FISCAL MODERNIZATION AND POPULAR PROTEST

A Study of Tax Reform and Tax Resistance in Nationalist Shanghai (1927–1937)

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The concept of modernization has been at the core of many studies of the development of Western and non-Western societies. Because of its frequent use in reference to very different experiences and contexts this notion has tented to become more a general password than a well contructed theory. In this paper, I will apply the idea of modernization to the analysis of the role of the Municipal government of Shanghai with the following limited definition; in the experience of many countries—especially the “late-comers”—modernization was characterized by an active involvement of the state that took over political and economic functions previously assumed by society. As a promoter of modernization, the state tries to concentrate more material and financial resources into its hands and to mobilize society around its projects. Such an extension of the scope of state activities may generate conflicts with society at large or with some social groups. In order to superate these contradictions and to reach a new stage of modernization, state and society must be able to negotiate and to reach an agreement on their respective spheres of action and interest.

In other words, when modernization implies an expanded role of the state, it is acceptable only if the state enjoys political legitimacy and if it provides enough services in exchange for the growing economic resources it extracts from society and for the various political or

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administrative limits it may set to the previous activities and customs of professional and social groups. This is a quid pro quo process that requires constant adjustment to avoid unproductive conflicts, be they political, economic or social. Therefore, there is a need for appropriate lines of communication between the state and social and economic actors. ①

The establishment of the Nationalist regime in China created a context in which a progress-minded regime set up new political and administrative institutions in order to implement policies explicitly designed to modernize China.② Moreover, the Nationalists’ project was based on hitherto unknown political ideas and practices. Besides modern management methods, the Guomindang planned to induce a general process of danghua (“party-i-ification”) of society: politics, education, etc. I shall not review these aspects, as there is already a rich body of literature on the Nationalist regime during the Nanking decade that deal with the scope and the limits of the modernization achieved by the Guomindang. ③


In this paper, I want to tackle this issue by focusing on a specific aspect of the Nationalists' modernization effort: the reform of the fiscal system undertaken by a local institution, i.e. the Municipal government of Shanghai (Shanghai shi zhengfu) between 1927 and 1937. I have selected this topic because fiscal matters are a sensitive issue in state-society relations up to this day and because any modernization project implies increased resources for the state that can be found mainly by altering the tax system. Moreover, the fiscal reforms of the Municipal government of Shanghai are a good illustration of the understanding of the concept of modernization by the Nationalists and of the contradictions that emerged from the confrontation between the new regime's project and a still largely tradition-bound society.

In the first part of this paper, I will present the process of formation of the Municipal government of Shanghai, its realizations and the financial constraints it had to face. The objectives and the modalities of the tax reform are examined in the second part. It includes four case studies of passive and active tax resistance. The final part is devoted to an interpretation of the causes of tax resistance and its relations with modernization.

I. State-Building and Fiscal Modernization

1. The establishment of the Municipal government

The Municipal government of Shanghai was set up in July 1927. For the first time in the history of the city, the Chinese districts of Shanghai was unified under a single administrative body. The foreign settlements remained under the control of foreigners by virtue of the unequal treaties. After more than two decades of absence and probably centuries of neglect, a unique municipal institution was to tackle
all the problems related to the life of a large metropolis. More than that, municipal leaders were willing to prove the capacity of an indigenous institution to run a large city and to modernize its infrastructures in order to recover Chinese sovereignty in the settlements. Chinese Shanghai was to become a clean and orderly city, with a healthy and educated population benefiting from the various services that a modern municipality should be able to provide. In other words, Shanghai was to become a paradigm of the Nationalists' ambitions for China.

The municipal government adopted a modern structure of specialized bureaux that were responsible for the various fields of city management (finance, public works, health, education, etc.). A general secretariat was in charge of coordinating the action of the different bureaux and of dispatching the informations and directives between the mayor's office and the bureaux. Shanghai municipal leaders formed a group of highly qualified persons, especially in the more technical bureaux (health, land, public works, etc.). One major defect of the new body, however, was its political dependence on central power and, following the crisis of the regime, its high rate of turnover of municipal leaders, in particular from 1927 to 1932. This contributed to the hesitations and sometimes to the failure of municipal

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4 The most successful experience of municipal administration before 1927 was the South City Roadworks Board later renamed General Works Board, that was founded in Nanshi in 1895 and lasted until 1914 when it was abolished by Yuan Shi-k'ai. In the other districts of the city there were similar although much less developed agencies. Nevertheless they never merged into a city-wide municipal administration. See M. Elvin, "The Gentry Democracy in Shanghai, 1905-1914", unpublished doctoral dissertation, Cambridge University, 1967. The author has published two papers on this subject: "The Gentry Democracy in Shanghai, 1905-1914", in J. Gray, Modern China's Search for a Political Form. Oxford U. P., 1969, pp. 41-65: "The Administration of Shanghai, 1905-1914" in M. Elvin and W. Skinner. The Chinese City Between Two Worlds. Stanford U.P., 1974, pp. 239-262.

