.<sup>55</sup>

At the invitation of Dr. Kung, in the fall of 1942, the Division of Cultural Relations of the Department of State sent Dr. W. Mackenzie Stevens and Mr. John Lyman, cooperative specialists, to make recommendations for the reorganization of the C.I.C. Dr. Kung accepted the recommendations, and the reorganization suggested took place in June, 1943.<sup>56</sup>

#### FORCES OPPOSING THE MOVEMENT

##### The Japanese

The most obvious force opposing the C.I.C., and the only foreign one, was the Japanese army, which naturally did everything it could to disrupt any orderly plans for economic development not under Japanese auspices. Whereas unorganized individuals felt helpless and either submitted or

<sup>55</sup> Indusco Bulletin, Vol. 2, No. 10, November, 1942, p. 3; Vol. 4, No. 5, May, 1944, p. 2; No. 7, July, 1944, pp. 1-2; No. 8, August, 1944, p. 2; No. 9, September, 1944, p. 1.

<sup>56</sup> Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, p. 48.

escaped with their personal belongings when the Japanese advanced, those organized into cooperatives had well-thought-out group plans to evacuate ahead of the enemy with their machines or to continue guerrilla type industry behind the Japanese lines in "plain clothes" fashion. It was necessary to change the names of organizations in Japanese controlled areas and to remove all symbols of cooperation, since the Japanese had orders to execute members of the C.I.C. when they were caught. A number of members lost their lives when they were trapped by swift Japanese advances and when their connection with the C.I.C. became known. But innumerable instances were cited of cooperative members who rescued the simple machines owned cooperatively even at the cost of leaving all personal property.<sup>57</sup>

Japanese bombing also caused some losses to the industrial cooperatives, although these were fewer than might have been expected because of decentralization.<sup>58</sup>

#### The Landlord-Gentry and Local Bureaucracy

Since the industrial cooperatives did not greatly threaten the existing system of land ownership, they seldom came into direct conflict with the landlord-gentry group except as members of that class were represented in the bureaucracy or merchant groups. There are indications, however, that in the cases where their aims came into conflict, the landlord-gentry opposed the C.I.C. It was stated that the C.I.C. had less local political opposition in the Northwest than in any other region, because central government agencies located in that area had caused some weakening of the

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<sup>57</sup> News of China, United China Relief, Vol. 3, No. 8, August 5, 1944, p. 3.

<sup>58</sup> Helen Foster Snow, China Builds for Democracy, pp. 221-225.



local political powers. Even in the town chosen as Northwest C.I.C. Headquarters, however, the magistrate opposed the organization, and the situation did not improve until a new magistrate sympathetic to the movement was appointed. The common hostility of local officials to the C.I.C. was in line with their general opposition to anything disturbing the status quo.<sup>59</sup> While the C.I.C. was encouraged by the provincial governments in Fukien and Kwangtung, it was not welcomed in other provinces such as Kweichow and Kiangsi. In the latter province there was trouble over the low C.I.C. rate of interest, which was in striking contrast to other interest rates in that section.<sup>60</sup>

#### Advocates of Heavy Industry

The limited funds that China had to devote to industrial promotion brought about a lack of enthusiasm for, if not opposition to, government support of the C.I.C. The advocates of extensive and large-scale government-owned heavy industry follow in the steps of Sun Yat-sen, and hence their ideas have always been popular with the average Chinese. They also appealed to Western-trained engineers and economists who are familiar with the massive industrial plants of states better endowed than China with natural resources and technical experience. The matter of "face" is undoubtedly involved, as well as the patriotic determination that China shall never again be defenseless against attack. While this determination must be approved as desirable in theory, it is significant that most of the

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<sup>59</sup> Helen Foster Snow, China Builds for Democracy, p. 74. Cf. also pp. 96-98.

<sup>60</sup> *Ibid.*, p. 97.

League of Nations experts who were invited to China to give impartial advice on reconstruction were unanimous in advocating agricultural, especially land, reform and the rehabilitation of the rural areas by widespread small-scale industrialization geared in with rural pursuits.

This conflict of interest between the group desiring government-supported industrial cooperatives and the group advocating government-owned heavy industry was noted by Robert Barnett as follows:

Wong Wen-hao, Minister of Economics, Chin Fen, Vice-Minister of Economics, Franklin Ho, of the Rural Credit Administration, and Szechwan industrialists, partly under the influence of American ideas of large-scale efficiency production, favor the utilization of government funds for centralized large-scale industrial projects which they view as deserving prior emphasis in a nation's war-time economy. Believing that cooperatives cannot adequately meet the demands of a nation at war, they have been prone to regard the hasty and irregular improvisations of small-scale industrial projects as relatively unimportant and not meriting serious attention on the part of the Government.<sup>61</sup>

Dr. Lewis S. C. Smythe, secretary-treasurer of the International Committee of the C.I.C., cited the plan of Dr. Wu Ching-chao, senior secretary in the Ministry of Economic Affairs since 1938, calling for large-scale industrialization to absorb excess population, on a scale vast enough to move over 100,000,000 farmers into cities within 30 years, the whole to be financed by a loan of US\$15 billion to be secured from the United States. After outlining the defects of such a program, (See pages 194-196 ) Dr. Smythe advocated the Chinese Industrial Cooperatives as an alternative plan that would bring about a more gradual and less dis-

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<sup>61</sup> "Microcosm of Chinese Unity", Amerasia, Vol. 4, No. 5, July, 1940, p. 228.

ruptive industrial modernization.<sup>62</sup>

One author, in discussing post-war plans for heavy industry and the necessity for agricultural reform, reported the following attitude regarding the C.I.C.:

The usefulness of industrial cooperatives as a primary means of postwar industrialization is regarded with skepticism by all but a few enthusiasts. It is widely felt in circles in and around the government that much industrial development in the rural areas would intensify rather than reduce the social and political dangers of the belated industrial revolution through which China must pass.<sup>63</sup>

A well-known American correspondent considered well informed on China wrote as follows:

The most glaring gap in all Chinese publications on post-war reconstruction is agrarian reform.<sup>64</sup>

#### The C.C. Clique

The Ministry of Economic Affairs, controlled by the advocates of government-owned heavy-industry, and the Ministry of Social Affairs were stated to be the two main factions in China which opposed the development of the C.I.C.<sup>65</sup> The latter ministry was a party bureau until 1939, when it was converted into a government ministry; it is generally conceded to be under the control of the C.C. Clique, which has invited the accusation

<sup>62</sup> Lewis S. C. Smythe, The Place of Industrial Cooperatives in China's War-Time and Post-War Economy, pp. 3-6.

<sup>63</sup> Gunther Stein, "Chungking Considers the Future", Far Eastern Survey, Vol. 9, No. 18, September 7, 1942, p. 193.

<sup>64</sup> Theodore White, "China's Postwar Plans", Fortune, Vol. 28, No. 10, October, 1943, p. 163.

<sup>65</sup> "Chinese Industrial Cooperatives Marking Time", Far Eastern Survey, Vol. 10, No. 18, September 22, 1941, p. 212.

of being Fascist because of its use of secret police and other repressive methods. The sources of C.C. power have been described as follows:

The C.C. P'ai is a Chinese version of an American political machine . . . It owes its immense political influence to the fact that its men hold most of the strategic positions in China's one legal party--the Kuomintang. One of the two Chen brothers who head up the CC group, Chen Li-fu, is the Minister of Education, a post which gives him control over the indoctrination of students and the intellectual life of the nation. The other, Chen Kuo-fu, is head of the Personnel Division of Chiang Kai-shek's headquarters, where he controls the distribution of government jobs and is in charge of the appointment of local hsien, or county, magistrates. Another CC leader, Hsu En-tseng, is Vice-Minister of Communications and head of the powerful Investigation Bureau, while another Ku Cheng-kang, is Minister of Social Affairs. Through this latter post, the CC group not only has control over labor and the rural cooperatives but has full powers over all organizations in Chungking and vicinity. . .

. . . In domestic policy the CC group has consistently fought all efforts to make the Kuomintang more democratic, and has taken the lead in urging the suppression of the Communists.<sup>66</sup>

Nym Wales (Mrs. Edgar Snow), who was one of the original group in Shanghai who conceived the idea of the C.I.C., in 1940 referred to "an underhand attempt to get control of the movement by two Government cliques".<sup>67</sup> The same author, writing in 1945, stated that the C.I.C. would have lost its cooperative character if it had "fallen under the Ministry of Social Affairs."<sup>68</sup>

That the struggle for control of the industrial cooperatives was acute was proved by the following quotation:

Rewi Alley, C. F. Wu, Frank Lee, and others of the original organizers, were driven out of their positions due

<sup>66</sup> Maxwell S. Stewart, War-Time China, pp. 35-37.

<sup>67</sup> Helen Foster Snow, China Builds for Democracy, p. 259.

<sup>68</sup> Helen Foster Snow, The Chinese Labor Movement, p. 131.

to political pressure before the reorganization. A number of the Indusco leaders have been arrested. Some have been released, others are still imprisoned. A few "disappeared" after being taken by the secret police, accused as Communists. . . . Thousands of such people, accused only of having "dangerous thoughts" are now in prisons or concentration camps in China, as part of the general drive to destroy the democratic opposition.<sup>69</sup>

Although most writers were very guarded in their statements at the height of the trouble, and there was a certain amount of mystery as to just who was fighting the C.I.C., substantially the same impression was given by another author:

Increasingly, liberals are suffering persecution in China . . . Now one of the strongest liberal groups in China, the Chinese Industrial Cooperative movement, is under attack. Its most important leaders, such as Y. C. Meng, Lang Wong and Lu Kuang Mien, have been imprisoned without trial or driven into hiding. The men responsible for the C.I.C. program of manufacturing a million blankets for the Chinese army are in prison. Rewi Alley, the field secretary of the International Committee of the C.I.C., has been subjected to a political attack. There is a strong drive to bring the C.I.C., so famous for its education of the peasants, under the Ministry of Social Affairs, a government department which is in reality a Kuomintang organ, headed by a fascist sympathizer, Chen Li-fu.<sup>70</sup>

#### THE REORGANIZATION OF 1943

Because the foregoing difficulties had developed, and because the reorganization of 1941 (see p. 132 ) had not proved successful, internal strife plagued the C.I.C. from some time in 1941 until June, 1943, when another reorganization was effected. Besides the question of institutional independence or subordination to the Ministry of Economic Affairs or the

<sup>69</sup> Helen Foster Snow, The Chinese Labor Movement, p. 130.

<sup>70</sup> Michael Straight, "Is It a People's War?", The New Republic, Vol. 107, No. 20, November 16, 1942, p. 635.

Ministry of Social Affairs, members of the government felt that the movement should be under stricter government control since it was largely financed with government funds. Because the C.I.C. was sponsored by Dr. H. H. Kung, a number of his Kuomintang supporters who knew nothing about cooperation were placed on the staff, resulting in an expansion of the numbers and the forced resignation of former staff members alleged to be leftists. This was accompanied by a halt in the number of cooperatives being organized, and left the promotional staff topheavy when compared to the actual number of producing societies. It also resulted in an increase of red tape and a disastrous delay in transmitting funds from headquarters to the cooperatives, since any delay brought about a reduction in the value of the funds because of the increasing inflation.<sup>71</sup>

An additional complication was that some members of the government claimed that foreign funds used to finance the cooperatives through the International Committee were evidence of foreign control of the cooperatives--in other words, "imperialism". It was this argument that was mainly used against Hewi Alley and resulted eventually in his being dismissed from his post as chief adviser to the Central Headquarters of the C.I.C., although the International Committee saw to it that he was kept on as their field secretary.<sup>72</sup>

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<sup>71</sup> "Chinese Industrial Cooperatives Marking Time", Far Eastern Survey, Vol. 10, No. 18, September 22, 1941, p. 212.

<sup>72</sup> George Hogg, I See A New China, pp. 196-202. For more details on the situation that made reorganization necessary, see "The Chinese Cooperatives", Editorial, The Nation, Vol. 155, No. 15, October 10, 1942, pp. 333-334; "Changes in the C.I.C.", letter by Geraldine Fitch, No. 18, October 31, 1942, p. 459; and "More Facts about the C.I.C.", letter by Ida Pruitt, No. 21, November 21, 1942, pp. 555-556.

In the summer of 1942, Dr. Kung invited Dr. J. Henry Carpenter, then the chairman of Indusco, Inc., the American C.I.C. promotional organization, to come to China to inspect the cooperatives. Dr. Carpenter made a report to Dr. Kung in the winter of 1942-1943, in which he recommended continued support of the movement because of its productive record and its democratic and educational potentialities. He also deplored the unfriendliness of certain officials, arrests of members, and the fact that cooperators were not being permitted to manage the cooperatives.<sup>73</sup>

In November, 1942, the International Committee and the C.I.C. Central Headquarters in Chungking reached an agreement that the former should continue to allocate all funds sent from abroad; and that it should send through Central Headquarters all funds for capital loans, but had the right to see that such funds were "properly administered".

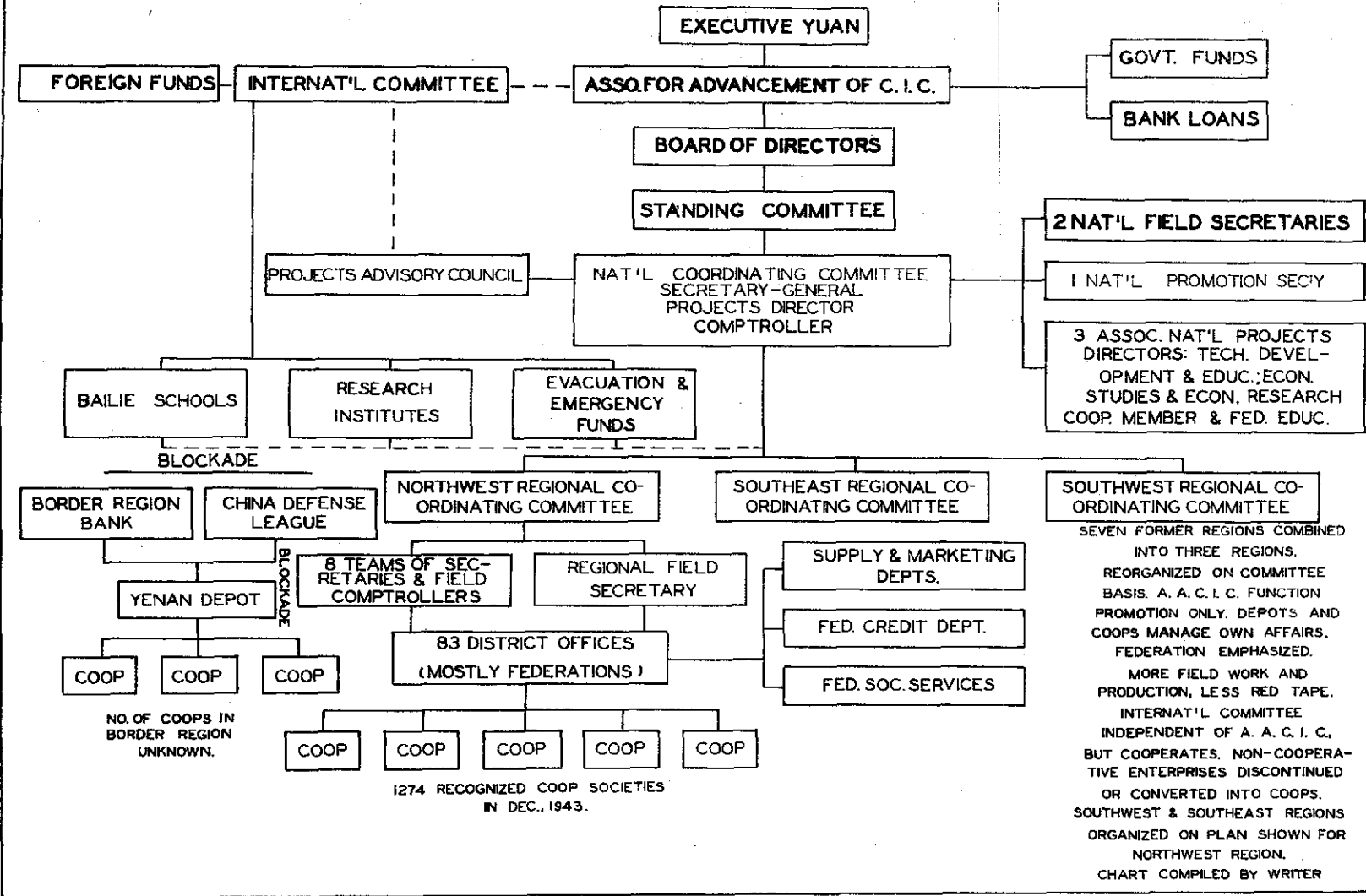
By the spring of 1943, Dr. W. Mackenzie Stevens and Mr. John R. Lyman, the cooperative experts sent at Dr. Kung's request by the Department of Cultural Relations of the Department of State, had studied the cooperatives and had made recommendations for changes. Actual reorganization, as shown in the chart on page 159, took place in June, 1943.

In brief, the Central Headquarters of C.I.C. was renamed the Association for the Advancement of Chinese Industrial Cooperatives (A.A.C.I.C.) and was recognized as a promotional agency completely separate from the actual industrial cooperatives and their federations. Its functions were to receive and distribute funds to the cooperatives, to provide technical

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<sup>73</sup> Indusco Bulletin, Vol. 2, No. 7, July 3, 1942, p. 1; J. Henry Carpenter, "Chinese Industrial Cooperatives", China at War, Vol. 10, No. 2, February, 1943, pp. 61-63.

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experimentation, guidance, training, managerial techniques, and analysis for sound business management; and to secure and maintain the best possible public relations and support for the movement.

The industrial cooperatives and their federations were to carry on all business operations, all purchase of raw materials, production, and sale of finished goods.<sup>74</sup>

The following excerpts from the report clarify some of the abuses that had developed.

