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THE TAXATION SYSTEM OF CHINA

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1. THE HISTORY OF CHINESE FINANCE

The modern Chinese finance may be divided into the following three periods:

- i. The Imperial regime before 1912, prior to the advent of the republican regime.
- ii. The republican regime, 1912-1927.
- iii. The period of the dictatorship of the Nationalist Party after 1927.

(i) The Imperial regime.

Prior to the establishment of the republican regime by the Peking Government in 1912, China was an absolute monarchy and in consequence there was no system of state finance in its inherent sense. In other words, there was no differentiation between the private revenue of the sovereign and the revenue of the state, the sovereign having the right to exact taxes from the people and to expend them at will without any institutional restriction whatsoever. A review of the financial condition of the Ching Dynasty reveals that

during the reign of its founders and several succeeding emperors it was marked by prosperity. For example, in the 51st year of the Kang Hsi Era, Shêng Jsu Jên decided not to increase the amount of the land tax even when the population of the land increased. Furthermore, the amount of taxes was often reduced during the three dynasties extending over a period of more than 130 years; while a vast amount of money was granted for relief purposes out of the Imperial treasury. All these facts show that the financial conditions of the time were highly prosperous.

Subsequent years, however, were marked by repeated civil disturbances, some of which lasted from nine to fifteen years, and for their pacification a vast amount of money was needed. Moreover, the Opium War of 1840, the Sino-Japanese War of 1894-5 and the Boxer Uprising of 1899 further increased the financial poverty of China. The formerly benevolent practice of exempting taxes had the effect of encouraging failure to pay taxes and proved one of the potent causes for the financial bankruptcy of the Ching Dynasty.

Roughly speaking, it may be said that the Opium War proved a sharp dividing line in the history of modern China. After this war radical changes were brought about in her political and social conditions and sharp criticisms on the old systems manifested themselves in the form of strong demands for reform. The domestic conditions of China at that time may be summarised as follows:

First, in addition to the burden of indemnities and of dealing with civil disturbances, the increased importation of manufactures caused the steady inflation of silver price thereby augmenting the financial distress of the country. So much so, indeed, that the Chinese Government was unable to cope with the situation.

Secondly, China, too, was under the influence of a world-wide democratic sweep and absolute monarchy came to be regarded as anachronistic. The revolutionary movement which began to show itself with the opening of the present

century caused the establishment of a constitutional system investigation commission as the demand of the new age. In 1907 a joint memorandum was drafted and a gradual constitutional movement was proposed. The memorandum included the following proposals for financial reform:

The first year, to promulgate a financial law for the central government.

The second year, to make investigations into local finance.

The third year, to promulgate a local taxation law and to adopt a budget system for each province for experimental purposes.

The fourth year, to draft an account law, to promulgate a local tax law, and to revise a national tax law.

The fifth year, to promulgate a national tax law.

The sixth year, to adopt a state budget system for experimental purposes.

The seventh year, to adopt a system of financial settlement and to promulgate an account law.

The eighth year, to fully regulate the cost of the Imperial Household and to create a board of financial inspection.

The ninth year, to create a state budget system.

It should be noted that nearly every one of the foregoing proposals failed to be realized. In the first place, there was no distinct differentiation of functions among the various organs of finance. Moreover, old government officers were left to carry out the functions of new institutions with the natural result that no effective reforms were made.

Then came the republican revolution of 1911 and the abdication of the Emperor Hsuan Tung in 1912, thus the Ching Dynasty came to an end. As in the cases of many similar upheavals, the financial poverty of the Ching Dynasty was one of the powerful reasons for its downfall.

(ii) The republican regime.

The replacement of the old monarchy in 1912 by the newly established republican government with a cabinet system in Peking was accompanied by the creation of a new

financial system. All these changes including state financial systems were brought about by the temporary constitution of 1913. The following major decisions were made at that time: first, to form a budget; second, to enforce a budget; third, to make government financial bills in the legislature; fourth, the judiciary was to make financial inspection.

None of these plans materialized fully. For example, during a period of years from 1913 to 1927, a budget was formed only four times for the fiscal years 1913-14, 1914-15, 1916-17 and 1920-21. This failure indicates the political confusion that prevailed during that period. Now, it should be noted that the system of budgeting is most important in the organization of the state and without it its just administration is impossible. It was obvious, therefore, that something must be done in order to improve the then existing state of affairs.

(iii) The dictatorship regime of the Nationalist Party.

In 1927 the Nationalist Party effected the national unification of entire China and succeeded in bringing about political stability in the land. It was on this occasion that the so-called five-power constitution came into existence. The five-power constitution was supposed to be superior to the hitherto existing constitution of separation of powers into three divisions, namely, the executive, the legislative and the judiciary. The three-power was replaced in China by the following five powers: the executive *yuan*, the legislative *yuan*, the judiciary *yuan*, the examination *yuan*, and the control *yuan*. In addition to these, there was the State Council which was composed of between 12 and 16 government delegates and one chairman. This body functioned over and above the foregoing five *yuan*s.