5 On this point, I differ from T'ien Hung-mao's conclusions. See my contribution in Bergère M.C., Henriot Ch., et al., Essai d'étude prosopographique des élites shanghaïennes à l'époque républicaine, 1911-1949", Annales E.S.C., n°4 (July-August 1985), pp. 901-930.
The Municipal government was not an independent institution. The mayor and the bureau directors (*juzhang*) were appointed by the central authorities and municipal leaders were not responsible toward their constituency. Undoubtedly, the mayor and his subordinates were the representatives of the national government, not that of the local population. During the Nanking decade, the notion of local self-government (*difang zizhi*)—it had been at the core of the Chinese elites' political demands since the end of the Qing dynasty and it was also a basic component of Sun Yat-sen's program—was replaced by the reality of "local bureaucratic rule" (*difang guanzhi*). The organization and the scope of the powers of the municipality were defined by three successive laws that tended to maintain and even enlarge the prerogatives of the central government which always had the final say in local affairs.

The population had no direct representation in the Municipal government. There were indeed two municipal councils, from 1927 to 1928 and from 1932 to 1937, but their members were not elected. They were selected by the mayor among a tiny segment of the local bourgeoisie. Although the councillors did sometimes oppose the decisions or the projects of the municipality, they generally had the same perspective as the municipal leaders and never seriously challenged their power. Moreover, the councillors did not represent all the strata of local society. They were issued from a small group of supporters.

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7 Shen Naizheng, "Zhongguo difang zhengfu zhi tezhi yu zhongyang zhengfu zhi kongzhi" (The Nature of Local Governments and their Control by the Central Government), *Shehui Kexue* (Social Sciences), I: 2, pp. 303-352.

8 For a more detailed analysis of the content and the evolution of municipal laws in China, see chap. 2 of my forthcoming book, *Shanghai 1927-1937*. 
of Jiang Jieshi and his regime. Most of the councillors lived in the settlements and did not have to assume the consequences of their decisions on life in the Chinese municipality.

In the course of ten years, the municipality deeply transformed the physical aspect of Shanghai and greatly improved the quality of the services offered to city residents. The mileage of streets almost doubled, while a sewage system progressively covered the whole city. Two waterworks were constructed and the seven small power plants were modernized and unified into a single network. Public transportation received a strong stimulus: opening of many new buslines, interconnection of all streetcar companies, development of a municipal ferry fleet, etc. Using a combination of persuasion and coercion with landlords, old buildings were torn down while the new ones had to respect strict guidelines and obtain an official construction license. Finally, the Municipal government launched the “Greater Shanghai” project which saw the birth of the “Shanghai Civic Center”, an entirely new city built on farm land and designed to become the new center of Shanghai.

The population drew benefits from the extension of a municipal health system comprising free or cheap medical treatment in municipal hospitals and local dispensaries. School children received regular and systematic medical examination and vaccination. The educational system was reorganized in order to eliminate the lower-grade schools and traditional academies and to improve the qualifications of the teachers. The Municipal government strived to eliminate slums through the construction of “Poor people's homes” (Pinmin zhushuo) and the establishment of “Poor people’s credit centers” (Pinmin jiebenchu).

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⑩ For a detailed study of these achievements, see chapter 7 of my forthcoming book, Shanghai 1927–1937.
A vigorous effort was made to abolish illiteracy, with a good measure of success.

This presentation is far from doing justice to the action of the Municipal government of Shanghai. Other very sound policies would deserve to be mentioned too. I am aware to convey a rather “rosy” picture of the Municipal government. There were major problems as well. Nevertheless, even if all those plans were imperfectly or partially carried out and even if more could have been done, judging from the resources and the conditions available, one cannot but feel impressed by the achievements of the new municipal authorities. Undoubtedly, many progress were made that brought relief to the poorer segments of society, opened new perspectives for the development of the city, and, more fundamentally, gave the municipality the many attributes of modernity.

2. The financial constraints

So many realizations, however limited, required considerable investments. In 1927, the Municipal government had to start from a tabula rasa. Although there were a few scattered administrative agencies inherited from the past, everything had to be built up from scratch. In spite of the apparent prosperity of the city, there was no bounty to take over as most of the wealth was concentrated in the settlements.

Actually, large resources existed in the Chinese city as well and the Municipal government could draw on existing taxes. But the fiscal system resembled more a jungle than an orderly French garden. When the government made the first review of the tax system in 1927, it discovered that no less than 61 different taxes were raised in the city; 23 of them were supposed to go to the municipal treasury.