Its (A.A.C.I.C.) personnel should be technically qualified for the specific functions to be performed and there should be no greater numbers of these than are absolutely essential to perform the specific functions necessary.

No profit making commercial enterprise should be conducted under the CIC name whether under the guise of "Experimental Factories", commercial trucking service, blanket factories, farming out CIC privileges on a royalty basis, or any other abuses of cooperative privilege under the guise of earning money to meet CIC administration expenses or on any other excuse. All cooperative business should be handled by cooperatives or through cooperative federations, not by any affiliate of the AACIC such as the Tai Yin [g] Chu has been.<sup>75</sup>

The Tai Ying Chu was a "Central Trading Agency" set up by Central Headquarters which was supposed to aid the cooperatives in marketing and supply, but which "operated to fight the growing industrial cooperatives instead of facilitating the development of industrial cooperatives."<sup>76</sup>

Along with this clarification of functions went a reorganization of the national and regional headquarters on a committee basis designed to

<sup>74</sup> Indusco Bulletin, Vol. 3, No. 3, March 8, 1943, p. 1; No. 6, June, 1943, p. 1; No. 7, July, 1943, p. 1; No. 8, August, 1943, p. 1.

<sup>75</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 31-32.

<sup>76</sup> Ibid., p. 9.

decentralize the work as much as possible and to avoid concentrating too much power in any one man. The secretary-general was replaced by a committee of three members with almost equal power, and the regions were reorganized according to the same plan. The seven regions were combined into three regions, Southeast, Southwest, and Northwest, and federations were to be emphasized from the very start of work in any locality. The depots were to be replaced by local or district promotion offices, which were to be federations wherever practicable. Until a federation could be established, a district promotion committee of three members might function, but it was to be replaced as soon as possible by a federation.

It was thought that this plan would result in decentralized direction combined with centralized control of funds and checking of results. Cash was to be remitted directly to districts and to major projects, and monthly reports were to be sent directly to National Headquarters; but actual work was to be done in the districts, supervised and assisted by regional teams composed of a field secretary and a field auditor, while coordination of work in each region was to be subject to a regional coordinating committee. It was thought that regional offices would have been unnecessary except for poor communications.<sup>77</sup>

The personnel of A.A.C.I.C. was frozen at 225 for the entire staff, central and regional; and promotion leaders were to be carefully chosen and paid salaries commensurate with those in other fields, in addition to a supplement as necessary to offset the inflation. By 1945 it was stated

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<sup>77</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 32-34.

that there had been a great improvement in solving organizational problems and in the understanding of the functions of the promotional organization, A.A.G.I.C., and of the actual cooperatives and their federations, and that the number of people on the promotional pay-rolls had been reduced. The author continued as follows:

Neither of these processes is as far advanced as the friends of the industrial cooperatives would wish. With all the will in the world, it takes time to change the old way of thinking of the position of oneself and of others, and with inflation increasing at least ten percent every month, it is not surprising that men cling to payrolls and wish to keep their families and friends with them.<sup>78</sup>

#### ACCOMPLISHMENTS OF THE CHINESE INDUSTRIAL COOPERATIVES

##### Extent and Growth

Different sources give different figures for the Chinese Industrial Cooperatives. For instance, one source stated that in April, 1940, at the height of their growth, there were about 3,000 societies; that the number had declined to 2,400 by June, 1942; and to 1,274 in December, 1943.<sup>79</sup>

The official figure for June, 1940, however, was 1,612; and for June, 1942, 1,590.<sup>80</sup> The last official figures available end with the June, 1942,

figures; but a third source, which agrees with the official figures but carries them on to December, 1943, also gives 1,274 as the number for that date.<sup>81</sup>

<sup>78</sup> Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, pp. 49-50.

<sup>79</sup> Ibid., p. 48.

<sup>80</sup> China Handbook, 1937-43, p. 457.

<sup>81</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, p. 2.

The March, 1941, figures from two sources, Dr. Chen Han-seng, secretary of the Hongkong Promotion Committee, and the China Information Committee of Chungking, official government publicity agency, were compared in an article published in the United States. The figure given by Dr. Chen was 2,233, while that given by the committee was 1,704, a difference of 529 societies, or between 20 and 30 per cent of the total, depending on which number is accepted as correct. The discrepancy was accounted for in the article by the difference between the number of registered societies and those that had not been recognized by the Central Headquarters.<sup>82</sup>

Several conditions in China made it difficult to ascertain the correct number of societies at a given time. Communications were sometimes difficult in peacetime in outlying areas, and they became worse in wartime. Certain cooperatives were cut off from their depots by fighting, and were sometimes thought to have been destroyed, only to turn up again later when communications were restored. Societies operating in certain villages and towns were sometimes found in sections several hundred miles distant after Japanese activity had made their evacuation necessary. Such conditions are not conducive to accuracy of statistics, and explain some of the discrepancies. Another reason for the differences may be the inclusion or omission of figures or estimates of societies in the blockaded Communist region, which the semi-governmental C.I.C. Central Headquarters would naturally ignore.

Whatever figure is accepted as correct, even the largest number

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<sup>82</sup> "Chinese Industrial Cooperatives Marking Time", Far Eastern Survey, Vol. 10, No. 18, September 22, 1941, pp. 208-209.

claimed falls far short of the 30,000 societies which the original organizers considered necessary if the movement was to fulfill their hopes and to attain sufficient strength to be a decisive factor in Chinese economic life.<sup>83</sup>

1. C.I.C. Growth and Retrogression

The official figures for C.I.C. development are shown in Table XII on page 165.

The slackening of the rate of growth in 1940 and its subsequent decline was stated to have been due to the fact that, although many refugees and surplus laborers had entered the cooperatives in the early years of the war, by 1940 the former labor surplus had become a shortage, as new private and government factories were established in the interior which competed with the cooperatives for the available workers.<sup>84</sup> Other factors involved in the retrogression were a split between two leaders in the National Headquarters; "directives from above for the C.I.C. promotion agency to 'go out and make a profit'"; the rapid rise in prices which made it necessary for some of the salaried staff to get into better paid jobs to support their families; the bureaucratic development of C.I.C. subsidiaries such as Army Blanket Factories, the Central Trading Agency, and a C.I.C. Control Office over Indusco Treasuries, all of which competed with the cooperative societies; undercapitalization which kept the societies just behind the market in the inflation; lack of confidence of the banks

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<sup>83</sup> "Chinese Industrial Cooperatives Marking Time", Far Eastern Survey, Vol. 10, No. 18, September 22, 1941, p. 209.

<sup>84</sup> Ibid.

Table XII

THE DEVELOPMENT OF G.I.C. (December, 1938-June, 1942)<sup>85</sup>

<u>Year</u>	<u>No. of Societies</u>	<u>No. of Members</u>	<u>Share Capital</u>		<u>Loans Outstanding</u>	<u>Monthly Production</u>
			<u>Subscribed</u>	<u>Paid-up</u>		
1938 (December)	69	1,149	\$ 16,292	\$ 10,206	\$ - - - -	\$ - - - -
1939 (June)	724	9,534	163,188	91,842	- - - -	- - - -
1939 (December)	1,284	15,624	416,108	236,122	\$2,607,302	- - - -
1940 (June)	1,612	21,330	714,996	488,214	5,469,862	\$5,783,450
1940 (December)	1,739	25,682	1,219,347	843,245	6,000,862	9,392,154
1941 (June)	1,867	29,284	1,835,793	1,357,858	12,520,365	14,246,595
1941 (December)	1,737	23,088	2,348,084	1,972,204	13,893,045	14,478,892
1942 (June)	1,590	22,680	5,645,558	4,553,392	15,727,857	24,022,944
1943 (December)	1,274	17,281	- - - -	- - - -	- - - -	68,600,215

<sup>85</sup> China Handbook, 1937-43, Table 35, p. 457, except for the figures for December, 1943, which were taken from Lewis S. C. Smythe, Industrial Cooperation in China During the War, p. 2.

and political influence in the granting of loans from government banks; and the policy of "consolidation", which would have been good practice if it had resulted in strengthening existing societies and making them more efficient and more cooperative in nature. On the contrary, however, it was "reported that many good cooperatives were 'consolidated' out of existence rather than finding ways to better them."<sup>86</sup>

## 2. Geographical Distribution

From the seven regional headquarters, industrial cooperatives had been established in 18 provinces up to June, 1942:

Table No. XIII

Geographical Distribution of C.I.C., June, 1942<sup>87</sup>

<u>Regions</u>	<u>Number of Societies</u>	<u>Number of Members</u>
Northwest: Shansi, Kansu, Ninghsia, and Chinghai	325	4,019
Chuan-Kong: Szechwan and Sikong	247	4,800
Southeast: Kiangsi, Fukien, and Kwangtung	433	5,395
Southwest: Hunan and Kwangsi	246	3,485
Yunkwei: Yunnan and Kweichow	158	2,497
Northern Front: Shansi, Honan, and Hupeh	118	1,610
Southern Front: Chekiang and Anhui	63	874
Total	1,590	22,680

<sup>86</sup> Lewis S. G. Smythe, Industrial Cooperation in China During the War, pp. 9-10.

<sup>87</sup> Ibid., p. 3.

### 3. Industrial Distribution

The industries in which the industrial cooperatives were engaged as of December, 1943, producing nearly 500 different items,<sup>88</sup> are shown in the following table:

Table No. XIV

#### Industrial Distribution of C.I.C., December, 1943<sup>89</sup>

<u>Description</u>	<u>Number of Coops</u>	<u>Percent- age Total Coops</u>	<u>Number of Members</u>	<u>Percent- age Total Members</u>	<u>Total Monthly Produ- ction</u>	<u>Percent Total Produ- ction</u>
Metal	57	4.5	708	4.1	\$ 5,331,311	7.8
Mining	17	1.3	404	2.3	384,510	0.6
Spinning & Weaving	589	46.2	9,398	54.4	30,648,649	44.7
Tailoring	99	7.8	915	5.3	4,012,034	5.8
Chemicals*	256	20.1	3,272	18.9	12,655,168	18.5
Foodstuffs	42	3.3	500	2.9	2,011,106	2.9
Cultural	36	2.8	429	2.5	1,564,339	2.2
Building & Carpentry	76	6.0	681	4.0	2,676,519	3.9
Transporta- tion	5	0.4	46	0.3	594,499	0.9
Miscellan- eous	97	7.6	928	5.3	8,722,080	12.7
<b>Total</b>	<b>1,274</b>	<b>100.0</b>	<b>17,281</b>	<b>100.0</b>	<b>\$68,600,215</b>	<b>100.0</b>

\* Includes paper making and leather tanning societies.

<sup>88</sup> A Nation Rebuilds, p. 30.

<sup>89</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, p. 3.



#### 4. Strength of the Chinese Industrial Cooperatives

Certain ratios to ascertain the strength of the industrial cooperatives were computed by E. Ralph Lapwood, professor from Yenching University, who worked closely with the International Committee in Chengtu. The following table was quoted by Dr. Smythe from Lapwood's study, A Statistical Survey of the C.I.C.:<sup>90</sup>

Table No. XV

#### Strength of C.I.C., to December, 1943<sup>91</sup>

<u>Date</u>	<u>Average</u> <u>Member-</u> <u>ship</u>	<u>Average</u> <u>Subscr.</u> <u>Sh.Cap.</u>	<u>Share</u> <u>Cap.</u> <u>Paidup</u>	<u>Average</u> <u>Loan</u> <u>per Mem.</u>	<u>Ratio</u> <u>Loan</u> <u>Sub.</u> <u>Sh.Cap.</u>	<u>Aver.</u> <u>Prodn.</u> <u>per.</u> <u>Mem.</u>	<u>Ratio</u> <u>Monthly</u> <u>Prodn.</u> <u>Loan</u>
Dec. '38	16.7	\$14.0	63%	\$ - -	- -	\$ - -	- -
June '39	13.2	17.0	56	- -	- -	- -	- -
Dec. '39	12.2	26.5	57	170	6.3	- -	- -
June '40	13.2	33.5	68	255	7.6	270	1.06
Dec. '40	14.8	47.5	69	235	4.9	365	1.57
June '41	15.8	62.5	74	425	6.8	485	1.14
Dec. '41	13.3	101.7	83.8	602	5.9	627	1.04
June '42	14.3	248.9	80.6	693	2.7	1059	1.52
Dec. '43	13.6	- -	- -	- -	- -	3969	- -

In commenting on these ratios, Dr. Smythe called attention to the fact that the average production per member increased, and the financial position of the cooperatives improved as shown by the decline in the ratio of loan to subscribed share capital. He stated that the increase in production per member in some sections of the country may have been offset by price increases, but that the figures could not be accurately adjusted

<sup>90</sup> Not available to the writer.

<sup>91</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 3-4.

to show this since price increases were not uniform throughout the country.

Studies were made in Szechwan by Chen Ching-fang, under the direction of Dr. J. Lossing Buck, to show the business strength of the industrial cooperatives. Szechwan was apparently the only province in which such a detailed analysis was made.

Chen found that the annual net income per member in Szechwan in 1942 in various industries ranged from \$10,926 in towel and stocking making cooperatives, to \$-3010 in battery making cooperatives, with all but three types out of 26 showing an income.

Chen used the wholesale price index in Chengtu for domestic commodities to convert the monetary values in 1941 and 1942 into "deflated dollars". With the dollar of Spring, 1937, equal to 100, the dollar in 1941 was 1698, and in 1942 was 4358. The Szechwan industrial cooperatives improved their financial position in 1942, according to his computations: The average net worth per cooperative in 1941 was \$7,769, and in 1942, was \$43,155; but in deflated dollars, the average net worth per cooperative was \$469 in 1941, and \$990 in 1942. The average loan per cooperative in 1941 in deflated dollars was \$1,629, but in 1942 was only \$1,104. The net worth creditor ratio (net worth/total other liabilities) improved from 19.7 per cent in 1941 to 52 per cent in 1942; current ratio (current assets/current liabilities) improved from 1.03:1 in 1941 to 1.32:1 in 1942; while the "acid test ratio", (current assets - inventories/current liabilities) were 0.48:1 in 1941 and 0.45:1 in 1942. These showed a trend in the right direction, although the net worth creditor ratio of 52 per cent in 1942 was low in view of the fact that it was said it should have been 100 per cent and that the Central Cooperative Wholesale in the United States sets

a standard of 300 per cent.

The operating position of the Szechwan cooperatives also improved between 1941 and 1942, according to Chen's study. The per cent of cooperatives showing a profit in 1941 was 60, while in 1942 it was 85; the per cent of net profit on sales was 4 in 1941 and 8 in 1942; the per cent of net profit on net worth was 7 in 1941 and 59 in 1942. At the same time, however, there was a serious decline in margin percentage (the difference between selling price and cost of raw materials) from 49.7 per cent to 40.8 per cent in 1942, showing the rise in the cost of materials and the relatively fixed selling price for finished goods, which in many cases had been set by contract.

Improved productive efficiency was shown by the average value added by manufacture of \$109 per member in deflated dollars in 1941, and \$115 per member in 1942, a gain of 5.5 per cent. Sales efficiency also improved, with average sales per employee (members and non-members) of \$213 in deflated dollars in 1941 and \$282 in 1942.

Improved cooperative benefit and progress was shown by a net income per worker, in deflated dollars according to workers' cost of living, of \$72.61 in 1941, and \$107.76 in 1942. The net worth ratio rose from 16.4 per cent in 1941 to 34.3 per cent in 1942, showing the proportion of the business actually owned by the members. A sound minimum net worth ratio was stated to be 50 per cent, however.

There was a rapid turnover of industrial cooperatives from 1941 to 1942, revealing a serious competitive struggle for existence, narrowing margins in certain industries, inadequate capitalization, and inefficiency. Of the 106 cooperatives operating in Szechwan in 1942, only 66 were among

the 102 also operating in 1941. Since the figures generally showed improvement in 1942, evidently some of the weakest units had been casualties of the inflation and of their own inefficiency of production.

Dr. Buck and Chen Ching-fang found in 1942 that Szechwan farmers received nearly twice the income per worker that was earned by the industrial cooperative members. Chen Ching-fang and Hu Kwan-yung, however, found in 1942-1943 that three weaving cooperatives in Hanyang, Shensi, had a higher productivity per worker and per loom than workers in 8 privately owned weaving factories of approximately the same size; and that the cooperative members received about twice as much income per member as the workers in the private factories.<sup>92</sup>

### Federations

The principle of federation, the extension of the idea of cooperation from a group of individuals to a group of societies, is one of the sources of strength of the cooperative movement. This makes it possible to use the services of the most capable leaders for the benefit of a number of cooperatives, and inspires confidence and strength in members of small societies, who feel the solidarity of belonging to a large group with the same ideals.

From the very beginning of the C.I.C. it was planned that groups of industrial cooperatives should form federations or unions to assume functions of greater scope than those the individual cooperatives could carry out. Until the industrial cooperatives were strong enough in a given

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<sup>92</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 4-8.

area, the functions of promotion, supply and marketing, education, and social services were generally undertaken by regional headquarters or depots; but the ideal was to have such enterprises transferred to federations as soon as the cooperative members were capable of managing them. As has been stated, an essential part of the reorganization of 1943 had to do with the assumption of depot functions by federations just as rapidly as possible. The reformed promotional headquarters (A.A.C.I.C.) at a conference in March, 1944, went on record as favoring the transference to federations of all social and welfare work previously undertaken by central or regional promotional groups.<sup>93</sup> After the reorganization the process of forming self-governing federations was accelerated, and in March, 1944, it was reported that 73 regional federations had been formed.<sup>94</sup>

Up to the present federations have been formed by all the industrial cooperatives in a locality or district, although it is foreseen that in the future single trade federations of cooperatives in the same or related industries might themselves become members of general federations. It is also planned that both types of federations should be organized into hsien, provincial, and eventually a national federation.

#### 1. Federation Supply and Marketing Departments

One of the first functions assumed by federations has been that of forming a Supply and Marketing Department. Those of the C.I.C. in the Northwest may be used as an example, since they are perhaps more highly developed than those in other regions. The functions of the Supply and

<sup>93</sup> Indusco Bulletin, Vol. 4, No. 5, May, 1944, p. 4.