The presidents and vice-presidents of the five *yuan*s were appointed from among government delegates. The executive *yuan* being the supreme administrative organ, was sub-divided into ten departments and five committees. One of the ten departments was the department of finance and was charged with the task of administering affairs. The

legislative *yuan* was the supreme law-making body of the Nationalist Government and was composed of four committees, one of which was the committee of financial administration. Needless to state, the legislative *yuan* possessed the right of enacting laws concerning finance. Lastly, there was the ministry of audition under the control *yuan* the function of which was to make inspection over finance. The other two *yuan*s had no direct connection with finance.

I have briefly outlined the mechanism of the Nationalist Government that was related to financial administration. Now, it is noteworthy that, though after the establishment of the Nationalist Government, many financial measures were proposed, only a very few of them were actualized, the majority of them proving only paper plans.

In 1928 the arrangement for the budget system was made and in the following year a national finance conference met and resolved the following: (i) to unify financial administration (ii) to renovate the taxation system (iii) to adjust state loans (iv) and to carry out the budget system. In 1934 a second national finance conference convened and decided (i) to reduce or abolish certain taxes (ii) to improve the taxation system (iii) and to establish a local budget system. During the same period many decisions on financial reform were made including the following: (i) to divide revenue and expenditure between the central government and local government (ii) to enforce the budget system (iii) and to adjust government loans, etc. Of these manifold resolutions, only several of them were materialized. They are: (i) the establishment in 1931 of a Comptroller-General's Office for the administration of budgetary affairs; (ii) the adjustment of state loans in 1932; (iii) and the second adjustment of state loans in 1936.

To put it differently, although the Nationalist Government succeeded in the political renovation of state unification, it utterly failed to adjust or improve the existing system of finance which had been in negligent conditions, as was shown by the fact that the budgetary estimates for 1932 and 1933

failed to be established fully and that, although there was a law providing for the unification of state revenue, the various departments of the central government continued to dispose of the revenue under their control. All this shows that the reform made by the Nationalist Government was successful only in its outward appearance and that in reality it made no improvement at all. Let us take the example of the system of financial inspection. This system in form was perfect, but in actual practice it failed to function properly. Even the division of finance into the central government and local governments was not clearly made.

I shall now observe the taxation system of the Nationalist Government.

2. THE NATIONAL TAX SYSTEM OF CHINA

Although under the Nationalist Government the revenue from taxes was the principal government income, it was still in an infant stage when compared with those in modern civilized nations. China lacked direct taxes such as the income tax and the inheritance tax, and her revenue from indirect sources such as customs, the salt tax and the transport tax constituted eighty per cent of her total annual revenue. The revenue from the various sources in the budget of 1935 is as follows:

Table I.
Ordinary National Budget, 1935

Ordinary Revenue

Items	Amount (In 1,000 yuan)	Percentage
Customs	326,361	42.9
Salt tax	184,219	24.2
Wine tax	22,349	2.9
Stamp tax	12,000	1.6
Consolidated tax	113,298	14.9
Mining tax	3,873	0.5
Exchange tax	1,950	0.3
Income tax	5,000	0.7

Banking tax	1,600	0.3
Government properties	8,767	1.2
Government enterprises	20,659	2.7
Government administration	10,815	1.4
Others	10,807	1.4
Total	761,970	100.0

Extraordinary Revenue

Items	Amount (In 1,000 yuan)	Percentage
Customs	15,000	7.7
Government properties	78	—
Government enterprises	195	0.1
Government administration	116	0.1
Income from bonds	70,000	35.9
Others	109,793	56.3
Total	195,183	100.0

As shown by Table I, about 82 per cent of the ordinary state revenue of 1935 came from customs, the salt tax and the transport tax, and only a negligible amount from other sources. The revenue from the income tax is only five million yuan which is less than one per cent of the total amount of revenue. This state of affairs remained the chief characteristic of Chinese finance from the time of the Peking Government down to the Nationalist Government. This is shown by figures in the next table.

Table II.
Principal Tax Revenue for Eight Years, 1913-1934
(In million yuan unit; taken from the Chinese Finance Yearbook)

Items	1913	1914	1919	1925	1929	1931	1932	1934
Land tax	82.4	79.2	90.5	90.1	—	—	—	—
Salt tax	77.6	84.9	98.8	98.8	130.1	163.2	164.6	190.4
Custom Duties	68.2	79.4	94.0	120.4	221.9	374.7	359.7	352.6
Likin	32.7	34.2	39.3	45.7	39.5	—	—	—
Miscellaneous	37.9	28.0	29.2	28.9	—	—	—	—
Wine tax	—	—	—	—	25.6	48.9	33.2	23.1
Tobacco tax	—	—	—	—	37.8	—	—	—
Stamp duties	—	—	—	—	9.6	—	15.9	12.9
Consolidated tax	—	—	—	—	—	75.8	86.7	117.0
Total	557.3	382.5	490.4	461.6	496.7	893.8	692.5	918.1