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1 For a more complete assessment, see my forthcoming book or my paper “Municipal reform in Guomindang China”, op. cit.
2 Yinghang zhoubao (The Bankers' Weekly), September 25, 1928, pp. 5-6.
This difficulty was compounded by the fact that each tax was in itself a whole system, with a main tax and various supplementary levies, with a specific tax basis for each, and sometimes, for the same tax, a different rate according to the city district concerned. After the demarcation of national, provincial, and municipal revenue, the municipality decided to rationalize its own system. ③

The new authorities needed a lot of money to cover both their regular expenses and to carry out ambitious projects. The largest part of regular expenses went to salaries. The establishment of modern municipal services implied the development of a bureaucracy. In the case of Shanghai, the municipal government proved unable to control the number of its employees and it rapidly became overstaffed. One explanation of this phenomenon was the lack of proper procedures of recruitment and personnel management and the total autonomy of each bureau in this regard. Another cause of overstaffing was the emphasis that was put on security. ④ The police forces were in constant expansion, especially after 1932. ⑤ As salaries represented between 80% and 90% of the budget in each bureau, one can easily imagine the financial consequences of overstaffing.

③ The allotment of taxes between the central government and the municipal administration did not cause any problem. Between the municipal authorities and the Jiangsu provincial government, however, there was a protracted war about territory and taxes. It took one year to both sides, under the pressure of the central government, to reach an agreement. Actually, the agreement was never fully respected, especially in the field of taxes. The transfer of competence took up to four years (ivory tax, slaughtering tax, etc.).

④ Budget deficit seems to have been a typical feature of municipal governments in Nationalist China. The municipal government of Nanking had a budget deficit six years out of ten in spite of important subsidies from the central authorities. Coleman M., "Municipal Politics in Nationalist China", op. cit., pp. 184-186; Shi nianlai shi Nanjing (Nanking in the last ten years), Nanjing shi zhengfu mishuchu, 1937, pp. 5 and 7-8. The municipality of Peking had a budget deficit of 1.6 million yuan for the sole year of 1931-1932. Yinghang zhoubao, October 11, 1932, p. 1.

Administrative expenses were not the sole reason of the municipal government’s will to increase its resources. Municipal leaders were imbued with formidable ambitions. They had taken part to the Northern Expedition, some of them had participated to the 1911 revolution; they had a strong sense of their mission and responsibility toward the future generations. They genuinely wanted to build a new China, that is a modern and powerful nation. Shanghai provided a perfect, though not easy, ground for such ambitions. Translated into the reality, these projects required important investments as the authorities were eager to carry them out in the shortest span of time possible: to them, the city could not afford to wait for the gradual introduction of reform.

The municipality launched various programs of construction or development of the basic infrastructures, equipments and services that make a modern city and that were not existent or insufficient in Shanghai. The underlying idea of these enterprises was that of modernization: tar-covered streets, buses, electricity, running water, hospitals, dispensaries, vaccination campaigns, schools, institutes for popular education, etc. The most costly investment, however, was the new “Civic Center”: millions of yuan were spent in the development of an alternative city center designed to weaken the foreign settlements and to solve the many problems of an overcrowded city where lack of space could impede the future development of the metropolis.

There was obviously a discrepancy between the state of the fiscal system, which produced too little through too complex channels, and the ambitions of the new municipal power. The contradiction could be solved only by a radical revamping of the tax system of the city.

II. Fiscal Reforms and Tax Resistance

As modernization meant more resources, fiscal reform became a
top priority of municipal officials. Municipal financial organs adopted new fiscal management techniques in order to reinforce their supervisory and regulatory powers. These changes included the simplification of the old tax system and the introduction of new taxes.

1. The scope and the objectives of fiscal reforms

A basic weakness of tax collection in Chinese municipalities before 1927 was its high degree of decentralization. Because of the lack of a unified city administration for long periods of time, municipal taxes were raised by a host of scattered agencies. The more interventionist role the municipal government wanted to assume required to put an end to such a loose organization. When the new municipal bureaux were set up, they generally took over the collection of taxes performed by their predecessors: the land tax and various levies by the Bureau of Land, the night-soil collection tax by the Bureau of Health, the licence fees of entertainment establishments by the Bureau of Public Security, etc.

In order to put municipal finances on a more solid basis, the Bureau of Finance first edited a booklet to impose the same accounting and budgeting system to the municipal bureaux. Then, it began to transfer the task of levying taxes from the bureaux to its own services. In many cases, this implied the establishment of tax collection offices in the different districts of the city (land tax, boat tax, etc.). The internal reorganization of financial proceedings by the Bureau of Finance produced a higher degree of centralization and rationalization which gave the municipal government a better vision of the resources available. This was, however, only the first step of a modernization program that could not be limited to the administration itself.