<sup>94</sup> Indusco Bulletin, Vol. 4, No. 3, March, 1944, p. 3.

Marketing Departments, of which there were 5 in 1940 in the Northwest, were to provide a central store and sales department where goods manufactured by individual cooperatives might be attractively displayed and where they could be stored and sold in quantity to the Army and other large buyers; to purchase raw materials in quantity and distribute them to the individual societies, thus overcoming the disadvantages of small-scale buying; to plan production on the basis of the market and aided by transport; and to bring about the standardization of products with the aim of lowering prices and assuring good quality.

The Supply and Marketing Department received a commission of 2.5 per cent on sales of cooperative products, and 1.5 per cent on purchases of raw materials for the cooperatives. They generally advanced 60 per cent of value on the delivery of the goods, and 40 per cent less commission after the goods had been sold, although in some localities it was the practice to buy outright from the cooperatives, and in others to allow from 70 to 80 per cent on delivery.

The governing of the Supply and Marketing Departments was by a board of directors, of whom 4 members were elected by the federation representatives from their own group; and 3 by the C.I.C. promotional organization, one by the depot office and two by the Northwest Supply and Marketing Control office and Northwest Headquarters of C.I.C. The board of supervisors consisted of one member from the federation and one from the C.I.C. The board of directors was responsible for appointing the manager.

Profits of the Supply and Marketing Departments were divided into 20 per cent for reserve; 10 per cent for special reserve; 10 per cent for

bonus to management; 15 per cent as a business dividend to the cooperative societies; 10 per cent to the "common good" fund for welfare work; 5 per cent for a provident fund for Supply and Marketing Department workers; 10 per cent to the C.I.C. promotion fund; and 20 per cent to the federation fund.

While an effort was made in the Northwest to persuade cooperatives to deal exclusively with the Supply and Marketing Departments, it was not successful--at least not in 1940. Out of the total value of goods produced in the Northwest in that year by the industrial cooperatives, almost half was goods which by their nature could not be sold through the Supply and Marketing Department, because they were either rationed or sold under government monopoly, or were made for the army or the government under contract. These included machine shop products, flour, brick and tile, coal, army blankets, etc. But of the remainder, only about 5 per cent was sold through the department. Similarly, only about 5.6 per cent of the raw materials were bought through the department, largely because of the insufficiency of the department's circulating capital.

Dr. Smythe made the following criticisms of the operations of the Supply and Marketing Departments: that the bonus to member cooperatives should be raised from 15 per cent to 50 per cent by eliminating the amounts devoted to the provident fund for workers, C.I.C. promotion, and federation fund; that there should be no headquarters promotional representatives on the board of directors, since their only function is to advise, and since the responsibility should rest on directors elected by the federation, who will not learn unless they have an opportunity for independent experience;

that a uniform proportion of the value of goods delivered to the department should be advanced, instead of paying for some goods outright and running out of funds before other goods are delivered; and that the service rendered to the cooperatives should be improved by advances made immediately on delivery and by more efficient marketing.<sup>95</sup>

## 2. Federation Credit Departments

The first cooperative treasury was formed in the Northwest in 1940. The term "Cooperative Treasury" was required by the Chinese Cooperative Banking Regulations of 1937, and the society first established at Paoki was thus formed as a cooperative society independent of the federation. Because the law provides for only one general cooperative treasury in each hsian, those formed by the C.I.C. were illegally constituted; and Dr. Stevens and Mr. Lyman in their reorganization report of 1943 recommended that the treasuries be replaced by Federation Credit Departments, the only legal alternative under the present law. The treasuries in the Northwest were controlled by the A.A.C.I.C. Regional Treasury Control Office, an organ of the promotional organization, and thus were not under the control of the cooperative federations. If the Stevens-Lyman recommendations have been carried out, these treasuries are now reconstituted as credit departments of the federations.

The purposes of the C.I.C. treasuries were to act as the sole channel of credit to the societies and to centralize all loans to the cooperatives in a certain area; to put all cooperative capital on an equal basis and

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<sup>95</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 14-18 and 28-29.



to provide a central body through which outside investors could deal; to provide the cooperatives with running capital by lending on the security of cooperative products; to effect closer financial relationship between the C.I.C. promotional organization and scattered cooperatives; to stimulate savings and thrift among cooperative members; to provide collection and remittance service; and to provide cooperative insurance.

The highest authority was vested in the representative meeting, which elected an executive committee and a supervisory committee. According to the Chinese law, voting was by shares, and guaranteed liability was limited to 20 to 1. Both ordinary deposits and savings deposits were accepted, the latter only from cooperative members and C.I.C. staff. Loans were made only to member cooperative societies. The treasuries also were to provide accounting and auditing service to individual societies, depots, supply and marketing departments, C.I.C. hospitals, etc.

The C.I.C. treasuries were of great benefit to the cooperative societies. The only reasons for recommending their conversion into federation credit departments were to avoid conflict with the Chinese Cooperative Banking Law, and to transfer control to federations from the promotional organization, the A.A.C.I.C.<sup>96</sup>

### 3. Federation Social Services

In 1943 there were 5 C.I.C. hospitals, 23 clinics, 5 nurseries, 10 consumers' cooperatives, 8 hostels, 7 cafeterias, 30 clubs, and 14 primary schools.<sup>97</sup> Some of them had been established by the A.A.C.I.C. or pro-

<sup>96</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 19-21.

<sup>97</sup> China Handbook, 1937-43, p. 460, Table 41.

motional organization before federations had been formed, and some were originally established by individual cooperatives having social-minded members who saw community needs. Enthusiasm for such activities as a demonstration of the social ideal of the cooperators resulted in a lack of discrimination between loans for productive purposes, such as loans to industrial cooperatives, and loans for the establishment of social services for members of the cooperatives and for the community.

Dr. W. Mackenzie Stevens recommended that the charitable and philanthropic ventures that some of the cooperatives had been maintaining from their "common good" funds should be financed as consumers' cooperatives in which all those receiving the service would share in the costs. Thus primary schools financed from cooperative funds were of no value to some of the members who had no children, and children of families not connected with the cooperatives were educated as a community service in some cases. Laudable as the motives were, few of the cooperatives were sound enough financially to support services of which all members could not avail themselves, or even to furnish more than a minimum livelihood for their members.

That there was need for these services was not questioned; those that were established were of great assistance to cooperative members and to the war refugees and local inhabitants, in view of the general lack of such facilities in China. No doubt they were also of value in building up good will toward the cooperatives; but if they could be financed on a consumers' cooperative basis, they would benefit the communities in which they are established without burdening the cooperatives for their sup-

port. 98

Blanket Program

One phase of C.I.C. work which received much publicity was the program of making blankets for the Chinese army. In September, 1944, it was stated that by the end of that year a total of 4,000,000 blankets would have been produced. What an achievement this was is revealed in the following quotation:

. . . That this is an amazing accomplishment can be gauged by the boast of one of the largest weaving concerns in the U.S. that it has turned out a similar amount in four years with the world's most modern equipment. More than 90% of the C.I.C. blanket work has been done by primitive machinery! 99

Rewi Alley called the attention of Madame Chiang Kai-shek to the need the army had for blankets, and she in turn called upon the C.I.C. and Dr. Lewis Smythe to draft a plan for making blankets for the winter of 1938-1939. Most of the blankets were made in the Northwest and in Szechwan because wool is more readily available there. There were many complications, since equipment was not on hand and had to be designed and made—spinning wheels and looms adapted from primitive models to more efficient types; spinners and weavers had to be trained; and the army's demands for quick delivery caused various modifications of cooperative organization which were later found to have been unwise. In the Chengtu district alone in October, 1939, over 4,000 women were engaged in spinning, and weavers

98 W. Mackenzie Stevens, Financing Principles for Chinese Industrial Cooperatives, pp. 1-4. (mimeographed)

99 Indusco Bulletin, Vol. 4, No. 9, September, 1944, p. 2.

were producing 1,000 blankets a day. The average cost in 1940 was \$13.94 per blanket (U.S. \$0.72).<sup>100</sup>

The main difficulty growing out of the blanket program was the establishment of some so-called "experimental factories" at the suggestion of certain C.I.C. technicians who thought the cooperatives too small and inefficient to produce large orders. The result was factories run by the C.I.C. promotional organization that were neither experimental nor cooperative. The workers felt that they were simply hired labor as in any other factory, and morale and the stimulation of part ownership and democratic control were lacking. The Stevens-Lyman report recommended the abandonment of "experimental factories" by the A.A.C.I.C.; and the A.A.C.I.C. Conference of March, 1944, went on record as favoring the reorganization of all such enterprises into cooperative units.<sup>101</sup>

C.I.C. statistics do not include data on the Army Blanket Program, which would have increased the figures showing value of production and number of workers. The greatest benefits of the blanket program--aside from furnishing the soldiers with 4,000,000 blankets they would not have had otherwise--was the development of improved spinning and weaving equipment and the training of thousands of people in their use; and the demonstration that small-scale rural industry, with organization, can turn out in large quantities a standardized product that meets set specifications.

<sup>100</sup> C.I.C., Chengtu Depot Report, 1940, "Army Blankets as the Initial Move", by Lewis Smythe, pp. 8-13; A Nation Rebuilds, p. 9; Smythe, "Tale of a Spinning Wheel", Asia, Vol. 40, No. 1, January, 1940, pp. 21-23.

<sup>101</sup> Rewi Alley, "China's Industrial Future", Free World, Vol. 8, No. 2, August, 1944, p. 156; Smythe, Industrial Cooperation in China During the War, pp. 21-32; Indusec Bulletin, Vol. 4, No. 5, May, 1944, p. 4.

### C.I.C. Technical Improvements

Rewi Alley and Dr. Smythe both emphasized the fact that, in an unmechanized country like China, many simple improvements in processes and machines can be made which will be attainable with limited resources and still give much greater productive efficiency than anything that has hitherto been used. Dr. Smythe stated that getting technical improvements to the cooperative involves finding technical men who will make the information available instead of hoarding it for private factories; securing adequate finance to enable the cooperatives to purchase the equipment; and training members to use the equipment properly.<sup>102</sup>

Alley on many occasions lamented the fact that few Chinese college men or trained engineers are engaged in technical work in China. He blamed it on the prestige attached to learning and the feeling that persists that a scholar does not do manual work. Some who do wish to do technical work are too far removed from the people to put their ideas across.<sup>103</sup>

Besides the improved spinning wheel and looms, the C.I.C. technical departments have developed improved leather tanning machinery, better agricultural tools, a good grey iron, improvements in the process of making paper, a new type of oil press for the extraction of castor oil, and new industrial uses for many vegetable products common to China.<sup>104</sup> While these are more or less primitive processes or semi-mechanized at best, they

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<sup>102</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, p. 25.

<sup>103</sup> Rewi Alley, op. cit., pp. 151-156.

<sup>104</sup> A Nation Rebuilds, pp. 20-22 and scattered references in Indusco Bulletin.

are an improvement over the processes formerly used in the interior and have the advantage of being carried out with small investment for machinery and with a minimum training period for workers. Since it was reported in 1945 that the wheelbarrow was an object of great curiosity in Kansu,<sup>105</sup> the advantage of a gradual introduction of complicated industrial machinery into the interior can be readily appreciated.

#### Baillie Technical Training Schools

Education is an integral part of the cooperative method, and this is even more necessary in China than in countries with more widespread education and more modern technical standards. In China, instead of being able to plunge into cooperative or technical training, the cooperative leaders only too often had to begin with literacy, for many of the cooperators had had no previous schooling. Funds for training came almost exclusively from contributions from abroad, because government loans were not available for this purpose.

The following table shows the number of persons trained by the C.I.C. through 1942:

Table XVI

#### Training of C.I.C. Personnel<sup>106</sup>

<u>Year</u>	<u>Administrative Personnel</u>	<u>Technical Personnel</u>	<u>Training of Members</u>	<u>Total</u>
1939	485	216	70	771
1940	148	95	1,139	1,382
1941	195	224	734	1,153
1942	---	140	516	656
Total	828	675	2,459	3,962

105 Indusco Bulletin, Vol. 5, No. 8, August, 1945, p. 1.

106 China Handbook, 1937-43, p. 460, Table 40.

In the Northwest the courses from 1939 to 1941 varied from a two weeks' course in wool spinning which was given to 180 local women, refugees, and disabled soldiers, to a 13 months' technical and chemical course given to 90 youths. Courses also are given in accountancy, supply and marketing, and cooperative theory, usually restricted to organizers and leaders, some of them university graduates. The demand for training can be gauged from the fact that only 35 students from 12 provinces were selected from nearly 700 applicants for one organizers' training course.<sup>107</sup>

The brightest spot in the entire C.I.C. picture, however, may be the Bailie Technical Schools which were established from about 1941 on. Owen Lattimore, whom Pearl Buck has said probably knows more about China than any other foreigner, has been very enthusiastic about the Bailie Schools. He said,

In the years that I have spent in China I have never seen anything quite like it, anything that filled me with so much hope.

Mr. Lattimore's reasons for thinking that the Bailie School training is so important are clear from the following excerpts:

These boys in the space of a year or two have learned to read and write and keep accounts in their own language. In the first place, they become leaders. In the second place, they master the key to our modern civilization. They master a prime mover, the mechanical engine without which the whole of our civilization could not stand. They had a truck motor. The boys not only learned how to work it but how to disassemble it, how to make a blue-print of it, how to maintain it. They made the looms on which they did their weaving. There was a little chemistry building in which with raw materials, vegetable and mineral, they learned how to compound the dyes with which they dyed the wool they themselves spun and then wove on their own looms.

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<sup>107</sup> C.I.C. Northwest Headquarters, Second Year Reports, 1940, pp. 30-37.

They did their own cooking and housekeeping. They maintained the entire series of buildings and managed their own affairs.

. . . They had all been carefully chosen because there is a limit to the amount which can be budgeted for these schools --only boys who had a village, peasant background were being taken in. . . Each was a boy who, whatever might happen in the future, could go right to the home folks in the home village and talk to them in exactly the terms and dialect they understand and introduce to them the skills, the techniques, the mastery of power, which he had learned. . .

. . . In the industrialization of a whole people, a whole country, the greatest problem is not the purchase of machines or the installation of machines or teaching the people to run them. These are all simple problems. The great problem of the machine is maintenance. . . every man who has learned and can teach others the skill of making a thing keep on working is an invaluable acquisition to society. He is especially valuable when he is trained in the Bailie Schools at the level where the machine meets the village. . .

China also has the great opportunity not of replacing entirely the old with the new, but of integrating them as is shown in the Bailie Schools, where the boys are not becoming detached from the old Chinese life but are retaining it with perhaps an increased respect learned from all kinds of associations. . .

When the war is over the rate of transformation of China is likely to be extremely rapid. That transformation will take place on a number of fronts. There will be enterprises on the largest scale such as only the government can undertake. . . There will be, there must be, a great deal of small-scale enterprise, and there is a place after the war as important as the place during the war for the industrial cooperative movement. . .<sup>108</sup>

In March, 1942, it was reported that there were 9 Bailie Schools,<sup>109</sup> although some of them were subsequently discontinued. The school in Loyang had to be moved in 1943 to Shuangshihpu because of the famine in

<sup>108</sup> Owen Lattimore, "The Bailie Boys of Indusco", Asia and the Americas, Vol. 45, No. 2, February, 1945, pp. 106-107.

<sup>109</sup> Indusco Bulletin, Vol. 2, No. 3, March 5, 1942, p. 4.



Honan. In the fall of 1944 the Japanese advance threatened the Shuangshihpu school, so it was moved to Sandan, an oasis town in the Kansu panhandle on the edge of the Gobi Desert. At present there are schools in Lanchow, Chengtu, Sandan, and Chungking, and the number of boys being trained at one time is about 200. While all the schools offer courses in a number of technical fields such as mechanics, weaving, applied chemistry, accounting, etc., the Chungking school specializes in automotive mechanics, and the Chengtu school in new machine and manufacturing processes. The Loyang school specialized in textiles before moving to Shuangshihpu. In the latter place, the students built a water wheel for power; and since moving to Sandan they have a boiler and steam engine with a generator, which lights the whole town and provides power for the school machine and spinning shops.

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In 1944 the International Committee established a Bailie School Endowment Foundation, which will purchase or construct machinery that will be sold to the cooperatives on the installment plan, and the interest from which will be used for the Bailie Schools.

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The Bailie Schools suffered a great loss in the death of George Hogg in July, 1945. He had been the headmaster of the Shuangshihpu and Sandan schools. Hogg was a graduate of Oxford University and a nephew of Muriel Lester. His writings were largely responsible for foreign interest in

110 Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, p. 50; Indusco Bulletin, Vol. 4, No. 3, March, 1944, p. 3; Vol. 4, No. 10, October, 1944, p. 3; Vol. 5, No. 7, July, 1945, p. 1; Vol. 5, No. 8, August, 1945, pp. 1-2 and 4.

111 Indusco Bulletin, Vol. 4, No. 6, June, 1944, p. 2.

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the schools.

United States Army Supplies

A direct benefit to the United States from the Chinese Industrial Co-operative movement was the provision of supplies for the United States Army in China. While the cooperatives were not in a position to outfit or to supply the army and most of the necessities had to be flown in, they were better able than other Chinese organizations to make certain goods to specification. Their deliveries were on schedule and their bids were consistently low.