- Notes: (1) After 1914 the term "likin" has been replaced by the freight tax.
 (2) After 1919 the freight tax has been replaced by the transit tax.
 (3) The wine tax in 1931 was replaced by the wine stamp duty.
 (4) By the formation of the consolidated tax (tung shui) the tobacco tax was absorbed thereby and for this reason its figures are lacking. It was in 1931 that the land tax was made a local tax and the likin was abolished. The figures included are all estimates but those of 1915 are only rough estimates. In 1932 no budget was formed and the figures are the report of revenue made by various government organs. Of these reports, it is only in 1931 and 1934 and 1916 that the figures show correspondence. The figures of 1914 show a surplus of 25 million yuan. In all other cases, a vast deficit was shown in each year.

Table II shows that before the land tax was made a local tax, its amount was between 80 million yuan and 90 million yuan, and constituted between 15 per cent and 20 per cent of the entire national revenue; while indirect revenues such as the salt tax, customs, the likin and the consolidated tax constituted between 70 and 90 per cent.

Table III.
Principal Tax Percentage for Eight Years, 1913-1934

Items	1913	1914	1919	1925	1929	1931	1932	1934
Salt tax	13.9	22.2	20.2	21.4	26.0	18.2	25.2	20.8
Customs	12.2	20.8	19.2	26.1	44.7	41.7	52.0	37.3
Likin	5.7	9.0	8.0	9.9	7.9	8.4	12.5	12.7
Total	31.8	52.0	47.4	57.4	78.6	68.3	89.7	70.8

The foregoing percentages are those of the combined figures of the ordinary and extraordinary revenues to the total and for this reason a considerable variation was shown in different years. However, the figures fully indicate the importance of customs, the salt tax and the consolidated tax in the Chinese state revenue.

There are two major defects in the tax system of the Nationalist Government that cannot escape our attention. The first defect consists in the inequality of distribution; or in other words, the tax burden according to ability to bear, is not realized. The second defect is the lack of flexibility.

Let us consider the first defect.

We have already seen that almost all important sources of Chinese state revenue are indirect taxes. The income tax was recently created but the sphere of its application is very much limited and its amount is negligible. The revenue from the inheritance tax in the budget for 1937 was estimated at two million yuan but its real value is unknown.

Note: It was in 1924 that the adoption of the income tax was decided upon by the Peking Government but it was later in 1931 that it took its legal efficacy. It provided that 70 per cent of the income tax was to be used for school expenses and 20 per cent for industrial purposes. The income tax was levied on (i) government officials and (ii) on industrial establishments, the rates being 15-20 per cent for the former and 5-50 per cent for the latter. This tax failed to attain its aim, the following being reasons for the failure: (i) supervision over the tax and the technique of collection were not sufficient and (ii) the object of taxation was not adequately clear for the imposition of a progressive tax.

In 1929 the revised income tax law was promulgated and has been in force ever since. This law divides incomes into two kinds, Class A and Class B. The Class A income consists in corporative income and income from interest. In the case of corporative income, a ten-percent tax was levied on profits between ten and fifteen per cent; a fifteen per cent tax on profits between fifteen and twenty-five per cent; and a twenty per cent tax on profits ranging from twenty-five to thirty-five per cent. An additional five per cent tax was levied on each five per cent over and above the thirty-five per cent profit. A fifteen per cent tax was levied on revenue from government bonds and other interests. Class B income comprised all incomes other than those coming under Class A income—that is all incomes of individuals. The rates of Class B incomes are as follows (Incomes not exceeding 2,000 yuan being exempted from taxation):

Amount (in yuan)	Rates
From 2,001 to 10,000	5%
From 10,001 to 20,000	10%
From 20,001 to 30,000	15%
From 30,001 to 50,000	25%
From 50,001 to 100,000	35%

A super tax of five per cent was levied for every additional 50,000 yuan over and above the income of 100,000 yuan.

It will be noted that the above Chinese income tax was modelled after the Japanese income tax system before the latter was revised, but in actuality it failed to function at all. The Nationalist Government tried to expand the sphere of taxable income from the narrow field of the tax system to the larger field of general incomes. First, an attempt was made to tax capital interest and

then extend it to the incomes of government officials and private citizens. The idea was fine but in actual practice only the government officials had to pay the tax. Moreover, the disposition of the revenue from the income tax was entrusted to the Nationalist Party, which used the money for the relief of the families of its deceased members. However, in the budgetary estimates of 1935 and 1936, an appropriation of five million yuan was included, as against an estimate of twenty-five million yuan in the budget for 1937. (*Der Staatshaushalt und das Finanzsystem Chinas*, p. 88, by Pakong Chu).