Actually, many taxes were not collected by the municipal bureaux themselves. It was a practice inherited from the past to let private

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15 On the pre-1927 municipal institutions in Shanghai, see Mark Elvin's work, "The Gentry Democracy in Shanghai, 1905-1914", op. cit.
taxfarmers, who were recognized by the authorities, to levy taxes among specific groups. Generally, the amount of taxes to be paid was negotiated by these individuals who were delegated by the guild to which they belonged. Once an agreement with the local administration was reached, tax farmers distributed the tax burden among the guild members and remitted the sum to the authorities. In the eyes of the new municipal leaders, this system was inefficient, unproductive and it generated corruption. One basic tenet of municipal reform, therefore, was the elimination of all these intermediaries.

Another line of reform was the unification of the tax system through the fusion of various interrelated taxes. This is the case of the lightning and welfare taxes which were incorporated into the house tax (fangjuan). The latter was modified as well with the application of unified rates in the whole city area (see infra). Furthermore, in the fields where no references existed, a new classification was designed and implemented: all the vehicles and all the ships circulating in Shanghai went through a registration process that led to better census, more defined categories and a more refined tax structure. The same was true with the land tax and its numerous levies, although the process of simplification was not thoroughly carried out. ⑦

Although these transformations of the fiscal landscape did bring more revenue, it was not enough to cover the growing expenses of the authorities. Plagued by a structural budget deficit and by especially difficult circumstances (the Japanese attack on Shanghai in 1932), the municipal government decided to tap new sources of revenue. One of them was the land tax on constructed urban land. Taxes on land in the city were similar to that perceived on the land used by farmers, whereas the value of constructed land was incomparably higher. Thus, the municipal government introduced in 1932 a land value tax

⑦ There were twenty-two possible levies, old ones and new ones, that were added to the basic land tax. Shanghai tebie shizheng tongji gaiyao (Administrative statistics on Shanghai Special Municipality), Shanghai tebie shi zhengfu mishuchu, 1928, table 11, p. 20.
(dijiashui) that it expected to become a major source of revenue. In 1931, the National government abolished the likin transit tax (lijin) created by the imperial government in the nineteenth century and replaced it by a single consolidated business tax (yingyeshui). In Shanghai, although the likin tax had never been collected before, the municipal authorities decided to introduce the new business tax.

All these fiscal reforms induced tremendous changes in the relationship between the authorities and tax-payers. Most of them were merchants, craftsmen, businessmen, bankers, etc. Therefore, it was the merchant community (lato sensu) that bore the brunt of the tax burden and this is no surprise that some segments, and sometimes the whole community, felt disgruntled by the reforms and stubbornly opposed radical changes in their customs.

2. Merchant resistance to fiscal reform

Resistance to fiscal reform took two forms: active resistance and passive resistance. In both cases, the municipal government had to compromise in order to have the reforms accepted by the tax-payers. In many instances, these compromises represented a loss of authority and a loss of money. As there were many instances of tax resistance, I cannot present as many case studies. I shall focus on the most significant ones for what they reveal on state-society relations during the nationalist regime.

The first occurrence of tax resistance happened in 1928 with the decision by the authorities to unify the house tax (fangjuan). With the support of the municipal council, three taxes (house tax, welfare tax and lightning tax) were amalgamated into one single general tax (zongjuan) with a unified rate throughout the municipality. Moreover, the new tax was to be based on an up-dated assessment of rents in the city. In Nanshi, the older and more commercial part of the

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68 The tax was a percentage of the rent value: 6% and 10% for private residences and shops respectively.
municipality, merchants immediately mobilized against the project and established an association, the Nanshi General Federation of Commerce (*Nanshi shangye zong lianhehui*) to defend their interests. While the municipal representatives tried to convince the merchants of their obligations, the latter demanded the postponement of the tax until the economic situation took a favorable turn. Their principal argument was the depression that had been caused by the Northern Expedition.

While the Bureau of Finance was reasserting its position and officially publishing the new tax rates (6% and 10% of rent value), the merchant community was holding a meeting to set up a ratepayers' association similar to that of the two settlements. The merchants opposed the decision of the government and criticized the unrepresentativeness of the municipal councillors who, the protesters noted, did not live in the Chinese area and did not pay taxes to the municipal government. Confronted to such a powerful resistance movement at a moment when the municipality was in desperate need of money, the Bureau of Finance accepted to negotiate and to make substantial concessions. Although the final result was not made public by then, the protesters obtained that a mixed committee be put in charge of assessing the current value of rents and that a 25% discount be applied to the tax to be paid.