A special office was established in the Southeast, the Indusco Office for Supply of Allied Military Services (I.O.S.A.M.S.), and functioned until the Japanese penetration into Kwangsi disrupted the service, when the U. S. airfields were blown up and Kweilin was evacuated. Among the products and services supplied were printing, embroidering, tiles, lime, oil paper, charcoal, furniture, camp cots, mosquito netting, parachute silk, alcohol, foodstuffs, heating stoves, shoe soles, cutlery, dishes, etc. Around Kweilin the cooperatives constructed some of the buildings and roads used by the Americans before the airfields and installations were destroyed. The first contracts signed were for 15 buildings and warehouses, 3 roads, over 2,000 pieces of furniture, 300 pairs of shoes, 200 stoves, 1,600 pounds of jam and peanut butter, etc. Whatever the C.I.C. provided saved valuable air cargo space or else supplied commodities that

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112 George Hogg, I See a New China (largely about the industrial co-operatives, and Chapter VII, pp. 167-211, about the Shuangshihpu Bailie School); Hogg, "Training Co-operative Leaders for China", Free World, Vol. 5, No. 6, June, 1943, pp. 548-551; Indusco Bulletin, Vol. 5, No. 8, August, 1945, pp. 1-2 and 4.

otherwise might not have been available at all.<sup>113</sup>

An exhaustive study of the work of the C.I.C. would include an account of the training and employment of women who have, through the C.I.C., become relatively emancipated in certain localities, and of the satisfactory results of C.I.C. training and employment in rehabilitating wounded soldiers. Enough information has been given, however, to explain the most important phases of the Chinese Industrial Cooperative movement and to show its general beneficial character.

#### EVALUATION OF THE C.I.C.

Because the C.I.C. depended on foreign sources for some of its funds, and because foreign economists and sociologists, who were familiar with cooperatives in other countries, were interested in the movement and tried to make constructive criticisms, information is available in English on which to base an evaluation of the movement.

#### Weaknesses

A number of weaknesses of the C.I.C. have been recognized, some of them the result of a lack of experience in cooperation and especially in business affairs, and others the result of government policy.

Weaknesses caused by the lack of experience may be expected to disappear gradually as experience is gained. Weaknesses resulting from government policy cannot be considered the fault of the cooperatives themselves. If a cooperative movement is considered desirable and beneficial

<sup>113</sup> Southeast Indusco News, No. 1, October, 1944, pp. 4-5 (mimeographed); Indusco Bulletin, Vol. 3, No. 11, November, 1943, pp. 1-2; Vol. 4, No. 3, March, 1944, pp. 2-4; Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1944, p. 51.

to a country, it must be permitted to develop according to true cooperative principles and must be furthered by the government in every way. In a country where the people are as poor as they are in China, it is generally necessary that government funds be made available to the cooperatives. In China the government made only a small amount available to the C.I.C. in comparison with the large sums available to the government controlled rural credit cooperatives.

#### 1. Undercapitalization

Because various government factions did not wholeheartedly approve of the C.I.C., it was never granted sufficient government funds to enable it to lend more than a bare minimum to the societies it organized. In the effort to provide as much employment as possible and to make a good showing so that other funds would be forthcoming, the available money was distributed so widely that most of the societies were undercapitalized. This was not especially noticeable for the first year or two, but when the inflation became really serious, about 1940, the cooperatives found themselves constantly behind the market. In other words, they were compelled to sell finished products at the prevailing prices before having funds available to purchase raw materials, which in the interval would have risen in price until only a smaller quantity could be bought.

The unsound condition of the cooperatives caused the banks to lose confidence in them, and it became difficult to secure loans. Another complication was the fact that loan capital from government banks was a matter of politics, and promised funds did not materialize when needed.<sup>114</sup>

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<sup>114</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 9-10.

Besides the insufficient amount of capital to keep adequate supplies of raw materials on hand, there was a shortage of long-term capital, and short-term loans were used to meet what should have been long-term obligations.<sup>115</sup>

It was stated that as early as August, 1943, John L. Lyman, the advisor who was sent with Dr. W. Mackenzie Stevens by the Cultural Relations Department of the United States Department of State, had estimated that the C.I.C. required \$300,000,000 (U.S.\$15,750,000) in loan funds to put the cooperatives on a sound financial basis. Between that time and March, 1944, the government advanced \$40,000,000, and bank loans for \$25,000,000 were in negotiation; but these fell far short of needs, even assuming the negotiations with the banks to have been successful.<sup>116</sup>

## 2. Control by Government Officials Often Uninformed and Unsympathetic

Another weakness of the C.I.C. that must be attributed to the government was the excessive control to which it was subjected. The large headquarters personnel who were at one time a part of the C.I.C. organization hampered the movement in several ways. Besides diverting large sums of money that might have been available for actual productive work, the higher political appointees either did not have a clear understanding of cooperative principles or they deliberately attempted to weaken the movement from the inside by their establishment of the Central Trading Agency, experimental factories, and other non-cooperative and even competing enter-

<sup>115</sup> Lewis S. C. Smythe, The Place of Industrial Cooperatives in China's War-Time and Post-War Economy, p. 8.

<sup>116</sup> Helen Foster Snow, The Chinese Labor Movement, p. 134. (Quoted from a cable from Miss Elsie Fairfax-Cholmeley from Chungking.)

prises that they set up with cooperative funds. Furthermore, the attempt to control everything from the top hampered the development of self-reliance among cooperative members.

The controversy as to whether or not some of the C.I.C. leaders were Communists caused some members to withdraw and prevented others from becoming members. In a country with only one legal party, the desire to avoid associations that could be construed as illegal would be very strong.

The reorganization of 1943, by limiting the promotional and headquarters staff, and the decision of the reorganized Association for the Advancement of Chinese Industrial Cooperatives to convert all experimental factories and other non-cooperative enterprises into true industrial cooperatives, apparently corrected the worst faults of bureaucratic control. (See pp. 156-162.)

### 3. Failure to Expand

The rapid expansion of the C.I.C. up to June, 1941, and its retrogression after that date is clear from Table XII, page 165. This weakness was due to the inflation, to undercapitalization, and to the failure of the government to allow the movement to be managed by members who understood cooperation rather than by political appointees. Poor business practices contributed to this weakness, as a number of the cooperatives failed because of business inefficiency. It is impossible to determine to what extent these various causes were responsible for the lack of growth of the C.I.C.; but if the existing societies had been noticeably successful, the movement would have grown, as more and more people would have emulated a type of organization that had been of benefit to their

neighbors. Apparently the C.I.C. has not demonstrated to the Chinese the unqualified success of this form of organization.

#### 4. Lack of Business Experience

The lack of business experience of the cooperative organizers and managers was particularly grave because of the inflation. If times had been good, no doubt many of the societies would have been able to operate successfully while the cooperators were gaining experience; but this was not possible during such trying times.

One evidence of the lack of experience was the failure to use the limited capital to the best advantage. Dr. W. Mackenzie Stevens suggested a number of ways to correct this weakness. His suggestion of reorganizing social services on a consumers' cooperative basis has already been mentioned. (See pp. 176-178.) He also suggested that such unproductive but valuable services as those of the Baillie Schools, and research and experimentation in technical processes, should be clearly distinguished from real productive work and should be financed as philanthropies by contributions for these specific purposes.

Dr. Stevens stated that more of the production capital had been tied up in fixed assets than was necessary. He suggested that it was wise to rent quarters rather than to buy them at the outset whenever possible; and he proposed that movable machinery and equipment be financed through equipment trusts, distinctly separate organizations which could acquire the equipment for a number of productive units and make it available on the installment plan, with payments spread over a ten-year period.

Raw materials, materials in process, and unsold finished goods, Dr.

Stevens thought, could be financed through the credit departments of federations, which could themselves be financed more easily through commercial channels than could individual cooperative societies because of the better distribution of risk in a federation. With social services, land and buildings, machinery and equipment, and raw and finished materials provided for, Dr. Stevens stated that operating loans for payroll and miscellaneous expenses could be financed for new cooperatives by short-term bank loans, and in well-established cooperatives would be available through the cooperatives' own share capital subscriptions and profits.

Dr. Stevens emphasized that cooperative members needed to be taught to help themselves through the requirement that they subscribe to and pay up additional share capital until loans were paid off and the society became financially independent, and that expansion should await the accumulation of capital through successful operation and the establishment of a credit reputation that would enable the cooperatives to borrow commercially, as other private business concerns have to do.<sup>117</sup>

##### 5. Shortcomings of Accounting

Another difficulty growing out of the inexperience of the cooperators was the lack of uniform accounting procedures. In the beginning each cooperative set up books according to the ideas of the person selected as accountant, and "some of the smaller cooperatives tended to do their accounting in their heads."<sup>118</sup> The need for sound bookkeeping, according

<sup>117</sup> W. Mackenzie Stevens, Financing Principles for Chinese Industrial Cooperatives, pp. 1-16. (Mimeographed)

<sup>118</sup> Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, p. 49.



to one observer, was more than a matter of keeping the records straight, but also involved adherence to the provisions of the cooperative constitution and penalties for violation of regulations. He stated that definitions of corruption and misuse of funds, and a delimitation of an acceptable margin of unaccounted funds, were necessary. Government money was said to have been withheld when required financial reports were not supplied.

Training and more experience were expected to solve this problem. Accounting was one of the subjects taught in all training courses, and traveling accountants were constantly visiting the societies to teach the local cooperative treasurers and to check the records. Each society was supposed to make regular reports to headquarters, but communications difficulties in some cases prevented this.<sup>119</sup>

A uniform system of accounting was formulated by Ralph Lapwood and was being introduced by 1941.<sup>120</sup>

#### 6. Exploitation of Apprentices

In China craft training has traditionally been through the apprentice system. The C.I.C. took over this method of training workers, and it has been criticized as being undemocratic for doing so. This criticism seems unjust inasmuch as the C.I.C. has merely conformed to the prevailing method and has done what it could to promote technical training through the Ballie Schools and other types of training courses.

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<sup>119</sup> Robert W. Barnett, "China's Industrial Cooperatives on Trial", Far Eastern Survey, Vol. 9, No. 5, February 28, 1940, p. 55.

<sup>120</sup> "Chinese Industrial Cooperatives Marking Time", Far Eastern Survey, Vol. 10, No. 18, September 22, 1941, p. 210.

Some of the cooperatives are engaged in seasonal work and need a larger corps of workers at peak times. They hire non-member workers at such times, and most cooperatives also have apprentices. It has been stated that while wages for apprentices have been very low, and in some cases the apprentices' lot has been not much better than slavery, the record of the cooperatives regarding apprentices has been better than that of non-cooperative enterprises.<sup>121</sup>

The problem of encouraging members to take in non-members is one that is inherent in productive societies and has been encountered in England, France, Italy, and Russia, as well as in China. While members of consumers' cooperatives stand to gain from increased membership, members of productive societies prefer to hire employees and to keep increased profits among the membership. The C.I.C. tried to control this weakness by making non-members eligible to the same bonus on wages as members if they applied for membership within a given time, by limiting the number of non-member workers to a certain percentage of the members, and by educating the members to a realization that increased membership results in spreading the risks of the enterprise and in increasing the loyalty of the workers to the business.<sup>122</sup>

While criticism has been leveled at the cooperatives for differences in treatment of apprentices and non-members from the treatment accorded members, in July, 1944, it was reported that nearly everywhere the wages of members themselves were from 20 to 30 per cent lower than those paid

<sup>121</sup> Barnett, op. cit., p. 56.

<sup>122</sup> Lewis S. C. Smythe, Industrial Cooperation in China During the War, pp. 13 and 26-27.

in private factories; but that wages to hired workers were generally slightly higher and to apprentices considerably higher than were paid in non-cooperative concerns.<sup>123</sup>

#### 6. Undisciplined Labor Force

Workers who have previously done only farm work or worked in privately owned industries have found it difficult to take their places as cooperative owner-workers. Their sudden realization that they had a voice in the management of the cooperative sometimes made them unwilling to follow majority rule or the policy set by the management. In many cooperatives it was hard for the cooperators to see the necessity for paying a manager well enough to secure men of ability; and in some cases federations found it necessary to guarantee the manager certain rights as against the members who hired him. Lack of business knowledge, lack of marketing knowledge, and fixed ideas of traditional techniques provided many possibilities for differences of opinion between manager and members.<sup>124</sup>

But the problem of helping the Chinese worker to adapt himself to new forms of enterprise was of even greater seriousness in some of the larger government-owned factories established in the interior during the war. From a study made in one of the plants owned and operated by the government, the investigator felt that the lack of trained industrial workers was a more serious handicap to China's future industrialization than the

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123 "Reorganisation of the C.I.C.", Review of International Co-operation, Vol. 37, No. 7, July, 1944, p. 96.

124 Lewis S. C. Smythe, Industrial Cooperation in China During the War, p. 22.

lack of capital, communications, and raw materials.<sup>125</sup> The factory investigated was said to have been typical, and the labor turnover was very high due to the unhappiness of the workers.

The skilled men who had come to the interior from Shanghai and other centers of industry formed cliques and were felt by the unskilled native workers not only to "lord it over" them but also to be "city slickers" and not to be trusted. Since skilled workers were so scarce, the management catered to them; and discriminations in treatment, while based on skill, were interpreted by the unskilled as being based on place of origin. Another cleavage among the employees which lowered morale was that between the manual workers and the administrative staff. It was said that even skilled men, who were admired by the semi-skilled and unskilled workers, frequently tried to be transferred to the staff, even at a lower wage, because of the prestige attached to "long gown" status.

The study showed that farmers had to go through one or more intermediate occupations before being ready for even unskilled work in factories; that workers had expected to learn the complete manufacturing process, thinking that they could later set up in business for themselves, and hence were disappointed at repetitive work; that skilled workers were "show offs" and not amenable to supervision; that since the factory was government-owned, many workers thought that the same prestige would attach to factory employees that has always been associated with government officials; and that the system of paying wages on an hourly basis was new to all workers, and that with deductions, bonuses, overtime, and subsidy

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<sup>125</sup> Shih Kuo-heng, China Enters the Machine Age, p. xviii.

for inflation, the workers never knew what they were entitled to and always suspected that they were being cheated.<sup>126</sup> It was found impossible to set a definite system for promotion and for wage scales, because of the tradition of bargaining--"Instead of asking a guarantee of a fixed wage scale by collective bargaining, the workers try to outwit their fellows by getting an individual special rate."<sup>127</sup>

The investigator concluded that only necessary heavy industries and power plants should be nationalized, and that manufacturing industries should be scattered in towns and villages. He suggested that these should be organized on a cooperative basis, which permits a more personal relationship resembling that found in the traditional family economic unit, and which encourages personal enterprise and a better distribution of profits.<sup>128</sup>

Summarized, the author's view was as follows:

If it is possible to organize the future industry of China on a pattern of small units scattered in the villages, coordinated by better transportation and central administration and supplied by cheap electric power, and if this way represents less of a break in our social continuity and will cost us less than to finance a large-scale social reorganization--if all this is so, I do not see why we should not follow our own way even though the other suits America better.<sup>129</sup>

### Values

The value of the C.I.O. to China must not be considered merely from

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126 Shih, op. cit., passim.

127 Ibid., p. 67.

128 Ibid., pp. 164-175.

129 Ibid., p. 175.

the dollars and cents point of view. Intangible values were also created, such as the social growth of numerous individuals who had their first taste of working in groups where all had an equal voice and where group benefits were the goal rather than individual or family benefits. In 1941 Lieutenant-Colonel Evans F. Carlson wrote of the C.I.C. as "one of the great progressive movements in the world today."<sup>130</sup>

### 1. Relief Value

If the C.I.C. is considered only as a relief measure, its value is apparent. In the early days of the war it gave employment and new hope to thousands of refugees from war areas, and in guerrilla units behind the enemy lines it helped many who without organization would have needed non-existent relief.

Late in 1940 it was stated that from 50 to 60 per cent of the C.I.C. workers were refugees; but by 1945 only about 16 per cent were refugees, 5 per cent disabled soldiers, and the rest unemployed natives of the places where they worked.<sup>131</sup>

The amount spent in productive relief was probably no greater than would have been spent on regular refugee relief, with the added benefit of helping the recipients to settle down and to maintain their self-respect as workers rather than as charity cases.

### 2. Economic Value

The economic value of the C.I.C., while not as great as had been

<sup>130</sup> Letter dated September 14, 1941.

<sup>131</sup> Helen Foster Snow, China Builds for Democracy, p. 173; The Chinese Labor Movement, p. 135.

hoped for by the sponsors, was nevertheless real. It not only produced millions of blankets for the army, but it helped to reestablish abandoned handicrafts in some areas and to introduce them and semi-mechanized industry in other areas that had previously produced only raw materials. While C.I.C. production in 1940 was less than 2 per cent of the total monthly production of Free China, it did produce essentials by using Chinese materials, labor, and capital, to that extent leaving foreign exchange reserves for purchasing goods that could not be made domestically, and competing with Japanese-smuggled goods.<sup>132</sup>

It also introduced better small-scale methods and newer types of simple machinery and equipment in backward areas, which should result in a permanent improvement of methods in those districts and perhaps a stimulus to the discovery of other improved processes by the workers themselves.

The C.I.C. benefited many more individuals than the actual membership figures reveal. Total workers for the C.I.C., including apprentices and part time workers, were estimated to have been about 65,000 in 1940. As each worker supported from 2 to 5 dependents, the people who were provided livelihood by the C.I.C. at that time was stated to have been about 250,000.<sup>133</sup>

### 3. Social Value

The C.I.C. was of social benefit, with its emphasis on education,

<sup>132</sup> Robert W. Barnett, "Chinese Industrial Cooperatives Consolidate Gains", Far Eastern Survey, Vol. 9, No. 14, July, 3, 1940, p. 165.

<sup>133</sup> Helen Foster Snow, China Builds for Democracy, p. 173.

the equality of sexes, and its assumption of some of the responsibility for helping wounded soldiers again to become producing members of the localities in which they found themselves after their discharge. Indeed, the social aims of the cooperatives for community betterment were beyond their financial ability to support; but cooperative members are undoubtedly in the forefront of local movements to establish schools, clinics, libraries, and other community institutions.

The Bailie Schools alone, as a demonstration of the type of education most valuable to China, can be of inestimable value to the whole country if they are copied. They seem to furnish the only solution so far advanced to bridge the gap between the uneducated manual worker and the highly trained and usually foreign educated engineer, who has often spent so long a time abroad that he has found, on his return, that he has lost the ability to establish contact with the workers in his own country. The best that one could hope for for China's future progress would be a network of schools on the Bailie School model throughout the length and breadth of the land.