The inheritance tax is impossible both in theory and practice, when the Chinese family system is taken into consideration. Especially, the estate system of agricultural villages is the principal impediment to the success of the inheritance tax in China. However, further studies of this question are highly necessary. (comp. Pakong Chu; *ibid.*)

It was the Peking Government that attempted to adopt the inheritance tax for the first time in the history of Chinese taxation but the attempt failed. The inheritance tax draft prepared by the Nationalist Government in 1929 differentiates tax rates into six kinds according to differences in the relationship between the heir and inheritee. Further differentiation is made as follows, according to the different amounts of property inherited. (Pakong Chu, *ibid.*)

Property inherited (In 1,000 yuan)	Classes according to kinship between the heir and inheritee					
5—10	1	1.5	2	2.5	3	5
10—20	1.5	2	2.5	3	5	7
20—50	2	3	4	5	7	9
50—100	3	4	5	7	9	11
100—300	5	6	7	9	11	13
300—500	7	8	9	11	13	15
500—1,000	9	10	11	13	15	17
1,000—5,000	11	12	13	15	17	20
5,000—10,000	13	14	15	17	20	22
10,000—	15	16	18	20	22	24

It is not clear to what extent this inheritance tax has actually been carried on. But it appears to be a very small amount of revenue in the budget of recent years.

As has been already pointed out, the greatest portion of the Chinese state revenue comes from taxes and almost the entire tax revenue comes indirectly from sources such as customs, the salt tax and the consolidated tax. Table III has shown their percentages to the total amount. The following table give the tax revenue only.

Table IV.

Percentages of Tax Revenues to Total In Three Years, 1931-1934

Items	1931	1932	1934
Salt tax	24.6	25.0	27.4
Customs duties	56.6	54.5	50.7
" tax	11.4	13.1	16.8
Consolidated	7.4	7.4	5.1
Others	—	—	—
Total	100	100	100

As shown by Table IV, the amount of revenue from customs is more than one half of the total. The amount of revenue from the foregoing three sources combined constituted 92.6 per cent of the entire revenue both in 1931 and 1932 and 94.9 per cent in 1934. All this indicates the insignificant position occupied by all other taxes.

Of the three tax sources, customs had been the principal source of income before the modern states came to have their present fully developed systems of taxation, so that the above phenomenon is not peculiar to China only.

On the other hand, the salt tax is peculiar to China, India and other few countries. It is a tax on the consumption of one of the daily necessities and revenue therefrom is the largest in amount among different domestic taxes. In the taxation systems of modern civilized countries, stress is made on direct taxes as the proper source of state revenue, because it is recognized that indirect taxes fall heavily on the masses and therefore the taxes on the consumption of daily necessities are held in disrepute. However, in China such a shameful tax as the salt tax still persists. In China, the principle of taxation according to the ability to bear on the part of taxpayers and assuring them of the equal distribution of burden is all together ignored.

Lastly, the consolidated tax was established for the first time in 1931 when it replaced the likin. In this tax is combined such taxes as the cigarette tax, the cotton yarn tax, the wheat tax, the match tax, the cement tax, the cigar

tax, and the beer tax. All these taxes have been levied on the production of these commodities and their imports. The name consolidated tax ("tung shui") is said to be derived from the fact that once this tax is levied, no local super tax will be collected. Of the foregoing consumption taxes, the cigarette tax is the largest source of revenue, followed by the cotton yarn tax and the match tax. The consolidated tax is less objectionable than the salt tax. Even admitting that their burden does not fall heavily on the masses, the fact remains that these taxes do not respect the principle of equality of burden. In addition to these taxes, there is another indirect tax, namely, the wine and tobacco tax, the amount of which is by no means small.

We have already seen the insignificance of direct taxes such as the income tax and the inheritance tax. The same may be said of the mining tax, the banking tax (levied on bank certificates issued) and the exchange tax. However, the revenue from the stamp duty is comparatively large.

Note. I cannot dwell in detail on the salt tax, the consolidated tax and the custom duties. Readers are solicited to read the following: *Das Finanz-und Steuerwesen Chinas* by Ming Chung-tay; *History of Modern Chinese Finance* by Kisao Kashiwai; and *Staatshaushalt und Finanzsystem* by Pakong Chu.

It should be noted that the tax burden in China is borne principally by the poor classes, the rich classes shouldering a comparatively light burden. Thus, the Chinese tax system has a serious defect inasmuch as the taxes in modern states are intended not only to derive revenue but also to assure a just distribution of wealth. Moreover, no one will deny that these tax do not impose the burden of taxes according to the principle of ability to bear and that in this respect, too, the Chinese tax system has a grave defect, so long as ability to bear is considered as the highest principle in the theory of taxation today.