The municipal government had lost the first battle. One year later, the financial situation of the authorities was still very critical. The Bureau of Finance decided to give up the general tax in favor of

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*The merchants often used this argument—a difficult economic situation—to demand tax exemption. In many cases, this was more a pretext than a well-founded reality. They generally fell short of giving rational explanations.*

a separate house tax (fangjuan). The rates were raised to 10% and 12%, but the burden was to be borne equally by the landlord and by the tenant. The idea was attractive since it allowed an increase of municipal revenues without a proportional increase of the tenants' tax burden. Only landlords, who up to then had nothing to pay, were required to contribute to municipal finance. The municipal leaders expected the reform to be easily accepted by the majority of the population.

Unfortunately, the apparent incoherence of the municipal fiscal reform (the house tax was once again separated from the other taxes after one year of fusion), the rapid turnover of leaders in charge of the municipality, especially at the Bureau of Finance, and a lack of appropriate communication channels with the inhabitants gave rise to a new protest movement. The authorities accused a group of "evil merchants" to instigate troubles to evade their responsibilities, but such arguments were hardly convincing. Unable to stem the tide of protest, the government called upon the police to force the protesters to pay their taxes. Combining coercion (in Nanshi) and persuasion (in Zhabei), the authorities progressively managed to have the reform accepted by the residents, even if cases of resistance continued to occur. The same process was repeated when the municipal government tried to apply the tax to hitherto untaxed areas (external-road area) or after a crisis (the Japanese attack in 1932).

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21 Actually, the tenants had to pay the whole tax to the municipal tax collectors. It was left to them to obtain an equivalent reduction of their rent from their landlord. There were many cases of landlord trying to pass along the tax burden to their tenants. Shen Bao, January 25, 1929, p. 10:5, May 4, p. 22:3, September 13, p. 14:2.


In another case of active tax resistance, only a specific group was involved: the butchers. In 1928, the authorities decided to introduce a veterinary examination of animals before slaughtering, with the perception of a new fee. The butchers raised *en masse* against the decision, as there already was an examination of the animals after slaughtering and another one by the health service of the settlements when the meat was sold in these areas. Furthermore, they opposed collection of the tax by "outsiders", that is people who did not belong to their guild. After one week of agitation, the conflict was partly solved thanks to a mediation of Yu Xiaqing, an eminent member of the bourgeoisie. The fee would be raised by the guild. Actually, tension flared up again a few weeks later about the rate of the fee. After another mediation by Feng Shaoshan, a prominent member of the Cantonese merchant community, the butchers obtained a 40% reduction.  

Actually, the butchers' guild did not seriously raise the fee. Taking advantage of the transfer of the slaughtering tax (*tuzaijuan*) itself by the provincial authorities, the municipal government attempted to reorganize the collection of the tax and its attendant fees. The Bureau of Finance considered that the revenue of the slaughtering tax could be raised from 66,000 yuan to 140,000 yuan if frauds and tax-farming fees were eliminated. It decided therefore to take over tax collection from the guild. The butchers felt irritated and by way of reprisals refused to buy the "fiscal coupons" issued by the authorities and even engaged in an abolition movement. At first, the government accused a handful of privileged merchants—the tax farmers—to create troubles to defend their interests. The accusation was belied by a general meeting of the guild, with more than 600 participants, and by

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【Shanghai shizheng gaiyao, op. cit., chapt. IV, p. 6.】
a strike movement that affected the 1100 meatshops of the city.  

The authorities had underestimated the determination and solidarity of the butchers. They had misunderstood the advantages attached to the previous tax-farming mode. Even if some merchants filled their pockets, the global tax burden was shared according to a system that took into account the size of the shop and its location. Moreover, the overpaid sums were remitted to an assistance fund bound to disappear with the direct collection of the tax by the municipal bureau. Once again, the government called a mediator, Wang Xiaolai, president of the Zhabei Chamber of Commerce, to help solve the conflict. Wang suggested a reduction of the tax rate, but he sided with the authorities on the principle of direct tax collection. After eleven days of strike, both sides agreed on a deal. The butchers would accept direct tax collection while the municipal government would set apart a percentage of the tax to be deposited in a welfare fund for the butchers. The reorganization of the boat tax (chuan juan) and the abolition of tax farming by guild members gave rise to a similar conflict, although the authorities, playing on the more scattered and mobile nature of the trade, managed to prevail over boat-owners.  

In 1931, a fierce debate opened in Shanghai after the decision by the national government to abolish the likin tax and to replace it by a uniform business tax (yingyeshui). The ministry of Finance enacted a general outline (dagang) that the local authorities had the power to adapt to local conditions. In Shanghai, the merchant community was hostile to the new tax, the more so when news came of the arbitrary decisions taken by the Zhejiang and Jiangsu provincial governments in

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this regard. An organized movement started to militate against the introduction of the business tax.