#### 4. Political Value

It has always been the aim of the C.I.C. to remain completely non-partisan in political matters. That the movement was able to retain its political independence was due to this and to the fact that a number of foreigners kept in intimate touch with the inner workings of the organization.

But this is not to say that if the movement was non-political it had no political value. For one thing, as long as there have been no elective



offices in local, provincial, or national government, the first experience most cooperators have had in balloting has been in electing officers and conducting society business. It has also given more individuals the responsibility of acting in response to group desires.

The whole emphasis in the C.I.C. has been to train members to do business in open meeting, to disseminate information of improved methods as widely as possible, and to avoid all secret understandings that have been the defect of the monopolistic Chinese guilds and family-operated concerns.

The democratizing political effect of the C.I.C. has been stated by one writer as follows:

. . . While the Kuomintang party has made slow progress in establishing democratic machinery of government the co-operatives have proven that Chinese groups have high organizing ability and are able to govern themselves efficiently. It is not at all improbable that China will eventually find its democratic machinery of government developed through her training of the co-ops rather than through purely political parties.<sup>134</sup>

#### Cooperative Nature

From the viewpoint of recognized cooperative principles, the C.I.C. is probably the nearest thing to true cooperation that China has had since the cooperatives of the C.I.F.R.C. were placed under the supervision of a government bureau. Most of the leaders of the C.I.C. knew how co-operatives should work and many of them had had experience in the C.I.F.R.C., the Mass Education Movement, and cooperatives organized by the universities.

It is significant that most of the foreign cooperative experts who

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134 Carl Crow, China Takes Her Place, p. 219.

have recently been in China have been associated with the C.I.C.; but if they have had any connection with other types of cooperatives in China in recent years, that fact has not been mentioned in any published references. Mr. J. B. Tayler, who was writing of cooperatives for China twenty years ago; Mr. C. F. Strickland, former registrar of cooperatives for India; Dr. W. Mackenzie Stevens, who wrote a critique of the Chinese Cooperative Law ten years ago; and Mr. W. H. K. Campbell, former League of Nations adviser to China on cooperatives---all have worked with the C.I.C. and have evidently felt that the movement had great possibilities.

The C.I.C., like other cooperatives in China, had to be organized in a certain sense from the top down. This is a negation of true cooperative principles, but it is the only way that cooperatives could have been started, given the existing level of literacy and standard of living. If the organizers have a knowledge of true cooperative principles, faith in the ability of the people to learn, a desire to train the cooperative members to assume their cooperative responsibilities, and a willingness to relinquish all functions of management to the cooperators as soon as feasible, there need not be any great objection to a movement introduced from the top. It is difficult to see how any of the benefits of the cooperative method could have been made available to the people of China in this generation if the initiative of the people themselves had been awaited.

Basically, the struggle within the C.I.C. before the reorganization in 1943 was over the following point: whether control should be maintained from the top down or whether, once established, the cooperatives should be managed by their members and should maintain their own federations through which advice and services not readily available to each cooperative

unit might be made available to a group of units. It has already been stated that the reorganization, while it did not result in a complete reform, did enable the C.I.C. to remain free from the greater part of the control from above that certain groups had desired to impose upon it.

Although the first enthusiasm for the Chinese Industrial Cooperatives has gradually diminished both in China and abroad, the existing societies are continuing to function, and expansion is still going on in certain regions where conditions are favorable. The organization plans to continue, with or without government encouragement,<sup>135</sup> as it is realized that there will be a place for the cooperative form of organization and a field for semi-mechanized local production in China even though large-scale production is being planned on a national scale. There will probably be no place for C.I.C. textile production after the mills resume operation in the territory formerly held by the Japanese; but there are many other lines in which the C.I.C. will have little or no competition in the interior for a long time to come.

While the C.I.C. became the most conspicuous wartime cooperative development in China, the rural credit and agricultural cooperatives that had been established earlier continued their less spectacular course throughout the war.

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<sup>135</sup> Ida Pruitt, "Six Years of Indusco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, p. 52.

## Chapter V

OTHER COOPERATIVE DEVELOPMENTS, 1937-1945

Whereas a great deal of information was published in the United States on the Chinese Industrial Cooperatives, relatively little could be discovered about other types of cooperatives in China since the beginning of the war in 1937. The C.I.C. was dependent on publicity to raise foreign funds, and the contributors naturally were interested in following the course of the movement. In contrast, the other types of cooperatives in China were less dramatic, they were not a new device to aid in winning the war, and they were not dependent on foreign funds. Furthermore, the Chinese apparently consider rural cooperatives an internal affair, for the information that has been made available is generally inadequate as a basis for evaluation.

Apart from industrial and consumers' cooperatives, most of the latter of which operate in towns and cities, all other types of cooperatives in China may be said to be rural or agricultural cooperatives. As has been stated before, credit societies predominate.

THE EXTENSION OF RURAL COOPERATIVES, 1937-1945Government Policy

It has already been indicated in this paper that the Kuomintang Party before the war was committed to the policy of encouraging cooperative development. The Provisional Constitution for the Period of Political Tutelage, promulgated in 1931, specifically mentioned "encouragement of cooperative enterprises in the rural communities", and the National Coopera-

tive Law was made effective in 1935. After the beginning of the war, the implementation of the Program of Armed Resistance and National Reconstruction, adopted by the Extraordinary Party National Congress in 1938, was carried out in part by the enactment of the Outline for the Organization of Cooperative Societies in Hsien and Administrative Units below Hsien. (See pp. 57-61.)

#### Administrative Agencies for Cooperatives

Even before the war the trend toward centralization of control of cooperative societies was noticeable. As has been described, the societies established by the China International Famine Relief Commission, the National Economic Council, banks, universities, and other organizations, were first placed under the supervision of the Cooperative Commission of the National Economic Council. In July, 1936, with the abolition of the commission, they were transferred to the Department of Cooperation in the Ministry of Industries.

During the war, in March, 1938, cooperatives were made responsible to the Central Cooperative Administration, an agency of the new Ministry of Economic Affairs. By 1941 the Central Cooperative Administration had been transferred again, to the Ministry of Social Affairs, where it has remained. Because of criticisms that this ministry operated as a party machine rather than as a department of the national government, and because this opinion was apparently concurred in by some of the foreigners influential in publicizing and raising foreign funds for the Chinese Industrial Cooperatives, the latter were the only cooperatives permitted to remain independent of the Central Cooperative Administration.

### New Hsien Cooperative Policy

The organization of the population by pao and chia associations has already been described. (See pp. 69-70.) The extension of the cooperative idea to these local organizations was provided for by law in 1940, through the Act for the Planned Development of the Local Cooperatives. Responsibility for this plan is not clear, but one reference implied that it was a part of the reorganization of the whole cooperative movement by the Central Cooperative Administration.

The act provides for one "multiple-function society" in every pao, one society of the same type in each district, and a "multiple-function cooperative union" in every hsien. This type of society was defined as one combining the functions of production, marketing, and consumers' societies; but the relationship of credit societies to the new type was not specified. Ordinary single-function cooperatives were still to be permitted when special conditions warranted their existence.

Three years were set as the period during which village, district, and hsien societies were to be established, and within which time cooperative purchasing, marketing, and cultivation of land were to be increased to 50 per cent of the total for the country! With approximately 434,000 pao, and with practically no evidence of any widespread existing cooperative cultivation in China, the plan was ambitious, to say the least.<sup>1</sup>

Accomplishments in establishing cooperative societies under the new plan are shown to December, 1941, in Table XVII on page 206. One inter-

<sup>1</sup> "Toward a Co-operative Planned Economy in China", Review of International Co-operation, Vol. 34, No. 12, December, 1941, pp. 337-339.

Table XVII

Enforcement of New Hsien System by Provinces<sup>2</sup>December, 1941

<u>Province</u>	<u>Total Hsien</u>	<u>New Hsien System</u>		<u>Hsien</u> *	<u>Hsiang</u> *	<u>Pao</u> *
		<u>Enforced</u>	<u>Not Enforced</u>	<u>Coops Estab.</u>	<u>(Chen) Coops</u>	<u>Coops Estab.</u>
Anhwei	62	34	28	10	215	750
Chekiang	76	76	..	19	319	761
Chinghai	17	11	6	..	..	..
Fukien	64	64	..	1	24	342
Honan	111	67	44	1	10	..
Hunan	75	46	29	2	8	502
Hupeh	70	61	9	1	26	195
Kansu	67	18	49	..	..	..
Kiangsi	83	69	14	63	314	..
Kiangsu	61	21	40	..	..	..
Kwangsi	99	74	25	2	17	719
Kwangtung	97	39	58	1	108	1,819
Kweichow	80	12	68	15	47	102
Ninghsia	13	13	..	..	2	57
Shantung	107	12	95	..	..	..
Shensi	92	74	18	6	..	230
Sikang	46	4	42	1	..	5
Szechwan	137	137	..	..	54	66
Yunnan	112	112	..	..	..	..
<b>Total</b>	<b>1,469</b>	<b>944</b>	<b>525</b>	<b>122</b>	<b>1,144</b>	<b>5,548</b>

\* For the meaning of these terms see p. 69.

<sup>2</sup> China Handbook, 1937-43, p. 106. Other columns not reproduced here show chu, hsiang, chen, pao, and chia offices, number of schools and health organizations established, and militia-men trained. Source, Ministry of Interior, from reports submitted by various provincial governments.

esting point to be observed from the geographical distribution of these new activities is the extent to which national regulations became rapidly effective in the various provinces. Thus, all hsien in Szechwan were organized, whereas in Kansu, a neighboring province, organization was very limited. While only a small eastern tip of Kansu was in the Communist orbit and none of the province was occupied by the Japanese, its lack of transportation and communication facilities made it relatively remote from central government influence, although there was apparently no question of the loyalty of the greater part of the province to the central government.

No information has been found on which to base an impartial estimate of the activities of the cooperatives established under the new hsien system. In an article explaining the plan soon after it was announced, it was pointed out that the compulsory nature of such societies "is alien to the idea of voluntary associations based on self-help and self-reliance."<sup>3</sup> Attention was also called to the fact that this kind of society is perhaps the most complex type to operate successfully, so it is doubtful if the inexperienced Chinese cooperators have the knowledge necessary to manage their societies for themselves. The goal stated by the director of the Central Cooperative Association, the establishment of a multiple-function society in each of the 434,000 pao within three years, and cooperative purchasing, marketing, and cultivation of land to be extended to 50 per cent of the total in the same number of years, was also

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<sup>3</sup> "Toward a Co-operative Planned Economy in China", Review of International Co-operation, Vol. 34, No. 12, December, 1941, p. 339.



criticized as being impossible to realize.<sup>4</sup>

### Cooperative Educational Organizations

The Central Cooperative Training Institute was established in 1939 by the Central Cooperative Administration to train organizers and managers. Over 1200 cooperative administrators, most of whom were sent by provincial cooperative bureaus, had been trained by 1942. In the four-month cooperative business training course which began in February, 1942, 150 students were enrolled, 80 of whom were cooperative organizers and the rest of whom were selected by competitive examination. The institute publishes the Cooperative Enterprise Monthly, and its plans call for the education of cooperative members in the future.

The Cooperative League of China was organized in February, 1940. It acts in lieu of a national federation and as an educational and propaganda association. General Chiang Kai-shek was made the honorary president, and the chairman of the board of directors was the director of the Central Cooperative Administration of the Ministry of Social Affairs. The general secretary of the League was also the dean of the Central Cooperative Training Institute, and the inspector-general of the Central Cooperative Administration. The League was to consist of eight commissions, for agriculture, industry, marketing, insurance, utility, consumers' cooperation, banking, and education. When the League was created, it was "laid down" that it was to have a branch in every province and a sub-branch in every hsien. By the end of 1941, ten provincial branches

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<sup>4</sup> "Toward a Co-operative Planned Economy in China", Review of International Co-operation, Vol. 34, No. 12, December, 1941, p. 339.

had been set up. The League publishes the Chinese Cooperator and the Cooperative World, and subsidized, at least for a time, the Cooperative Review, published by a group of cooperative administrators and educators. The League granted funds to Ying Shih University of Chekiang to establish a two-year course in cooperation and planned to organize two-week institutes and study clubs for cooperative members. Plans called for at least 10 clubs to be set up in each district during the first year.

The China Cooperators' Union is an autonomous organization that has been in existence since 1928. Its members have been called China's cooperative "brain trust", and its main interest is in the dissemination of cooperative information, including translations of useful cooperative materials from foreign languages.<sup>5</sup>

#### Extent and Growth of Cooperative Societies

Table IX, p. 114, shows the number of cooperative societies and members for the years 1927-1937. Table XVIII, page 210, shows the growth of the movement from 1937 to 1944. One reference, in which the figures for 1937-1939 agree with those in the table, stated that they included the approximate number of societies and members in Japanese-occupied areas and the registered industrial cooperatives organized since 1938.<sup>6</sup> The

<sup>5</sup> "Toward a Co-operative Planned Economy in China", op. cit., pp. 336-338; "The Importance of Co-operation in China", Review of International Co-operation, Vol. 35, No. 7, July, 1942, pp. 99-101; Shih-chi Hu, The Chinese Cooperative Movement, p. 3. (Mimeographed copy of an address by the secretary of the Cooperative League of China before the International Committee for Cooperative Reconstruction, October 20, 1942, distributed by the Co-operative League of the U.S.A.)

<sup>6</sup> "Toward a Co-operative Planned Economy in China", *ibid.*, p. 336.

Table XVIII

Development of the Cooperative Movement in China, 1937-1945<sup>7</sup>

<u>Year</u>	<u>Societies</u>	<u>Membership</u>	<u>Capital</u>
1937	46,983	2,139,634	...
1938	64,565	3,112,629	...
1939	91,426	4,366,752	...
1940	146,297 a(133,542) b(116,199)	7,572,107 a(7,237,317) b(5,998,476)	\$25,523,300
1941	155,647 c(166,938)	9,373,676 c(9,690,258)	48,302,078
Sept. 1942	172,995 d(160,393)	10,473,550 d(10,141,682)	76,826,364 d(93,291,530)
July 1943	165,018	11,871,009	187,378,934
March 1944	169,536 e(160,229)	14,493,845 e(15,341,730)	...

- a. Figures in parentheses from Co-operative Information, International Labour Office, Vol. 21, No. 11, 1944, p. 4. Source, the Central Cooperative Administration.
- b. Figures in parentheses from "Toward a Co-operative Planned Economy in China", op. cit., p. 336. Source, a brochure of the Central Cooperative Administration.
- c. Figures from "The Importance of Co-operation in China", op. cit., p. 100. Source, The Chinese Co-operator, published by the Cooperative League of China.
- d. Figures from Co-operative Information, Vol. 21, No. 3/4, 1944, p. 4. Source, Cooperative Bureau of Ministry of Social Affairs.
- e. Figures for the end of the year, from a manuscript to have been published in Co-operative Information, No. 7, 1945. Source, The Chinese Co-operator, Vol. 2, No. 1, February, 1945.

<sup>7</sup> Figures through 1942 from China Handbook, 1937-43, Table 81, p. 626. Main figures for 1943 and 1944 from Co-operative Information, Vol. 21, No. 3/4, 1944, p. 4. Source, Cooperative Bureau of Ministry of Social Affairs.

references from which the 1943 and 1944 figures were taken stated that they included mutual aid and preparatory societies and cooperative unions. No other clues to an interpretation of the data were found. Whichever figures may be most accurate, the rapid increase in the number of societies, and especially in membership, is striking.

Loans outstanding amounted to \$387,694,457 in 1942; \$564,393,896 in July, 1943; and \$850,678,392 in March, 1944.<sup>8</sup> To a large extent this increase probably represented inflation rather than an increase in the true value of the loans.

#### Types of Cooperatives

While credit societies in China have maintained their lead in numbers, other types of cooperatives have assumed increasing importance in recent years. The number of societies of various types at the end of 1941 in 17 interior provinces and in the Special Municipality of Chungking are shown in Table XIX, p. 212.

In the same area, a total of \$321,288,696 was outstanding in loans to various kinds of cooperatives as of September, 1942, as shown in Table XX, p. 213.

Presumably the members of agricultural production societies use their loans exclusively to increase farm production, while members of credit societies may utilize loans for such purposes as retiring old debts; paying for marriages and funerals, required by custom; and other, not purely productive, purposes. Thus credit appears to be the main purpose of other

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<sup>8</sup> Co-operative Information, Vol. 21, No. 3/4, 1944, p. 4; Vol. 21, No. 11, 1944, p. 4.

Table XIX

Classification of Rural Cooperatives in Free China<sup>9</sup>December, 1941

<u>Kinds of Societies</u>	<u>Societies</u>	<u>Members</u>	<u>Capital</u>
Ordinary Cooperatives:			
Credit	100,969		
Supply	656		
Producers <sup>o</sup>	12,599		
Marketing	2,115		
Consumers <sup>o</sup>	2,082		
Utility	371		
Insurance	6		
Total	<u>118,798</u>	<u>6,767,765</u>	<u>\$33,824,906</u>
New Hsien System Cooperatives:			
Village or Town	1,175	580,339	5,842,955
Paó	5,966	512,649	3,390,251
Total	<u>7,141</u>	<u>1,092,988</u>	<u>\$9,233,206</u>
Others	28,439	1,512,923	\$1,268,745
Cooperative Unions:			
Chu Unions	1,139	17,330*	\$2,300,183
Hsien Unions	130	3,367*	1,675,038
Total	<u>1,269</u>	<u>20,697*</u>	<u>\$3,975,221</u>
<u>Summary</u>			
Ordinary Cooperatives	118,798	6,767,765	\$33,824,096
New Hsien System Cooperatives	7,141	1,092,988	9,233,206
Other Cooperatives	28,439	1,512,923	1,268,745
Cooperative Unions	1,269	---	3,975,221
Grand Total	<u>155,647</u>	<u>9,373,676</u>	<u>\$48,302,078</u>

<sup>9</sup> China Handbook, 1937-43, Table 85, p. 628, slightly rearranged for clarity. Figures indicated by asterisk represent group members. Source, Cooperative Bureau of Ministry of Social Affairs.

societies besides the regular credit societies. No analysis of the figures was given.