Since the time of the Opium War, China has undergone an industrial revolution to a considerable extent and an agricultural economy has been replaced by an industrial

economy. This economic change has ushered in a new form of wealth with an attendant inequality of wealth such as is seen in the Occident. The system of state revenue in China, however, does not evidently conform to this general transformation of her economic society. It is beyond a shadow of doubt that, should China have an opportunity of making a tax reform in the future, she should adopt a system of taxation which concentrates on direct taxes such as the income tax and the inheritance tax, and should do away with the existing indirect tax system.

We shall next take up the second important point in the Chinese system of taxation, namely, flexibility.

In China the various regulations concerning annual revenue are so rigid that she is not in a position to respond to the demands of emergent or rapidly changing expenditures. China lacks the flexibility in taxation such as may be seen in the income tax or import duties on tea in England. True, the system of varying tax rates such as adopted in the English income tax and in the state property taxes in the United States, which aimed at responding to variations in expenditure or demands, is a special example and is not generally adopted. For this reason, the simple fact that China has no such a system cannot be regarded as her lack of flexibility in her tax system. However, the very fact that she lacks such important direct taxes as the income tax and the inheritance tax and has, as already seen, almost entirely indirect taxes, may be taken as testifying the absence of flexibility.

Lastly, there is another important problem in the Chinese system of taxation, namely, its method of collection. The work of tax collection at present is under the direct control of various committees under the Finance Ministry such as the tariff committee, the salt tax committee, the wine tax committee, etc. and there is no system of unification. This makes a sharp contrast with the methods of tax collection adopted in both England and the United State which are highly centralized.

It was in 1843 that China hired an English expert as the Inspector-General and since that time she began to establish a new tax system after the British pattern. Prior to that time, the assessment and collection of all taxes were entrusted to tax collectors, and there were no means of preventing fraudulent acts in connection with tax collection. The new system after 1843 clearly evinced a marked progress although it was not yet under any unified directorship. Of course, even today it is often pointed out that the cost of collection is considerably high when compared with the amount of revenue collected. I wish to dwell on this point on some other occasion.

So far I have outlined the Chinese system of taxation and attempted to clarify its significance in state revenue. I shall now touch on government enterprises and revenue from government properties both of which are other sources of state revenue.

There are the following four special accounts of government enterprises: the railway, the post, the telephone and the navigation administration.

Table V.

Railway Accounts in Recent Years (In million yuan)

Years	Revenue	Expenditure	Net Profit
1928	96,5	57,8	38,6
1929	113,7	83,0	50,7
1930	106,9	87,1	19,8
1931	143,1	129,9	13,3
1932	131,0	120,7	10,2

In 1929 the profit from the railway enterprise rose as 50 million yuan but in the following years the rate of profit has steadily dwindled.

Table VI.

Postal Accounts in Recent Years (In thousand yuan)

Years	Net Profit or Deficit	Amount
1929	Net Profit	67
1930	Net Profit	46
1931	Deficit	55
1932	Deficit	419
1933	Net Profit	158

The postal account is not of much importance from the standpoint of state revenue, as the above table indicates.

Table VII.

Telephone Accounts in Recent Years (In thousand yuan)

Years	Net Profit or Deficit	Amount
1928	Net Profit	1,460
1929	Net Profit	3,810
1930	Deficit	5,270
1931	Deficit	2,740

The telephone enterprise used to yield profit at first but it is now a poor business.

The navigation enterprise consists in marine transportation and aviation both of which are of very small importance financially. This is because Chinese shipping is very primitive while Chinese aviation has been carried on only in connection with foreign firms, and only a small part of its profit becomes a government revenue, its amount being very small.

The net profit of government banks is comparatively large, the following table indicating the net profits of central banks.

Table VIII.

Net Profits of Central Banks (In million yuan)

Years	Profit	Years	Profit
1929	1.5	1932	12.0
1930	2.7	1933	10.7
1931	4.9		

In addition to the foregoing, there are other government enterprises such as electric, mining, and river-control enterprises but their revenue is insignificant in amount. Nor is the revenue from state properties very important as it does not contribute very materially to the state revenue. All this betrays the importance of revenue from taxes in Chinese finance and certainly there is the necessity of establishing a rational taxation system in view of this fact.

3. THE LOCAL TAX SYSTEM

Before a state comes to possess perfectly unified organization, that state cannot have a national taxation system in its rigid meaning. True, it may be said that so long as a state exists that state must possess a national taxation system. In actual practice, however, there is a limit to the extension of the power of the central government and the collection of the national taxes is limited to that extent. In other words, national taxes are enforced partially, and there is no unified national taxation. In such a stage of national development in any country, those having powers in different localities occupy the controlling position in their respective territories, and impose their own taxes within their spheres of influence, so as to cover their own expenses. But once a centralized state is established, a unified system of state taxation is created; but at the same time, a separate system of local taxes for different localities is recognized, but sometimes local super taxes on national taxes are recognized. In other words, the relation between the national and local taxes is a matter of paramount importance in all countries. When the problem of tax burden on the people is taken into consideration, it is clear that national taxation is by no means sufficient to assure justice in taxation.