The municipal authorities were rather optimistic about the new tax that was expected to substantially increase municipal revenue and to allow the floating of a 10 million-yuan bond. Municipal leaders strictly followed the ministerial outline and consulted the "merchant community", that is the small group of businessmen, bankers and entrepreneurs who formed the Commission of Discussion of Municipal Finance (shi caizheng taolun weiyuanhui), a body that had de facto replaced the disbanded municipal council of 1927. The Chamber of Commerce was also consulted, although only in the final phase of the discussions. The merchants who were not satisfied by the proceedings and by their exclusion from the negotiations formed a Tax Research Committee (shuijie yanjiu weiyuanhui). All the guilds were represented and they received the active support of the local GMD headquarters. Wang Yansong, a banker who was a member of the local executive committee, was elected president of the Tax Research Committee.

The basic line of attack of the merchants was to demand an exemption of the tax since the likin tax had never been levied in Shanghai. They pointed out to the fact the business tax would not be raised in the foreign settlements, which created unequal conditions among Shanghai merchants. They also challenged the qualification of the Commission of Discussion of Municipal Finance to speak for, and take decisions in the name of the merchant community. The local party branch was called upon to have the resolutions of the Guomintang III. national congress be respected in Shanghai. The business tax

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Footnotes:
1 Shen Bao, February 5, 1931, p. 14:1, February 8, p. 13:2; Yinhang zhoubao, February 17, 1931, pp. 9-10.
2 Wang was replaced by Luo Qinghua a few weeks later. It has to be noted that there was no member of the higher strata of the bourgeoisie among the members of the Committee. Shen Bao, January 24, 1931, p. 13: 1, February 25, p. 9:6.
was assimilated to the exorbitant taxes (kejuan) the congress wanted to abolish. It was indeed a rear-guard struggle at the legal level, since the authorities were determined to raise the new tax with the support of the Chamber of Commerce. Nevertheless, the Research Committee had not lost the control of the actual battleground. ③

After four months of careful preparations and patient negotiations with the officially recognized representatives of the merchant community—members of the upper bourgeoisie and the Chamber of Commerce—the project of the municipal government was published on April 19, 1931. Collection was to start on July 1st, but the obstinate resistance of merchants and the tragic events of late summer 1931 seriously damaged the government's plans. In June 1932, the municipal leaders tried to reactivate the tax with a reduced rate. Even so, they were unable to overcome the merchants' opposition. The tax was to be based on an assessment of business volume that relied on the voluntary obedience of business firms and shops. Although assessment forms were distributed through the Chamber of Commerce, most merchants simply refused to fill them up. ② Instead of 100,000 yuan per month, the business tax hardly produced 200,000 yuan per year. ③

An even more patent example of passive resistance to taxation and tax reform can be drawn from the introduction of a land value tax (dijiashui) in Shanghai. After the Japanese attack in 1932, the municipal government was in desperate need of money to reconstruct the city. Although a Land law had been adopted by the National government, the decrees of application had not been enacted. The municipal authorities made an application to be allowed to levy a

② Actually, as managers of the business tax, the guilds protected the interests of their members.
“provisory” (z anxing) land value tax. In urban Shanghai, landowners were taxed at the same rate as the peasants in the surrounding rural districts, whereas their landholdings had a much higher value in land-hungry Shanghai. The land value tax could increase municipal revenue and alleviate inequities in the tax structure by levying a duty on those property owners who earned large profits from soaring land prices. It took eleven months to the different administrative levels to agree on a text. Finally, the tax was introduced in Zhabei and in Nanshi in December 1933, then to the other districts. 

According to the municipal government, 60% of the landowners had paid their tax by January 1934. This statement is contradicted, however, by the poor return of the tax in the financial statistics we have. Actually, a more or less diffused movement of resistance developed among landowners, who were dissatisfied by the new burden imposed upon them: in Nanshi, the land tax was comprised between 9.7 fen and 9.1 jiao per mu, whereas the new land value tax pushed these figures to 5, 5, 210 yuan per mu. Since taxation was based on the owners’ self-declaration, there were many opportunities to underestimate the real land value. The municipal land commission was always too slow to catch up with price increases, speculation, and tax evasion. Moreover, the penalties (fines) were ridiculously low compared to the revenue that the evaded sum could generate when invested in a bank.

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Shen Bao, January 24, 1934, p. 9:1.
or in a pawnshop.

III. Fiscal Modernization, State and Society

The four case studies briefly presented in the second part of this article are the illustration of a more widespread phenomenon. Many other conflicts have marked the relationship of the municipal government with local society, especially the merchant community. How can we explain these conflicts? What were the underlying causes for merchants' discontent? Was the municipal government of Shanghai just another exploiter as warlords had been or even as other nationalist local administrations were? I shall attempt to reply to these questions by focusing on an analysis of the nature of the nationalist regime and the consequences of its modernization program on society.