Table XX

Classification of Cooperative Loans, September, 1942<sup>10</sup>

<u>Societies</u>	<u>Amount in Loans</u>
Credit	\$115,187,782
Supply	2,194,804
Agricultural Production	93,776,149
Industrial Production	12,274,807
Marketing	5,664,983
Consumers <sup>a</sup>	7,537,922
Utility	123,907
Ordinary	3,510,267
Others	81,018,975
Total	\$321,288,696

The changes in the percentages of the various types of societies in recent years are shown in Table XXI, page 214.

A number of points may be noted from the comparative percentages in Table XXI. The decrease in the proportion of credit societies, in spite of their absolute increase in numbers, has already been mentioned. The most rapid percentage of increase was shown by the consumers' societies, which received their impetus from the shortages and rationing during the war. Supply, agricultural production, and marketing societies also made substantial growth. The figures in this table cannot have included the Chinese Industrial Cooperatives, since no industrial production cooperatives were shown at all for 1940, although the C.I.C. had 1,739 recognized societies in December, 1940. (See page 165.)

<sup>10</sup> China Handbook, 1937-43, Table 83, p. 627. Figures were given by provinces, but only totals have been shown here. No explanation of "Ordinary" or "Others" was provided.

Table XXI

Classification of Cooperative Societies in China by Percentages<sup>11</sup>

<u>Type of Society</u>	<u>1940</u>	<u>July</u> <u>1943</u>	<u>March</u> <u>1944</u>	<u>Dec.</u> <u>1944</u>
Credit	87.0	53.0	47.8	41.2
Supply	0.4	6.5	7.1	8.7
Agriculture Production	8.7	12.4	15.2	16.8
Industrial Production	---	4.9	4.6	5.0
Marketing	2.0	10.0	9.8	10.6
Consumers <sup>o</sup>	1.4	9.0	10.9	13.0
Utilities	0.3	2.4	2.8	2.8
Insurance	0.1	1.8	1.8	1.9
Miscellaneous	0.1	---	---	---
Total	100.0	100.0	100.0	100.0

Evaluation of Rural and Agricultural Cooperatives

An estimate of the value of rural cooperatives up to 1937 has already been given. (See pp. 117-120.) A serious search was made for analytical material on the cooperatives in recent years, and the result was information regarding the weaknesses of the rural cooperative movement, but practically nothing favorable except in official publications such as the China Handbook, 1937-43, and China at War. Even in these publications, while statistics were given, there was not sufficient other information to enable one to interpret the figures. No actual information as to the operation of the societies or their relationship to the Central Cooperative Administration was found. For instance, it was impossible to discover what type of supervision over the cooperatives is

<sup>11</sup> Figures in the columns for 1940 and March, 1944, are from Co-operative Information, Vol. 21, No. 11, 1944, p. 4; those for 1943 are from the same publication, Vol. 21, No. 3/4, 1944, p. 4; those for December, 1944, are from the manuscript of an article to appear in the same publication, Vol. 22, No. 7, 1945.

exercised by the administration, requirements for membership, type of security required for loans, participation of members in society business, and other information necessary to a true understanding of the rural cooperative movement.

1. Weaknesses

The director of the Central Cooperative Administration, Dr. Miachen S. Shaw, stated the chief shortcomings of the Chinese cooperative movement to be the following: Most of the societies are essentially loan associations; they are scattered throughout the country without rational plan and are not federated, for the most part; "a number of organizations have been made use of by land owners and other privileged classes to enrich themselves. The really needy people have not been fully benefitted by the efforts of bankers and organizers"; societies fall short of playing a permanent role in the life of the people; the public is not sufficiently educated to make good use of the cooperative organization for production, marketing, and consumption; cooperative spirit is not fully developed among the members; good managers are scarce, and many have little business training or only a vague idea of cooperation; and banks and other financial institutions are more concerned with profit making than in promoting cooperation. He stated that the Central Cooperative Administration was established in May, 1939, to attempt to correct the shortcomings he cited.<sup>12</sup>

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<sup>12</sup> Miachen S. Shaw, Chinese Cooperative Movement During the War, pp. 3-4. (Mimeographed and distributed by the Cooperative League of the U.S.A. No date.)



While Dr. Shaw merely listed the weaknesses mentioned, more complete information is available from a few other sources regarding certain specific defects.

a. Failure to Benefit Most Needy

Hubert Freyn, employed for a time by the Chinese News Service, of-  
ficial Chinese government news agency in New York, in his book, Free  
China's New Deal, was on the whole very optimistic about the economic  
progress made by China during the war. One of the weaknesses of rural  
financing that he pointed out, however, was that loans were made avail-  
able on the basis of security rather than need.<sup>13</sup>

Nym Wales (Mrs. Edgar Snow) also stated that the farmers did not  
receive the benefit from cooperative loans. She wrote as follows:

To be really effective, and break down the old system  
of usury, these loans should be made directly to poor peasants'  
cooperatives. In practice, however, they are usually handled  
by the gentry class, who are themselves the usurers, and ex-  
orbitant rates are frequently charged the peasants. . . . In  
other words, the rural cooperative movement works through  
the existing social and economic mechanism, rather than  
causing any fundamental change in it.<sup>14</sup>

This same impression was given by other supporters of the Chinese  
Industrial Cooperatives, who seem to have been agreed that there was  
little good to be said about any of the cooperatives in China except the  
C.I.C. Two other C.I.C. enthusiasts dismissed the rural credit coopera-  
tives as "collective usury".<sup>15</sup>

<sup>13</sup> Pp. 104-105.

<sup>14</sup> Helen Foster Snow, China Builds for Democracy, p. 227.

<sup>15</sup> Letters of July 30, 1941, from Dr. Chen Han-seng, former secretary  
of the Hongkong Promotion Committee, C.I.C.; and of September 14,  
1941, from Lieutenant-Colonel Evans F. Carlson, former observer  
for U. S. Marine Corps in China.

b. Control by Politicians

Edgar Snow asserted that rural credit cooperatives are completely under the control of the "tangpu" or local branches of the Kuomintang party. He stated that about 1939 the party made the district magistrates the comptrollers of all cooperative enterprise and so robbed the movement of its voluntary character that it became a travesty. The magistrates, ordered to form credit cooperatives with loan funds advanced through the government banks, were said sometimes to have divided the money among the gentry, sometimes to have relent it to farmers and tenants at usurious rates, and at times to have used it to form pools to hoard rice and other scarce commodities.<sup>16</sup> In a later section of the same book, the author stated that of the huge sums advanced by the government to the gentry for cooperative credit and agricultural rehabilitation, much but by no means all of the credits were used otherwise than as expected.<sup>17</sup>

c. Failure to Follow Cooperative Principles

In the effort to explain the cooperative movement rapidly, one of the fundamental principles of the cooperative method has been ignored--that true cooperation is a voluntary association. This is clear from the emphasis on compulsion to join the pao credit societies created as a part of the new hsien system.<sup>18</sup> In other words, the criticism made of the Chinese cooperatives in 1937 still holds good: that they represent a system, not a movement; that they are imposed by the governing authorities,

<sup>16</sup> Battle for Asia, p. 214.

<sup>17</sup> Ibid., p. 367.

<sup>18</sup> Helen Foster Snow, China Builds for Democracy, p. 227, quotation from Lewis S. K. Smythe.

and are not formed voluntarily. If anything, from the evidence accessible, the system is becoming more rigid as time passes, for more and more members are being brought into cooperative societies, apparently whether they wish to join or not.

d. Rapidity of Growth

The rapidity with which cooperatives have increased in numbers and in membership is generally cited as evidence of the vigor of the movement in China. On the contrary, however, it may be argued that this indicates weakness. Real cooperative growth is usually a rather slow process, since it requires time for the cooperative idea to spread and for prospective members to be educated in cooperative methods. While agreeing that such rapid growth may be a cause for doubt, Mr. Maurice Colombain, Chief of the Co-operation Service of the International Labour Office, expressed the hope that out of the great number of societies formed in recent years at least a proportion would prove to be lasting and soundly established.<sup>19</sup>

e. Lack of Realism in Planning

The criticism that Professor Tawney made of Chinese administrators in 1932, that planning is confused with accomplishment, (see p. 37), is apparently still true of the administrators in the Central Cooperative Administration. It is difficult to understand why they set such impossible goals as those announced as part of the new hsien system in 1941, when it was stated that within three years there was to be a multiple-function society, the most difficult type of cooperative to manage suc-

<sup>19</sup> Letter dated June 16, 1945.

cessfully, in each of the 434,000 pao, and that cooperative purchasing, marketing, and cultivation of land were to be extended to half of the total area within the same period of time. (See pp. 207-208.) It is this kind of propaganda that damages rather than helps the cooperative movement.

## 2. Values

The truth about rural cooperatives in China is probably some place between the favorable impression created by official publications, which make much of the rapid growth of the number of cooperatives and members, and the depressing descriptions of abuses by writers who have been prone to criticize conditions under the one-party government.

### a. Economic Value

Pratically all writers, favorable or unfavorable to the rural cooperatives, agree that interest rates have been lowered somewhat through the cooperative system for rural loans. Even Nym Wales, one of the most outspoken critics of the credit cooperatives, stated, ". . . in most cases the former fantastic interest rates charged the peasants have been brought down."<sup>20</sup> This does not mean that interest rates are as low as we consider reasonable in this country, for it is doubtful if they are ever lower than 6 per cent per year, and they are considered reasonable in China even at 1 per cent a month or 12 per cent a year.

The effectiveness of credit cooperatives depends almost entirely on the degree of favor with which they are regarded by the local powers, in

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<sup>20</sup> Helen Foster Snow, China Builds for Democracy, p. 227.

other words the landowners and party leaders in the smaller political divisions. Thus Dr. W. Mackenzie Stevens wrote that credit cooperatives have been of very real value in making credit available at lower rates, but that their effectiveness is a matter of location, the value being strictly limited in some sections.<sup>21</sup>

The most that can be said safely is that credit has been made available at reasonable rates in certain areas where the government officials have sincerely wished to benefit the farmers, and where the power of the landlords has been limited, or where it has been exercised beneficently. In general, the landlord group has been a handicap to modernization of the rural areas; but there are many places where they feel their responsibility, although at best their power is usually exercised paternalistically rather than democratically.

No opinion can be ventured regarding the economic or other values of supply, agricultural production, marketing, or other types of rural cooperatives, as no facts regarding the operations of these types of societies seem to be available.

b. Relief Value

As the agrarian population in China is almost always in need of relief, any steps taken to benefit this class may be said to have value from the standpoint of relief. The rural cooperatives could not have had much value as a relief measure for the war and famine refugees, however, for almost all of China is so densely populated that there are few

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<sup>21</sup> Letter dated June 18, 1945.

spots where refugees could have rented or bought land to make them eligible for the benefits of rural cooperation.

c. Social and Political Value

The social and political benefits to be derived from cooperation are generally considered at least equal, or even superior, to their economic value. As has been stated, the rural cooperatives vary a great deal in different parts of China. In areas where there has been no general rural reform, it is doubtful whether any extensive social or political benefits are being derived from the more or less compulsory rural credit associations. Even in this case, however, unless there has been gross abuse, the so-called cooperatives have provided a new source of rural credit and have lowered interest rates. If this limited result is the sole effect of cooperation in China, the method with all its limitations must still be regarded as a step in the right direction.

On the other hand, in areas where there are sympathetic and patient leaders, no doubt real social and political benefits are being secured through a gradual development of member responsibility and management and voluntary participation. Unfortunately, no recent descriptions of the workings of such societies can be cited, although it is probable that there are many scattered localities in which cooperatives have been developed by leaders who were well trained in recognized cooperative methods by the universities, the China International Famine Relief Commission, and the Mass Education Movement.

### 3. Possibilities for Real Cooperation

Spokesmen for the Central Cooperative Bureau of the Ministry of Social Affairs have always paid lip-service to true cooperative principles. Dr. Hu Shih-chi, general secretary of the Cooperative League, dean of the Cooperative Training Institute, and inspector-general of the Central Cooperative Administration, was also the editor of the Chinese Cooperator, the official publication of the Cooperative League. In the first issue of this magazine, in February, 1942, Dr. Hu stated that government control of the cooperative movement was provisional and that the government would relinquish its control as soon as the Cooperative League was stronger.

He wrote as follows:

"The Government's role is more that of the father who is taking care of his son until the time when he is able to take care of himself than that of the dictator. The institution of the co-operative system in China is embodied in Dr. Sun Yat-sen's Three Principles of the People. . . The Chinese people's traditional co-operative habits and their prehensile adherence to Dr. Sun's teachings are a sure guarantee of ultimate success for our Movement, which is based on Rochdale Principles. We will direct our efforts to making it, in actual fact, a Movement of the People, by the People, for the People. Any advance in such a democratic movement is a gain for democracy. We hope earnestly that our Co-operative Movement will grow up to such a dimension that it will become an integral part of the International Co-operative Movement and help in the building up of a new world co-operative order."<sup>22</sup>

Dr. Hu spent the summer of 1945 at the School for International Co-operation in New York City, and is at present doing research on the co-operative movement at the Department of Agricultural Economics of the

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<sup>22</sup> Quoted in "The Importance of Co-operation in China", Review of International Co-operation, Vol. 35, No. 7, July, 1942, p. 99.

University of Wisconsin.<sup>23</sup> This is an indication of a sincere desire to obtain a real understanding of the cooperative movement, and Dr. Hu should be an asset to the Chinese cooperatives if he returns to the Central Cooperative Administration after he completes his studies.

The most recent statement of the aims of the Chinese cooperative movement may be found in "Guiding Principles of the Chinese Cooperative Movement", recommended by the Cooperative League and sanctioned by the Central Government and the Central Executive Committee of the Kuomintang Party, and published in the February, 1945, issue of the Chinese Cooperator. The cooperative movement was again stated to be essential to the realization of Dr. Sun's Three Principles of the People, and fundamental for economic development and national reconstruction. People are to be "encouraged" to form cooperatives; yet it is stated that there is to be a society in each pao and federations in each higher political unit until a national federation is organized, and that government employees and school members "are expected" to join these societies.

That the desire to develop these societies in a truly cooperative way is sincere is the general impression created by the statement of principles. Discussion groups are suggested, as well as affiliation with foreign and international cooperative organizations. The following excerpt is representative:

In case the economic enterprises must be run on such

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<sup>23</sup> Letter from June P. Robertson of the Cooperative League of the U.S.A., May 17, 1945; and letter from Y. S. Tsiang, Assistant to the Resident Representative of the Ministry of Agriculture and Forestry of China, Washington, D. C., November 28, 1945. Both suggested that Dr. Hu would be able to supply information on the cooperative movement in China, but a letter to him during the summer elicited no response.



a large scale that the cooperatives are unable to undertake for the time being, the mixed type of government cooperation may be adopted on condition that it will be converted into pure cooperation in time.<sup>24</sup>

The contradiction between the assertion of the intent to develop a true cooperative movement and the pressure to see that people join the societies is disturbing to cooperative purists. This discrepancy need not be considered as a betrayal of cooperative principles, but rather as a compromise by means of which at least an approach to the cooperative form of organization is made. Perhaps it is unrealistic to expect that true cooperation can develop in China until education and general agrarian conditions are also greatly improved.

#### CONSUMERS' COOPERATIVES

Consumers' cooperative societies were said to have played an important role in aiding their members to secure commodities during the war, especially in the vicinity of Chungking. The growth of this type of society occurred almost entirely after the beginning of the war, as consumers' societies represented only 0.4 per cent of the total cooperative societies in 1937, while they represented 13.0 per cent of the total in 1944. By October, 1944, there were 33,034 societies of this type in Free China affiliated with the central organization, besides 4,704 independent units.

The consumers' societies were said to have worked toward stabilizing

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<sup>24</sup> "Guiding Principles of the Chinese Cooperative Movement", typed copy furnished by the Co-operation Service of the International Labour Office. Published in the Chinese Cooperator, February, 1945.

commodity prices. A survey of 40 societies in Chungking revealed that cooperative prices between January and September, 1940, on 16 different items were from 5.55 per cent to 58 per cent lower than the outside market price. Some of the cooperatives maintained dormitories, barber shops, bath houses, and mess halls at which members obtained services at rates lower than those found elsewhere. Some of the societies extended these services to refugees as well as to members. The government utilized consumers' cooperatives for the distribution at official rates of certain kinds of daily necessities to government employees, teachers, and others on fixed salaries who were hard hit by the inflation.

Salt, a government monopoly, was said to have been distributed entirely under the management of cooperatives in Hupeh and Yunnan provinces, and to a large extent in Kwangsi province and in Chungking.<sup>25</sup>

In 1940 it was reported that there were 46 consumers' cooperatives in the Chungking area, 21 of which were composed of government officials. The total membership was said to have been 26,000, of whom 14,000 were government employees. This means that the average number of members in each society was about 565, a larger number of members than in most other types of societies. It was planned, however, to develop other consumers' societies in the rural areas, with the expectation that eventually every village would have its own general cooperative store. To this end, the Central Cooperative Administration was engaged in extensive propaganda

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"China - Activities of Consumers' Co-operative Organizations in Wartime", manuscript of an article to appear in Co-operative Information, Vol. 22, No. 7, 1945.

to promote consumers' cooperatives.<sup>26</sup> If the new hsien cooperatives are being developed as multiple-function societies, each of these should have a consumers' section.