Accordingly, I propose to make a brief survey on the Chinese local taxes, realizing that these taxes possess two outstanding features which are worth special attention.

In the first place, the Chinese local taxes are fundament-

ally different from those in modern civilized countries. Even after the establishment of the Peking Government, China cannot be said to have been a unified state in its rigid meaning. For many militarists existed in all localities and possessed armaments of their own, ever attempting to expand their military prowess within their respective spheres; so much so that these localities formed small independent nations of their own with their own independent financial systems. For this reason, the local taxes existed together or up against the national taxes. These taxes were called "local", simply because they were levied by local military leaders. Inasmuch as these taxes were imposed and collected by an actually independent power, they were utterly at variance with those in modern civilized nations. The local taxes at that time were levied by local military leaders in very cruel manner and their burden was much heavier than that of national taxes. Moreover, there were sharp differences in the nature of different local taxes. The Chinese local taxes in fact were incredibly irrational. But all this deplorable condition was gradually improved as a result of the national unification brought about by the Nationalist Government which local warlords gradually came to obey. Then the national taxes came to be enforced throughout the whole nation and at the same time local taxes underwent readjustment under the control of the central government. However, there was still no perfect system of taxation developed for both the central government and localities.

In the second place, there is a great difficulty of making studies on Chinese local finance, especially local taxes. All positive researches on financial phenomena in general should be based on statistics, and positive researches on taxation is no exception to this general rule. But it is almost impossible to secure reliable figures concerning local finance in China and it is said that nearly all of the statistical data given out are unworthy of reliability. For instance, budgetary estimates and financial settlement are often lacking. Only partial information about financial conditions in limited

time and locality is available. The figures announced from time to time are desultory in content and include many mistakes. Such a fact is unthinkable for the finance of civilized nations today but is one of the earmarks of Chinese finance.

From the foregoing two points, we make the following conclusions :

(i) In making studies of Chinese finance, local finance occupies a position of great importance and local taxes should be regarded as more important than national taxes.

(ii) On the other hand, since it is impossible to derive precise conclusions from positive studies which are based on uncertain figures, all investigation into Chinese local taxes cannot be but inadequate.

In outlining the local tax system of China with the foregoing two points as premises, I shall limit my studies to provincial and municipal taxes, and will not include the prefectural and other taxes of lower territorial divisions.

(1) The Provincial Taxation System.

The Financial Yearbook of China gives the following budgetary estimates of various provinces :

Table IX.
Provincial Budgetary Estimates (In thousand yuan)

Provinces	1913		1933	
	Revenue	Expenditure	Revenue	Expenditure
Kiangsu	4,156	8,530	21,853	21,853
Chekiang	2,058	2,340	23,136	23,136
Anhui	1,247	2,254	11,128	11,128
Kiangsi	1,547	3,008	17,144	17,144
Hupei	2,116	2,959	17,620	17,620
Hunan	248	1,131	14,312	14,312
Ssuchuan	6,306	6,306	—	—
Fukien	891	1,194	16,904	16,904
Kwantung	3,581	—	34,170	43,095
Kwansi	1,017	831	13,243	13,243
Yunan	1,736	1,778	3,625	3,625

Kueichow	610	579	2,911	6,083
Hopei	1,092	5,547	25,773	25,773
Shantung	1,262	1,403	23,575	23,575
Shansi	2,401	3,512	13,682	13,682
Honan	3,291	7,397	11,347	11,347
Hsiasì	1,545	4,433	13,995	20,781
Kansu	808	1,691	5,172	11,130
Ninghsia	—	—	1,435	1,435
Tsinghai	—	—	843	936
Jehol	260	339	1,605	2,039
Charhar	70	54	3,885	3,885
Heilung	1,403	1,504	—	—
Hsinchiang	1,004	259	—	—

Note. (1) stands for 1931, (2) for 1932, (3) for 1932, (4) for 1931 (5) for 1932, (6) for 1932. The provinces of Kirin, Hsikang and Lioanning have been omitted because figures for them are lacking.

As have already stated, it is highly doubtful to what extent we can rely on the foregoing statistics. Most probably there are large sums of money that might have been exacted by the warlords and equally large sums that might have been expended by them. In the beginning of the republican regime, all provinces except Suchuan, Kiangsi and Yunan have shown more or less, deficit of revenue in their budgetary estimates. This was especially so in the case of such provinces as Kiangsu, Hopei, Honan and Kiangsi. In the budget of 1933, however, the balance was attained although it was only a nominal affair.

A review of the budget reveals that the greatest portion of revenue comes from the taxes, especially the land tax, the business tax and the register tax, all of which constitute eighty per cent of the total amount of revenue. There are other taxes and none of such taxes as the pawnshop tax, the slaughter tax, the house tax, the ship tax, the commission tax, etc. occupies an important position.