Before 1927, urban elites had come to play a fundamental role in city life. The constant weakening of the state before 1911, its inability and unwillingness to establish specific urban institutions, and, after Yuan Shikai's death, the situation of chaos generated by power struggles between competing warlords, gave the urban elites, especially the merchant community, the opportunity to step in and to protect and regulate economic and political activities in large cities. Because of

The municipal government estimated that the land value tax would increase its yearly revenue by 5.5 millions yuan. Actually, the government never raised more than 10% of this figure. As in Nanking, the vital task of property value assessment proved to be a major obstacle. Yang Zhengli, Dijia shi zhi yanjiu, op. cit., pp. 43355, 43358, 43400, 43425-427; Zhang Hui, Shanghai shi tudiju shizhi zong baogao (General survey report in the Bureau of Land of the Shanghai municipal government), in Mingguo ershi niandai Zhongguo dalu tudi wenti ziliao, pp. 57657-658; Coleman M., "Municipal Politics in Nationalist China", op. cit., pp. 220-221.


Obviously, this was also the result of a long term trend of enlargement of the "public sphere" which was invested by local elites. See Rankin M., Elite Activism and Political Transformation in China, Stanford U.P., 1986; Rowe W., Hankow, Stanford U.P., 1984.
the dominance of politics by the military, however, urban elites' involvement in city affairs was not long and strong enough to develop into the formation of a well-structured civil society. The urban elites' nascent power could not transcend its nature as a regulatory mechanism in times of crisis. Nevertheless, urban elites, under the leadership of the merchant community, had acquired some experience in city management and they were determined to defend their newly acquired political status.

Such an attitude was especially true in Shanghai where all the strata of the merchant community had contributed to the Nationalists' victory. These expectations, however, proved to be wrong. The merchants had misread the political agenda of the Guomindang. The political program of the Nationalists was not limited to the establishment of new institutions and the introduction of modern economic management methods, it aimed at mobilizing society in order to change the political and social order in China. As David Strand has noted: "the Nationalists introduced a new element into city life: state directed and condoned revolution." This revolution, however, fell short of its objectives. The contradictions and competition between an increasingly moderate state apparatus and a still militant (activist) party—while both were actually unable to incorporate citizens into a definite political order—created the conditions for conflict between state and society. Fiscal reform was one facet of this conflict.

In Shanghai, the municipal government was extremely unstable. There were four mayors in the first five years (1927-1932) of the

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2 There are few studies on these issues. The case of Peking has been carefully studied in Strand D., Rickshaw Beijing, The Univ. of California Press, 1989; on Shanghai, see Fewsmith J., Party, State and Local Elites, op. cit., Bergère M.C., The Golden Age of the Bourgeoisie, Harvard U.P., 1989.


4 Strand D., Rickshaw Beijing, op. cit., p. 220.
municipality, while the directors of the Bureau of Finance changed every ten months. Such a turnover could not give a positive image of the new government to the population. On the other hand, the local GMD branch sustained a kind of guerrilla against municipal leaders who were accused of shelving the party's doctrine and program. With the support of the CC clique in Nanking, the local party branch endeavoured to weaken the bourgeoisie and its representative institutions. During the 1928-1929 period, when the Chamber of Commerce was in a reorganization process, the GMD-dominated Reform Committee of Merchants' Organizations (Shangren tuanti zhengli wei yuanhui) frequently accused the municipal government to take decisions without consulting the concerned parties. Later on, the GMD relied on the Merchant Association (Shangmin xiehui), an organization opposed to the domination of the merchant community by the higher stratum of the bourgeoisie to support tax resistance movements. ④

At the same time, the municipal government chose to collaborate with a very small group of bankers and entrepreneurs who formed the core of the Nationalists' supporters among the bourgeoisie. Every time the municipal government planned a new reform, it negotiated with this group only, neglecting to deal with the rest of merchant community, except sometimes in the very final phase of the negotiations. There was therefore a real gap between the new municipal leaders and a large and well-organized segment of the population. There were hardly any channels of communication at a time when the reforms introduced in fiscal matters touched on a very sensitive part of the merchants' activities. The problem was aggravated by the apparent disconnection between the leaders of the Chamber of Commerce—the small group of

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④ I have studied this issue more fully in Henriot C., "Municipal Power and Local Elites", op. cit. Other authors have observed the same phenomenon, such as Fewsmithe or Coble. In the municipality of Nanking, the local party branch fought for the right to define legitimate government policy. Coleman M., "Municipal Politics in Nationalist China", op. cit., p. 106.
bankers and entrepreneurs who spoke in the name of the merchant community—and the guilds and guild members who, in spite of their formal adherence to the Chamber, felt betrayed and organized themselves outside the Chamber of Commerce. ③

Municipal finance indeed was in dire straits and Municipal leaders would never leave a chance to increase revenues. Nevertheless, they generally refrained from taking arbitrary decisions. ④ Fundamentally, the fiscal system was in need of a radical revamping. A modern municipality did need a solid and clear financial basis to conduct its modernization projects and to provide more services to its population. The fiscal system inherited from the past was too complex, too unreliable and too unproductive and unequal to sustain modern city management. The municipal authorities failed, or caused conflicts, not so much because they were “exploiters” but because their methods were inappropriate. They were caught between the necessity to abolish unfair taxes and to modernize the fiscal system, and that of increasing their revenues to support an expanding bureaucracy and to finance ambitious urban construction projects.