At the suggestion of General Chiang Kai-shek, who was responsible for the idea that consumers' societies be used to ration and to distribute daily necessities, a National Cooperative Wholesale Agency was established in the latter part of 1940. It was to have had a loan of \$5,000,000 from the four government banks, but not all the money was made available at the time of organization. It was said in 1942 to have had a total turnover of \$1,500,000 monthly, and to have been of great value to the consumers' cooperatives in Chungking and the vicinity. It distributed sugar, salt, tea, biscuits, cloth, soap, vegetable oil, and canned foods at lower prices than were formerly paid. Some of the goods were made by industrial cooperatives; and the wholesale agency itself had established a preserved food plant and planned to open other types of factories. Dr. Hu Shih-chi, the author of the article containing this information, held that there was no future for productive and marketing cooperatives in China except as productive units for consumers' societies.<sup>27</sup> As Dr. Hu was the inspector-general of the Central Cooperative Administration, the dean of the Central Cooperative Training Institute, and the general secretary of the Cooperative League, his words may have been an expression of official policy regarding productive and industrial cooperatives. He did

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<sup>26</sup> Feng-chi Sha, "Chinese Consumers' Co-operation in War-time", Review of International Co-operation, Vol. 33, No. 10, October, 1940, pp. 353-354.

<sup>27</sup> "The Importance of Co-operation in China," *op. cit.*, pp. 100-101.

not give any reasons for his opinion.

#### COOPERATIVE BANKS

In 1935 the Four Provinces Farmers' Bank (Honan, Hupeh, Anhwei, and Kiangsi) was converted into the Farmers' Bank of China, with the express function of aiding in rural rehabilitation. At the same time its capital was increased to \$10,000,000, and shortly thereafter its bank notes were made legal tender by government order. In the fall of 1941, its capital was increased to \$20,000,000, and a year later to \$60,000,000. It had 180 branches and sub-branches in 1942, which were assisted by 350 municipal and hsien cooperative banks.

In 1942 the four government banks were assigned the following specialized functions: The Central Bank of China (Central Trust), to issue bank notes; the Bank of China, to deal exclusively in foreign exchange and the promotion of foreign trade, including the financing of productive enterprises connected with foreign trade; the Bank of Communications, to foster and to finance industrial and economic projects; and the Farmers' Bank of China, to extend farm loans and to develop rural finance. Prior to this time all four banks and the Agricultural Credit Administration had engaged in rural finance.

The Farmers' Bank organizes cooperatives in rural areas before extending loans; it apparently is not restricted to cooperative financing, but the impression is that cooperative loans are the preferred type. It issues land bonds, promotes rural savings, and extends credit for production, marketing, irrigation, colonization, pest control, rehabilitation of war zones, and rural industries.

The Hsien Bank Law of 1940 provides that hsien banks be established with public funds of the hsien, districts, and towns, and with voluntary subscriptions of the people; that "they shall regulate local finance, participate in economic reconstruction, and help expand cooperative enterprises"; that all adult individuals and cooperative societies within the area served are eligible as private shareholders; and that the banks are required to register with the Ministry of Finance.<sup>28</sup>

In October, 1939, a survey of hsien cooperative banks in 22 hsien of Szechwan was made by the Agricultural Economics Department of the University of Nanking in Chengtu. These were hsien cooperative banks established between 1936 and 1938, under regulations promulgated by the Ministry of Industries in the former year. How the new Hsien Bank Law of 1940 changed the previous plan is not clear.

The major conclusion of the survey was stated to have been that the trend of development of this lowest unit of the cooperative banking system was toward a financial institution owned and operated by participating farmers on an independent basis. Members of the hsien cooperative banks were credit cooperative societies (see pp. 77-78), and the organization of the credit societies was a prerequisite to the establishment of a bank. A society wishing to join a bank bought shares, one share being required for each 15 members of a credit society. The banks extended credit only to farmers who were members of credit cooperatives. Thus the number of banks and the amount of banking business depended on the number of credit societies and their efficiency. Twenty-two of the banks covered by the

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<sup>28</sup> China Handbook, 1937-43, pp. 500-514.

survey started with 10 credit cooperatives each as members, and with an average investment of \$4,000 each. Later the average of credit society members per bank rose to 100, and several banks had 300 members. Loans averaged \$80,000 per bank, and each credit society borrowed between \$800 and \$1000 annually, with an average of \$20 per loan for each farmer member. The investment of the government in these cooperative banks was considered to be transitional, and the belief was held that government help could be withdrawn from hsien cooperative banks in less than 10 years, leaving them as independent enterprises of the cooperative societies.<sup>29</sup>

The effect of moving the war-time capital to Chungking is reflected in the increase of cooperative development and rural financing in that part of the interior. Of a total of 317 cooperative banks in 13 provinces of Free China in December, 1941, 117 were located in Szechwan province. In June, 1942, Szechwan accounted for 28.2 per cent of the total rural loans extended by the four government banks in 17 provinces.<sup>30</sup>

One of the most acute weaknesses of rural finance has been stated to be the use of loans as a political rather than as an economic measure. Szechwan, which was one of the wealthiest provinces agriculturally, had a very high proportion of tenancy and was also most reactionary. The extension of the central government authority was opposed vigorously by the gentry. Thus, as a conciliatory gesture, rural credit was granted with a lavish hand. It is clear that the landlords rather than the poorest

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<sup>29</sup> "Cooperative Banks", China at War, Vol. 4, No. 2, March, 1940, pp. 39-40.

<sup>30</sup> China Handbook, 1937-43, p. 510 and Table 80, p. 625.

elements in the province must have profited from this arrangement, and this is in fact stated to have been the case because credits were made available on the basis of security rather than according to need.<sup>31</sup>

In April, 1941, a National Congress of the Chinese Cooperative Movement was held under the sponsorship of the Ministry of Social Affairs, and among other recommendations they adopted a resolution calling for the establishment of a cooperative banking system, made up of a Central Co-operative Bank, and provincial and local cooperative banks. This plan proposed that the Central Bank have a capital of \$100,000,000, all to be subscribed eventually by cooperative societies. In the beginning shares were to be taken up as far as possible by ordinary banks and cooperatives, with any unsubscribed amount being taken by the government. One of the reasons given for recommending this step was that ordinary short-term bank loans were not expected to be available for cooperative credit if any more profitable or more secure investments materialized. Apparently no provision was made in the plan for absorbing the existing credit societies into the system.<sup>32</sup> In October, 1943, it was stated that the Central Cooperative Bank would be in operation "early this fall", and would be capitalized at \$200,000,000.<sup>33</sup>

#### COOPERATIVES IN COMMUNIST AREAS

A fact that today has largely been lost from sight is that the

<sup>31</sup> Hubert Freyn, Free China's New Deal, pp. 104-105.

<sup>32</sup> "Toward a Co-operative Planned Economy in China", op. cit., p. 338.

<sup>33</sup> Shih-chi Hu, "War Speeds China's Co-op Growth", News for Farmer Cooperatives, (Farm Credit Administration), Vol. 10, No. 7, October, 1943, p. 13.

original Soviet Russian advisers were invited to China by Dr. Sun Yat-sen, the leader of the Kuomintang Party, and that the Chinese Communists were invited to become Kuomintang members. After Sun's death in 1925, Chiang Kai-shek, the commander-in-chief of the Kuomintang army, gradually came to be considered the head of the party. Right-wing elements of the Kuomintang, under his leadership, expelled the Communists in 1927, the basic cause of the split being, in the opinion of many students of the subject, conflicting ideas on land reform and the granting of representation to the masses of the people.

The only concrete information regarding the Communist areas today is found in the writings of a very few Americans who have visited the Shensi-Kansu-Ninghsia Border Region. Practically all of them were favorably impressed with what they saw in contrast to conditions around Chungking.

After the expulsion of the Communists from the Kuomintang, the center of Soviet influence was the province of Kiangsi. Here the Communists established the first small-scale cooperative industry in China, consisting mostly of spinning, weaving, and machine shop cooperatives. After the "Long March", the establishment of the new Soviet region in the Northwest was followed by the introduction of cooperatives in that area. By 1936, consumers', production, marketing, and credit cooperatives were functioning.

The United Front which was established in early 1937 by the Communists and the Kuomintang led to the substitution of the name "Border Region" for the Soviet territory, and led to the adoption of a new set of administrative principles governing cooperative enterprises, whereby they were reorganized to conform more closely with cooperative laws and regu-



lations of the national government. Credit and marketing cooperatives were consolidated, and producers' and consumers' cooperatives became the two main types, with authority to engage in production, credit, marketing, and purchasing. Capital was supplied by cooperative members and by the Border Region Bank after commercial banks in the area were found to be uninterested.

Edgar Snow wrote as follows regarding the Border Region cooperatives:

Despite the paucity of capital and capital goods, Border Region co-operatives were a true popular government, with a membership representing over 100,000 families. Producers' co-operatives alone had 28,326 members in 1939, or more than the combined membership of all existing C.I.C. units in China at that time. The extremely low cost of membership aimed not only to mobilize all possible free capital and labor productive power, but also to organize village life around the co-operative as a central economic force. Many of the producers' co-operatives represented the savings and the surplus labor power of one or more entire villages mobilized for production.<sup>34</sup>

Most of the cooperative capital was invested in oil-pressing, salt-refining, weaving, flour-milling, charcoal, bean-curd, porcelain, and pottery cooperatives.

When the Chinese Industrial Cooperatives were established in 1938, one part of the original plan was to organize production societies in front-line and guerrilla areas as well as in the safer interior. This was in the days of the United Front, and a C.I.C. depot was set up at Yen-an, as in other towns in the Northwest, and contact was maintained with the regional and central C.I.C. headquarters. Since 1940, however, when the United Front broke down and a blockade was instituted by the Kuomin-

<sup>34</sup> Edgar Snow, The Battle for Asia, p. 331.

tang against the Border Region, there has been no contact between the cooperatives in the two areas. A total of \$650,225.90 contributed and allotted to the C.I.C. in the Border Region from 1939 to 1941 was held up by the blockade and has never been released. An itemized list showing amounts and sources of the funds earmarked for this region is available as evidence.<sup>35</sup> The C.I.C. cooperatives in the Border Region would have collapsed had they not been aided by the other local cooperatives and the Border Region Bank. The Border Region C.I.C. cooperatives were organized under the Indusco constitution and all their goods are still marked with the Indusco trademark.<sup>36</sup>

Cooperation in the Communist area was described as follows in 1945:

The Communist regime, without attempting to operate or control the cooperatives, has encouraged their development in all aspects of activity. This has been done by making available (1) easy credit from the banks and (2) knowledge of the methods and achievements of the cooperative principle. Various types of enterprise are promoted, and agricultural, industrial, consumer and credit cooperatives prevail over other forms of economy. The principle of cooperation is emphasized as the master key to economic progress in China. Speaking in May 1944, Mao Tse-tung, leader of the Chinese Communist Party, said, "Productivity cannot be further developed if production relations are not changed--if individual labor is not transformed into cooperative labor."<sup>37</sup>

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<sup>35</sup> General View of the Work of the Yen-an Office of C.I.C. Northwest Branch, (typed manuscript received by Indusco, Inc., New York, October 4, 1944), pp. 7-8.

<sup>36</sup> Edgar Snow, op. cit., pp. 330-334; In Guerrilla China, Report of the China Defence League, 1943, pp. 47-53.

<sup>37</sup> Elsie Fairfax-Cholmeley (Mrs. Israel Epstein), "Chinese Cooperatives in the Northwest", Far Eastern Survey, Vol. 14, No. 14, July 18, 1945, p. 195. The author was national promotional secretary of the Association for the Advancement of Chinese Industrial Cooperatives in Chungking from 1943 to 1945.

The same author stated that there has been a great improvement in both agricultural and industrial production in this formerly backward section. Besides encouraging cooperation, rents, interest, and taxes were reduced, and landlords were stripped of political power, although confiscation of land was dropped after 1937.

The "labor exchange brigade" is one type of cooperative endeavor which is found only in the Communist areas, and which resembles the cooperative tillage practiced in Medieval Europe. This is a cooperative in which the farmers and others organize voluntarily to work the land collectively. It may be formed temporarily for a special job during the busy harvest season, or may be more or less permanent for large jobs like dike building or land reclamation. Draft animals and tools are pooled for use until the job is finished, but the animals, tools, and the land and its yield belong to the members as private individuals. A method has been devised to adjust variations in the amount of work done by different individuals. Fifty per cent of the peasants in the Border Region were said to have been voluntarily organized into "labor exchange brigades" in 1944, and it was expected that eventually this proportion would reach 90 per cent of the farmers. Productive capacity had been increased and a community spirit developed by this plan.<sup>38</sup>

The number of cooperative societies organized in the Border Region according to the C.I.C. plan from 1939 to 1944 was 876, with 245,885 members. They included producers, marketing, transportation, credit,

<sup>38</sup> Gunther Stein, Challenge of Red China, pp. 165-166; Harrison Forman, Report from Red China, pp. 62-64. Both of these authors were in the group of correspondents whom Chiang Kai-shek permitted to visit the Border Region in 1944.

agricultural, and medical societies. There were 443 entire villages organized into producers' societies, mainly in dyeing, spinning, weaving, flour-milling, oil-pressing, stocking and blanket manufacture, leather, paper, rug making, blacksmithing, and carpentry cooperatives. Transport cooperatives were among the most important, making up 317 societies with 1,584 members having a total of 6,884 transport animals. They accounted for the transport of almost all of the salt in the entire region. These statements apply to C.I.C. cooperatives only. Figures do not seem to be available for the other Border Region cooperatives, although it is believed that they greatly exceed in numbers the C.I.C. societies in the rest of the country.

Trading departments, corresponding to the Supply and Marketing departments of the C.I.C. in Kuomintang China, arrange for the purchase of raw materials and the distribution of finished goods. There were 258 of these in 1944.<sup>39</sup> Federation is also practiced, by local "general cooperatives", comprising units of all types. There is a joint head office in which all reserve funds form a common capital pool for loans, and which aids its group members in administration, accounting, and marketing.<sup>40</sup>

There is a discrepancy in statements as to the proportion of industry that has been developed cooperatively in the Border Region. Miss Cholmeley stated that "the aggregate capital of cooperative enterprises exceeds that invested in government and private industries"; but Gunther

<sup>39</sup> "Nearly Quarter of Million Now Work in Border Region Cooperatives", News of China, (United China Relief), Vol. 4, No. 1, January, 1945, p. 7.

<sup>40</sup> Cholmeley, op. cit., p. 196.

Stein reported that 78 per cent of the "modern" factories are owned by the government, 20 per cent by cooperatives, and 2 per cent by private capital. He said that this proportion is not considered satisfactory, however, and that the aim is to have all enterprises except railroads, mining, armaments, and heavy industry owned by private and cooperative capital. He asserted, furthermore, that many of the landlords and merchants invest considerable sums of money in the primitive, semi-handicraft type of industrial cooperatives.<sup>41</sup>

Other Border Region practices which were reported as contributing to the reconstruction of the area are the election of all government officials except members of the Central Executive Committee of the Communist party; the restriction of Communist party candidates to no more than one-third of the elective political positions; the guarantee of payment of the reduced rents to landlords; the requirement that all individuals, including the highest functionaries and army officers, spend a portion of their time in productive work so that their complete support will not have to be defrayed from taxes; the almost complete elimination of graft from the government; and the habit of mass discussion, criticism, and self-examination as a means of improving both economic and political practices.<sup>42</sup>

#### COOPERATIVES IN OCCUPIED CHINA

The cooperative movement as it was developed by the Japanese in Manchuria and other parts of Occupied China was a complete perversion of

<sup>41</sup> Cholmeley, *op. cit.*, p. 196; Stein, *op. cit.*, pp. 180-181 and 210-216.

<sup>42</sup> Stein, *op. cit.*, *passim*.

the true cooperative idea. The need for food and raw materials from the conquered region led the Japanese to establish their version of a cooperative system for subject peoples.

Local produce exchanges were set up in 1941 in Manchuria in each city, hsien, and banner, managed by agricultural cooperative associations and settlers' unions and supervised by provincial governors. This system controlled prices and the distribution of farm products from the producer to the ultimate consumer or exporter, as all channels for collection, processing, or sale were controlled. The only weakness, the initial contact with the farmer or landlord, was brought under control in 1940 with the organization of Agricultural Development Cooperative Associations. These merged the existing cooperative credit unions, which had been established in 1933, and the agricultural cooperative associations, established in 1937 by the Manchukuo government to promote agriculture. The credit unions had expanded rapidly because of the great need for credit, but the agricultural cooperatives had not expanded because of their "dictatorial tendency". The Agricultural Development Cooperative Associations, besides developing agriculture, extending credit, and "promoting rural welfare", marketed produce and distributed necessities. Ration cards were issued to farmers through the villages, and a farmer who did not sell his crops on the produce exchange was not able to secure manufactured goods such as kerosene, cloth, and matches. The shift away from commercial crops to food crops was stated to have been noticeable in 1940, and was expected to increase under the burden of this system.<sup>43</sup>

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<sup>43</sup> John R. Stewart, "Monopoly Control of Agriculture in Manchuria", Far Eastern Survey, Vol. 10, No. 7, April 21, 1941, pp. 77-79.

Information regarding the Law of Agricultural Promotion Cooperative Societies of March, 1940, throws more light on the subject. Ostensibly the law seemed to provide for cooperative societies similar to those found elsewhere; but further investigation revealed that they were formed in such a way as to bring the farmers under direct control of the government so that their produce might be acquired at set prices without difficulty. It was not stated that all independent farmers must join the cooperatives, but the extreme conditions listed for withdrawal of members made it clear that all farmers were expected to enter and to remain as members.

Local associations were organized into provincial federations, and the latter into a Central Union of Cooperatives. Members did not elect any of the officers; but the government appointed chairmen, directors, and auditors. The only provision for member participation was in an annual meeting. Members of the cooperatives were native farmers, but heads of all provincial federations and of practically all local societies were Japanese.

The council of the cooperatives had the power to discuss the program of work and the budget, but had no power to act on its own recommendations without prior approval of the government. Only the government had the right to dissolve a society. No cooperative could change its rules without government approval.