Besides the taxes, there are other revenues such as the income from government enterprises, income from business, administrative revenue, subsidiary revenue, revenue from loans, etc. The following statistics give the revenue of the

two provinces of Kiangsu and Chekiang.

Table X.

Revenue of Kiangsu Province
(In thousand yuan)

Items	1931	1933
Land tax	11,926	10,720
Register tax	—	1,090
Business tax	3,600	3,846
Commission tax	650	—
Butchery tax	650	—
Property income	210	263
Enterprise income	139	280
Administrative income	849	160
Subsidiary income	2,064	2,134
Income from loans	3,000	2,783
Other incomes	3,000	578
Total	26,176	21,853

Table XI.

Revenue of Chekiang Province
(In thousand yuan)

Items	1931	1933
Land tax	9,391	8,991
Register tax	680	1,200
Business tax	4,577	5,562
House tax	—	538
Ship tax	235	271
Property income	34	461
Enterprise income	177	218
Administrative income	700	884
Business income	1,996	667
Subsidiary income	1,800	3,830
Income from loans	4,000	—
Other incomes	1,605	513
Total	25,195	23,136

The percentages of the principal taxes to the total tax revenue and also to the total revenue in the case of Kiangsu province are given below. (Similar percentages are also shown by other provinces).

Table XII.

Revenue Percentages of Kiangsu Province

Items	Percentage to total tax revenue		Percentage to total revenue	
	1931	1933	1931	1933
Land tax	70.9%	68.7%	45.5%	49.0%
Business tax	21.4%	24.5%	13.8%	17.6%
Register tax	—	6.9%	—	4.9%

Thus, in the province of Kiangsu, nearly the entire tax revenue comes from the land tax and the business tax, and their percentages to the total revenue in 1931 and 1933 were sixty per cent and seventy per cent, respectively. Table IX has already shown that the principal sources of revenue besides the taxes are the subsidiary revenue and revenue

from government bonds.

Table XIII shows the revenue percentages of Chekiang province in 1931 and 1933.

Table XIII.
Revenue Percentages of Chekiang Province

Items	Percentage to total tax revenue		Percentage to total revenue	
	1931	1933	1931	1933
Land tax	63.1%	54.3%	37.3%	38.4%
Business tax	30.7%	33.5%	18.0%	24.0%
Register tax	4.7%	7.0%	2.7%	5.0%

In the province of Chekiang, too, almost the entire tax revenue comes from the land tax and the business tax, their percentages to the total tax revenue in 1931 and 1933 being 94 per cent and 88 per cent, respectively. The percentages of the three leading taxes including the register tax to the total revenue are 60 per cent for 1931 and 67 per cent for 1933.

Similar phenomena are seen in all provinces in general, although in some provinces other taxes such as the butchery tax, the house tax and the commission tax occupy the position of comparative importance.

Table XIV shows the positions of the land tax and other taxes in the provincial tax systems.

Table XIV.
Position of the Land and Other Taxes in Provincial Tax Systems

Items	Amount (In thousand yuan)		Percentage	
	1931	1933	1931	1933
Land tax	77,154	66,286	60.2%	55.0%
Business tax	36,293	38,168	28.2%	31.8%
Register tax	12,650	12,950	10.1%	10.7%
Other taxes	1,827	2,919	1.4%	2.4%
Total	128,924	120,422	100.0%	100.0%

As given in the above table, of the total tax revenue of the provinces, the revenue from the land tax constituted

60 per cent for 1931 and 55 per cent for 1933. If the revenue from the business tax and the register tax is added, the combined amount would be nearly the same as the total revenue from all taxes. Other taxes such as the butchery tax, the house tax, the ship tax and the carriage tax constitute a small portion of the total in some provinces.

We have seen that the provincial budgetary estimates include revenues other than taxes, namely, the property revenue, the enterprise revenue, the administrative revenue, and especially large subsidies given by the central government. However, it is pointed out that there is no reason why large amounts of subsidies should be given to the provinces by the central government. Mr. Kobayashi, for instance, considers such a revenue as a sort of camouflage for making out a supposed balance in the budget. (See his *Treatise on Chinese Finance and Economy*).

Lastly, there is no denying that the deplorable conditions of provincial finance in China are further aggravated by the existence of such unwholesome sources of revenue as the opium tax and the gambling tax. But I shall not dwell on this matter in detail.

(2) The Municipal Tax System.

In addition to the provincial governments, there are five leading municipalities including Nanking and Shanghai all of which belong directly to the central government. Their tax system is somewhat different from those of the provinces. The budgetary estimates of Shanghai and Nanking are given in the following table.