The negative reactions of the merchant community to the municipal fiscal reforms can be seen as an expression of their distrust toward the new local power and their hostility toward the greater role assumed by a modern government. The victory of the Nationalists and the establishment of the Municipal government had raised the merchants’ expectations, but it took time to the regime and, locally, to the municipality, to provide the efficient services that could legitimize the expanded role of the state and its growing demand for money. The take over of tax collection by the Bureau of Finance was resented as

③ I fully subscribe to David Strand’s analysis of the Peking Chamber of Commerce as a “modern organization constructed on a base of old-fashioned guilds”. This applies to Shanghai as well. Strand D., *Rickshaw Beijing*, op. cit., p. 254.

an intrusion, an unbearable meddling into what they considered to be their private affairs. Accustomed to see the guild negotiate with local power-holders and then to distribute the tax burden among guild members, the merchants felt somehow distressed to have to deal directly with state agents. Direct state management of tax collection meant the elimination of all these mediators and go-betweens who were part of a well-entrenched tradition. It meant there no longer was a buffer between the individual and the state.

**Conclusion**

If the Municipal government managed to some extent to modernize the fiscal system, it failed—actually it never intended—to modernize social relations or state-society relations. Municipal leaders continued to favor an elitist conception of power. Public (gōng) affairs were the sole responsibility of the state and its representatives. The expression of the people's ( mín) will should be limited to the circumscribed circle of coopted elites, deemed to be representative of the whole community. While these elites had been at the forefront of merchant organizations at the end of the Qing dynasty and had managed city affairs after the collapse of state authority after 1916, they were no longer in a position to assume the same role under Guomindang rule.

These elites were caught between the irreconcilable demands generated by the new faction-ridden regime. The party, especially the local branches, was eager to diminish their economic weight and their political influence. This lead the GMD activists to conduct a simultaneous struggle against the upper bourgeoisie and against the Municipal government which was giving it public recognition and local powers.

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® In Nanking, the municipality was unable to supersede the resistance put up by private tax farmers or other government agencies and "the tax reform effort soon bogged down". Coleman M., "Municipal Politics in Nationalist China", op. cit., p. 142.
The municipal authorities needed the elite's support in order to have some sort of popular legitimacy and to have access to more resources. They stopped short, however, of granting more than token power, while they refused to seriously consider the demands from other sectors of the merchant community. Finally, the middle and lower strata of the merchant community wanted to have a say in the community's affairs and they used the contradictions between the local government, the party branch and the bourgeoisie to—unsuccessfully—press their demands for public recognition and to—successfully—oppose undesired tax reforms.

In such a context, the leaders of the bourgeoisie could no longer play its role as an intermediary between the state and the merchant community. Even if the members of this elite were individually called upon by the authorities to mediate conflicts, in particular tax resistance movements, they were powerless as a group vis-a-vis the Municipal government's policies and it was discredited in the eyes of the majority of the merchants. Municipal leaders should have been aware that ignorance about, and hostility toward, Municipal government were widespread and that such attitudes constituted important barriers to effective reform. Therefore, the reform efforts of the Shanghai municipality were misunderstood and misconstrued by a suspicious community that was unable to express its doubts in an other form than protests and strike movements. The new self-consciousness of merchants groups was turned against the local authorities challenging the implementation of modernizing policies.

What the study of tax resistance in nationalist Shanghai reveals is the deep unpreparedness of a tradition-bound society engaged *volens nolens* in a modernization process by a government which lacked genuine political legitimacy and was rife with internal contradictions. The Municipal government proved to be unable or unwilling to establish the right communication channels with the various groups that were affected by the new policies. Merchant customs were dominated
by a culture of intermediary that direct state intervention tended to jeopardize. At the same time, the new regime was not yet capable to offer all the guarantees of efficiency, responsiveness and fairness the merchants were expecting in exchange for their acceptance of state authority.

In Shanghai, the Nationalists' implementation of a successful modernization program was fragilized by their distrust of autonomous social groups and consequently their disinterest in or unease about organizing mass participation in city affairs. The politics of elite representation could not generate any community of interest between people and government. Undoubtedly, the problem was the weak social basis of the nationalist regime.