The Central Union of Cooperatives had a fund of ¥30,000,000 for its business, none of which came from the membership; in fact, members were not permitted to buy shares. Savings of the societies were placed in reserves which were turned over to the Central Union of Cooperatives,

which had the right to purchase government bonds with them or to deposit them in the Central Bank of Manchou, from which the government secured its current cash. It was even stated that according to preliminary reports it appeared as though the farmer did not actually receive any cash at all, but only credit slips to use in the cooperative retail stores.<sup>44</sup>

In commenting on cooperatives in Manchuria, one author summarized the situation as follows:

Japanese cooperatives are essentially organs for the furtherance of political control and economic exploitation, the extension of Japanese currency, goods, and monopolies. They are the chief method for securing China's raw materials for token money.<sup>45</sup>

#### POST-WAR PROSPECTS FOR COOPERATION IN CHINA

##### Official Plans for Post-War Reconstruction

Since the end of the war there has been no comprehensive official statement of post-war plans in China. A resolution adopted by the Supreme National Defense Council on December 28, 1944, outlined the principles for the first stage of post-war economic development. It began with a reference to Dr. Sun Yat-sen's teachings, and stated that all possible measures should be taken to encourage free enterprise, except as they may conflict with the principle of the "regulation of capital". Foreign capital is to be attracted with the understanding that it will not prove detrimental to China's sovereignty.

<sup>44</sup> W. I. Ladejinsky, "Manchurian Agriculture under Japanese Control", Foreign Agriculture, (U.S. Department of Agriculture), Vol. 5, No. 8, August, 1941, pp. 332-33.

<sup>45</sup> George E. Taylor, The Struggle for North China, p. 153.



State monopolies are not to be too numerous, but will include postal service and telecommunications, arsenals, mints, principal railroads, and large-scale hydraulic power plants. Private capital may engage in any other fields, but the government may itself, or in cooperation with Chinese or foreign capital, engage in enterprises which private capital is not capable of developing, such as petroleum fields, steel plants, and air and water transportation. The corporate form will be used for any such mixed government and private enterprises, in which the government will participate only in its capacity as a shareholder; and all commercial undertakings of the government except state monopolies shall have no more privileges than private enterprises.

All important private enterprises, however, are subject to the approval of the government so that they will fit in with the general economic plan. They will be checked for location of plant, production capacity, kind and quality of output, and issuance of shares and bonds; but once approved, they may get financial aid and technical and transportation facilities through the government. Foreign owned projects are subject to Chinese laws, and mixed foreign and Chinese concerns must have a Chinese as chairman of the board of directors. Government employees may not participate in the operation or management of any enterprise within the scope of their supervisory functions. Any conflict between existing laws and regulations and the newly stated principles are to be referred to the Legislative Yuan, which will harmonize existing legislation.<sup>46</sup>

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<sup>46</sup> "Principles for China's Economic Development", China at War, Vol. 14, No. 2, February, 1945, pp. 20-22.

An article reporting this program stated that it was proposed only after considerable study, since full free enterprise was rejected as too time-consuming, and cooperative or government operation were rejected as requiring social revolution.<sup>47</sup>

Another resolution on industrial reconstruction was passed by the Sixth National Kuomintang Congress on May 19, 1945. In general it agreed with the resolution of the Supreme National Defense Council, although it added to the list of state industries iron and steel, coal, copper, lead, zinc, electrical, chemical, cement, and also "other industries that have a direct bearing on the people's livelihood such as textile, flour, and leather." It was also stated that the government may participate in the development of export products, such as raw silk, tea, tung oil, and vegetable oil.

While cooperatives were not specifically mentioned in the resolution of the Supreme National Defense Council, the following statement is found in the resolution of the Kuomintang Congress:

The Government will also encourage handicraft industry and cooperatives.

The resolution further stated that tariff protection is necessary, as well as currency stabilization, technical and vocational education, invention and scientific research. Private enterprises are to be encouraged "within the framework of the over-all plan so long as such enterprises do not exploit the masses." It is again stated that foreign capital is welcome in conformity with the government's economic plan and

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<sup>47</sup> "China's Plans for Postwar Industrialization", Monthly Labor Review, Vol. 61, No. 1, July, 1945, p. 60.

Chinese law.<sup>48</sup>

It has been pointed out that if government-controlled heavy industry is artificially superimposed on a semi-feudal agrarian base, China's future economic system will resemble that of pre-war Japan, in which industrial achievement was at the expense of an impoverished peasantry.<sup>49</sup>

#### Post-War Plans of the Chinese Industrial Cooperatives

The Chinese Industrial Cooperatives plan to continue on an independent basis regardless of government emphasis on large-scale heavy industry.<sup>50</sup> Since the end of the war, however, many of the societies have been caught with materials bought at high rates with borrowed funds, while prices have dropped disastrously. Within a few weeks after V-J Day, wheat prices in one section dropped from \$2,400 to \$400 a peck, and cloth from \$1500 to \$130 a foot. Plans are to continue and to increase the support of the Bailie Schools, and to introduce improved small-scale equipment that can function effectively in villages and rural areas.<sup>51</sup>

#### Detailed Industrial Planning for the Future

Chinese-American wartime cooperation resulted in the appointment by President Roosevelt in the last months of the war of a group of men to act as advisors to help China improve her war production. Donald Nelson,

<sup>48</sup> "On Industrial Reconstruction", China at War, Vol. 14, No. 6, June, 1945, pp. 68-70.

<sup>49</sup> "China's Post-War Economic Plans: Modelled on Pre-War Japan?", Amerasia, Vol. 8, No. 3, February 4, 1944, pp. 38-39.

<sup>50</sup> Ida Pruitt, "Six Years of Induseco", Far Eastern Survey, Vol. 14, No. 4, February 28, 1945, p. 52.

<sup>51</sup> "Co-ops Hit by Devalued Market", Induseco Bulletin, Vol. 5, No. 11, November, 1945, pp. 1-2.

former head of the United States War Production Board, led the group that was known as the Nelson Mission to China. The war ended before any material change was effected in China's production, but a refreshing new idea was proposed by a member of the Nelson Mission, Mr. Alex Taub.

To the usual plans for large-scale production, Chinese T.V.A.'s, and similar projects which are admittedly desirable but impossible to build overnight, Alex Taub added the idea of building what he called "seeding" industries--plants in which the Chinese may build tools to be used to make other products. The "Taub Plan" provides specifications and details for the order in which various types of plants should be built, the sort of equipment best suited to conditions in China, the best size for efficiency of production, etc. The magnitude of the plans proposed may be estimated from the fact that Mr. Taub states that even a very mild form of industrialization for China will require US\$2 billion in five years.

The interesting point of the Taub Plan in relation to this paper, however, is that Mr. Taub proposes the use of cooperative village industries for the production of hand tools, while large-scale plants are simultaneously being developed on a national scale.<sup>52</sup> That his plans appear sensible to the Chinese is proved by the fact that the firm of Alex Taub Associates has been retained by the Chinese government as industrial planning engineers.

<sup>52</sup> Eliot Janeway, "To Help China Help Herself", Asia and the Americas, Vol. 45, No. 4, April, 1945, p. 171; "Faith in China's People", Asia and the Americas, Vol. 45, No. 5, May, 1945, p. 219; and letter from Mr. Alex Taub, January 9, 1946.

The most recent information from Mr. Taub's office is that political and military confusion have "put the brakes on economic activity in China on a national basis." Until conditions improve, a new village industries plan is being developed. Mr. E. Samuel Taub explains the plan as follows:

The principle will be to establish basic industries to be operated by communities as entities. It will, in effect, be a large scale cooperative. The movement will be sponsored by the Mass Education Ministry and they will coordinate operation as well as organization.

The people will finance, operate and market with considerable assistance from the government and universities. Some U.S. firms will provide "know how" etc., at no cost to the Chinese. The whole thing will run parallel to the mass education movement and will not displace operating or potential cooperatives.

No doubt skills and moneys will come from cooperatives who have given up the production of war time necessities. . . .<sup>53</sup>

Up to the present time, no public announcement has been made regarding this plan or the creation of a Ministry of Mass Education. Mr. E. Samuel Taub considers the new plan significant, for he commented as follows:

If the basis already established is truly sound, the world will see an economic evolution which may be startling in its effect. . . . I feel that this movement will succeed . . . . They may well become so strongly entrenched as a basis economic structure that China may have some essence of economic democracy as a permanent partner to her political economy.<sup>54</sup>

This, indeed, may be a forecast of an era of greater cooperative achievement in the China of the future.

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<sup>53</sup> Letter from Mr. E. Samuel Taub, February 25, 1946.

<sup>54</sup> Ibid.

### CONCLUSION

Cooperation as an economic system to supplant the existing capitalistic system has never been seriously proposed for China. The supporters of both the rural cooperatives and the industrial cooperatives have not gone beyond the advocacy of cooperation as a type of economic organization to be developed within the framework of the capitalistic system.

To summarize, the chief characteristics of China's economy, within the structure of which the cooperatives must function, are the predominance of agriculture over manufacturing, the large population in relation to the available land, and the great poverty of most of the population due to the shortage of land. This poverty is reflected in the cultivation of uneconomically small plots; the intensive application of labor, the most abundant factor of production; and the almost complete lack of the use of capital goods, except simple hand tools, because no surplus is available for capital accumulation. Even if farm machinery were available, it could not be used efficiently on the small fields and would displace farm labor that at present has no alternative employment.

With both land and capital scarce, economic power is held almost exclusively by landowners and the few Westernized industrialists who established the first Chinese-owned factories in the Eastern coastal cities, in imitation of foreign-owned factories built in the treaty ports. With the loss of the Eastern regions to the Japanese early in the war, the Chinese industrialists lost economic and hence political power, which thus left the landowners in a relatively stronger economic and political position. Even before the war the near subsistence level of the small

farmer, in addition to high rent and high interest rates, caused land to become concentrated in the hands of fewer and fewer landlords. At the same time, the handicrafts or cottage industries that had provided a livelihood for some of the surplus rural population were ruined by the introduction of foreign and Chinese machine-made products.

An improvement of the general economic situation, necessary from the standpoint of self-defense and world stability as well as from the standpoint of the need of the Chinese people for a better standard of living, inevitably boils down to the need for one or all of the following changes: a reduction of population; an extension of the amount of cultivated land and the more efficient cultivation of existing farmlands; or the provision of alternative employment by industrialization, combined with more efficient use of farmlands to provide food for industrial workers as well as farmers.

The large population is a result of the family system, the most powerful social institution in China. While poverty appears to limit the size of families, any relative improvement in the food supply tends to increase the population. Birth control has been suggested by more advanced Chinese reformers; but even if it were promoted as a government policy, it would take years before it would be accepted by the more conservative elements of the population. Industrialization in other countries has had the ultimate effect of decreasing the birth rate; but the immediate result of industrialization has usually been a rise in the birth rate, followed after a generation or more by a decline in the rate.

One result of the war has been a decrease of the population, which

should provide an interlude of lessened pressure on the land, during which it should be possible to introduce agrarian reforms with less opposition than would otherwise have been possible.

Efforts to extend the amount of cultivated land have been made and are continuing. Some optimistic Chinese leaders claim that ample land remains for colonization; but other observers state that practically all fertile land is already being cultivated. Large-scale irrigation projects may open up more land, but it is questionable whether enough good land remains to affect the situation materially. Likewise, a great deal has been done to stimulate improved cultivation, through the use of improved seeds, measures to combat pests and plant diseases, and scientific methods of cultivation to preserve the fertility of the land.

Such industry as China had developed before the war provided little hope for improved living conditions for the urban workers. The competition for jobs and the lack of bargaining power of labor resulted in long hours, the use of women and children without adequate protection, the lack of safety devices, the absence of workmen's compensation, and a life of almost complete subjection to the factory management. Youthful members of poor families were apprenticed to factories for periods of years and often lived on the factory premises. Industrial laws were on the books but not effectively enforced. There was a period during which a real labor movement was started; but it was considered a radical organization and was crushed at the same time that the Communists were expelled from the Kuomintang Party.

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Within this economic framework, what has been the function of co-



operatives in China?

The rural credit cooperatives furnish a means of extending credit to farmers at lower rates of interest than have hitherto been available. Theoretically, this is a way for the government to strengthen the most needy of the agricultural population as against the more powerful rural group, the landowners, and thus to counteract the concentration of land in fewer and fewer hands. This should also tend to prevent the displacement of farmers from the land, reducing the reservoir of recruits to bands of outlaws and radical groups like the Communists.

Actually, the system of rural cooperatives has effectively provided farm credit only in certain sections of the country; while in other sections the administration of the system has been left in the hands of powerful landlord groups or the local Kuomintang Party leaders, who are usually landowners, and who do not always make the benefits of the system available to those most in need of help.

The term "cooperative" is evidently a misnomer for many of the rural credit societies in China. Leaving aside the criticism that a true cooperative movement requires the voluntary association of members, even the most idealistic and altruistic cooperative enthusiasts face formidable obstacles in trying to establish real cooperation. Among these obstacles, perhaps illiteracy is the worst; although tradition, including supreme loyalty to the family and the acceptance of "squeeze" as legitimate, runs a close second.

As against these handicaps that a true cooperative movement must overcome should be mentioned the tradition of working effectively in

groups such as the family and the guild. This was a factor of such importance in some of the early cooperatives that the Chinese were said to be "born cooperators".

In order to reach the elements of the population who most need cheap credit, it would seem necessary to go back to the China International Famine Relief Commission plan of establishing Raiffeisen type societies, or something similar, in which credit is extended on the basis of mutual guarantee of the members of societies instead of on the basis of security. The C.I.F.R.C. found that when societies were kept fairly small and made up of a homogeneous membership in a relatively small locality, the credit needs and ability of members to repay were well known to all members. Thrift was stimulated and losses from bad debts were very low, considering that the members of credit cooperatives established by the C.I.F.R.C. were practically all small farmers and tenants who had been almost completely ruined financially by flood and drought.

Once the poorest elements of the population are able to substitute loans at reasonable rates of interest for usurious loans from pawnbrokers, merchants, and landlords, they should after a few years be able to use credit for truly productive purposes, such as the acquisition of farm animals, fertilizer, and better seeds, which would result in increased yields per man and per acre, the true measure of improved productivity.

Some of the early credit cooperatives were effective in stimulating thrift by persuading members to simplify the elaborate wedding and funeral rites that custom required. Many families borrowed heavily rather than flout custom; but it was found that if all the members of a cooperative

agreed to the reform, great savings were effected and no one was criticized for lack of conformity.

The industrial cooperatives fit into the Chinese economic framework by providing a modern substitute for the abandoned handicrafts and cottage industries which formerly absorbed part of the excess farm population. During the early years of the war, most of the C.I.C. workers were refugees. More recently, however, the cooperators have mainly been unemployed natives of the places where the cooperatives were established.

While the industrial cooperatives were unmechanized or semi-mechanized for the most part during the war, it was never planned that the movement would be a revival of the old hand work methods. From the beginning, improved methods and equipment were used wherever they were possible with the resources at hand. The problem of eventual competition from textile mills was faced from the first, although the shortage of cloth made textile work useful and profitable during the war and the blockade. Many other consumers' goods were produced, however, which will meet local demands as long as the inadequacies of the transportation system prevent goods from moving freely throughout the country.

The experimentation and research program of the C.I.C. revealed the usefulness of certain Chinese raw materials as substitutes for materials formerly imported. The techniques and experiences obtained in cooperative workshops should be of value in helping workers to make the transition from agricultural work to factory employment when and if large-scale industrialization materializes.

Aside from producing valuable goods, the industrial cooperatives

provided the living for several hundred thousand people during the war, while teaching them new skills and the use of better, though simple, methods and machines. The members were taught cooperation, a method of working together for mutual benefit; and they also derived social and political benefits from cooperatively financed social services and the experience of democratic methods of conducting group affairs.

Both the rural and the industrial cooperatives provide the organization for the introduction of outside capital to undercapitalized groups of the population, and at the same time enable the members to pool their own small savings for mutually beneficial productive use. This is a valuable contribution in China, where the shortage of capital has made all plans for large-scale industrialization contingent on the availability of foreign loans.

The future course of cooperation in China is dependent on the political as well as the economic development of the country. If, as seems likely at present, the more liberal forces reassert themselves as against the more reactionary groups, the prospects will be much brighter for continuing the industrial cooperatives and for making the rural credit and other types of agricultural cooperatives more truly cooperative. Although a workable compromise between the Kuomintang and the Communists will not be easy to achieve, it will perhaps be facilitated in the economic field by the fact that both factions resorted to cooperatives to meet the economic needs of the people in their respective sections of the country.

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Now that the continued unrest in the Orient has apparently made foreign capital hesitant to underwrite Chinese reconstruction for the

present, the proposal has been advanced that village industry be organized cooperatively under the Mass Education Movement. No public announcement of this has been made, and it is not known to what degree the plans have been perfected.

The Mass Education Movement has already had success in establishing cooperatives and in coordinating them with education and a more democratic local government, and it has always been a purely Chinese movement. In this latter respect it has avoided the criticism to which the C.I.C. was subjected, that it was not a true Chinese movement because foreigners were among the founders and exercised a degree of supervision through the International Committee. The Mass Education Movement has not, in the past, been subsidized by the Chinese government, but has depended on voluntary contributions and the pooled resources of the people in the regions where it was active. If, as has been reported, a cooperative village industry plan is to be organized and supervised by a new Ministry of Mass Education, presumably it will be independent of the Central Cooperative Administration of the Ministry of Social Affairs. Until the details of the plan are announced, no conclusions can be drawn; but if the plan is implemented under the auspices of the Mass Education Movement, optimism should be justified.

Although it now appears likely that cooperatives will be continued in China regardless of ultimate hopes to establish large-scale industrialization, it must not be forgotten that cooperatives alone cannot bring about reconstruction. Transportation, education, agrarian reform, and the gradual introduction of democracy are essential to the attainment of

reconstruction aims, as they are likewise essential to the development of a true and vigorous cooperative movement.

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