Table XV.
Revenue Estimates of Shanghai and Nanking 1933 (In thousand yuan)

Items	Shanghai	Nanking
Land tax	2,258	—
Register tax	786	325
Business tax	134	331
House tax	2,419	510
Ship tax	427	13

Carriage tax	1,322	651
Local property revenue	1,083	4,954
Enterprise revenue	246	34
Administrative revenue	774	97
Business revenue	102	67
Subsidiary revenue	40	2,132
Revenue from loans	—	1,200
Other revenues	1,689	755
Total	11,287	11,068

As indicated by the foregoing table, the importance of the land tax is markedly depreciated in municipalities. Nanking lacks this tax but its house tax and carriage tax occupy an important position. The very fact that the amount of revenue from municipal property is of a great amount challenges our special attention.

The following table shows the amount of various revenues and their percentages to the total in the five large municipalities.

Table XVI.

Municipal Revenue and Their Percentages

Items	Amount (In thousand yuan)		Percentage	
	1932	1933	1932	1933
Land tax	2,231	3,073	16.0%	21.3%
Register tax	1,432	1,619	10.3%	11.2%
Business tax	3,442	2,307	24.5%	16.0%
House tax	4,231	4,846	30.4%	33.7%
Other taxes	2,609	2,555	18.7%	17.7%
Total	13,945	14,400	100.0%	100.0%

As shown by the above table, the house tax leads all other taxes in point of amount, followed by the business tax, the land tax, the register tax and others in the order given. There is only a small difference in the total amounts for different years. Such a difference in amount when compared with the taxes of the provinces is only too natural.

I cannot dwell here in detail on the nature of each of

the local taxes. It should be noted in this connection that the realities of local taxes in China are considerably different from their surface indications. Since the amount of super taxes of provincial taxes often is as large as twenty or thirty times the latter taxes, the real conditions in the tax burden in the territories where local military leaders levy taxes for scores of years in advance will not be elucidated by a mere study of the superficial tax system. Deeper studies should be made into such conditions historically and on broader bases.

CONCLUDING REMARKS

I have so far made a general survey of the taxation system in China. It is still in an infant stage when compared with those existing in modern civilized nations. Moreover, it is marked by a high degree of inequality and irrationality. This fact is an indication that China still lacks the adequate system of a modern state. However, since taxation is a direct burden on the people, it is urgent that a fundamental tax reform should be made as quickly as possible.

Local finance in China cannot be considered as a system of definite organization: its confusion and irrationality are amazing beyond our imagination. Although a gradual improvement has been made on the formal aspect of provincial and municipal finance, it is very doubtful to what extent real success has been made. If it were possible to secure exact and reliable figures, local taxes in China would be a topic of very interesting investigation.

Lastly, I wish to state this article on the taxation system in China is only a small chapter of an exhaustive study of Chinese finance. I entertain an ardent desire to make a comparative study of finance in Japan, Manchoukuo and China, in order to detect their mutual relations. However, in this article I have made a study of the views of the rising Chinese scholars of finance who have been making investigations in the Western nations into the finance,

especially the tax system of their home country. True, it is impossible to find a financial expert in China who is great enough to represent Chinese scholastic circles. However, I cannot but appreciate the endeavours which have been made by the rising scholars of Chinese who wish to apply the financial theories they have learned in foreign countries such as Japan, the United States and European countries, to the financial reform in their home country.

Those who observe the financial system of modern China will discover that the financial systems of Japan, the United States and European nations have been transplanted in Chinese soil, on the remnants of the old Chinese system. Some twenty-six years have come and gone between the birth of the Chinese Republic and the outbreak of the China Incident. Only ten years have passed since the establishment of the Nationalist Government. There is no wonder Chinese finance is marked by utmost confusion. However, it is interesting to look forward to what may come out of the fusion of the old and new, and of the traditional Chinese system and Western system in a country like China which is the latest comer in the history of finance. Recent developments in East Asia, however, made a sudden turn of affairs in the general outlook. Although it is difficult to anticipate what course China will take in the future, one thing is certain: Chinese finance will discard its Western tinge and will make its future development under the direction of Japan. In other words, we shoulder the grave responsibility of guiding the needed reform of Chinese finance in the future.

In concluding this article, I wish to state that my work centered around the following three works written by authorities experts of Chinese, because I held in importance the views of the rising Chinese:—*Der Haushalt und das Finanzsystem Chinas*, 1937 by Pakong Chu; *Das Finanz-und Steuerwesen Chinas*, 1940 by Ming Chung-tay; and the *System of Chinese Public Finance* by Chou Ying. I secured statistical data chiefly from the following:—The Financial Yearbook

of China, the Economic Yearbook of China, the Chinese Government Financial Reports, and compared with "Studies of the Organization of the Nationalist Government by Hsieh Ying-chou, the History of Chinese Finance by Chia Shih-yi, Treaties on Chinese Finance and Economy by I. Kobayashi etc. My bibliography also includes many other valuable documents. Very few of them are written in Western languages, the three books written by Chinese scholars being the principal ones.