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% F. D. Schultheis
United States Embassy
Nanking, China
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Mr. Walter S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
New York 18, N.Y.

Dear Mr. Rogers:

Between 10:44 and 10:45 on November 3, 1947, seventy-seven vehicles streamed along Szechuan Road past its junction with Hankow Road in downtown Shanghai. Szechuan Road is approximately as wide as 46th Street in New York City. Trucks, cars, rickshaws, pedicabs (bicycle-drawn rickshaws), motorcycles, bicycles, and pushcarts were included in the solid mass of moving vehicles. I counted and recorded the traffic during that particular minute at that particular place because I believed that descriptive adjectives alone could hardly convey a true impression of how crowded and hectic a metropolis Shanghai is today. It is like nothing I have ever seen. It is unlike both the Shanghai that I knew eleven years ago and the one that I saw again two years ago. Between four and five million people are now crowded into approximately the same area in which about three million lived, worked, and played just a few years ago. The traffic that I counted for one minute on Szechuan Road on November 3rd is duplicated on almost every street in downtown Shanghai during working hours every day. Virtually all transport is filled beyond capacity. On a bus with seats for twenty-five, I was one of seventy-six passengers. On a trolley (tram, it is called here), I rode four stops before the conductor could reach me to collect my fare. Everywhere in Shanghai there are people, people, and more people - many of them newcomers who have pushed into a city already overcrowded. And because in a time of inflation business must be done today rather than tomorrow Shanghai's millions seem to be constantly busy and on the move. In short, Shanghai today is bursting its seams.

I expected to see evidence of widespread poverty in Shanghai. Instead, I was impressed by the fact that people in the streets appear to be better clothed and fed than they used to be. Beggars are more rare than they have been in the past. Clothes, both Chinese-style and foreign-style, of substantial fabrics are no longer restricted to a wealthy few. Leather shoes are common, and straw sandals which were so widely used in past years are now conspicuous because of their rarity. Many street stalls

sell wheatbread and coffee, both of which are luxury commodities because they are not locally produced, to coolies and laborers, whereas in the past rice, rice products, and weak tea were the street stall fare. Watches, fountain pens, and similar manufactured articles seem to be owned by a great many lower class people who would hardly have known how to use them when I was in Shanghai eleven years ago. Shops, stores, and markets are filled with all sorts of manufactured goods and foodstuffs.

The average standard of living, in terms of real income and consumption, for Shanghai's masses is higher than it has ever been before. This does not mean that everyone in Shanghai is well off, nor does it mean that Shanghai has eliminated poverty. It does mean, however, that the average Shanghai citizen consumes more and lives a more comfortable life than he did before the war. This fact can be directly observed on the city's streets and in its homes, and I had it confirmed by economists, businessmen, bankers, and many others who asserted that it is a fact supported by economic statistics. The existence of this relative prosperity mystified me somewhat. The mystery might be contained in a short syllogism as follows. (1) Shanghai's trade is hampered and disrupted by runaway inflation, lack of foreign exchange, official corruption and inefficiency, restrictive government policies, and civil war in the hinterland. (2) Shanghai's industry is recovering from occupation and war and is hampered by the same factors listed under (1). (3) Shanghai has a greatly increased population. Yet, (4) The general level of prosperity and standard of living are higher than in the past. How? I tried to get the answer to that one in my conversations with informed people of all sorts. Unfortunately I didn't have the time or the facilities to make a real economic analysis of the facts in the situation, and I never received a completely satisfactory answer from any one person, but many of the fragmentary answers which I did hear or uncover throw some light on the situation, and I will pass them on to you in outline form.

Despite all the existing deterrents and obstacles, commerce and production are going on in Shanghai....Shanghai's large surplus of imports over exports has been made possible partly by the use of accumulated reserves of foreign exchange. (These reserves are dwindling.)....More than a little UNRRA material which has reached Shanghai has gone no further....The variety of manufactured goods produced in Shanghai has increased substantially. Many products which formerly were wholly imported are now produced in the city. Much of this is done by small production units which have mushroomed....A larger percentage of Shanghai's industrial produce is consumed in the city itself than formerly. Shanghai's large inland market has been partially cut off and deprived of manufactured goods, while the local market has grown.. ..The concentration of money, capital, and wealth in Shanghai is greater even than before the war. Large sums of money are sent to Shanghai from Manchuria, North China, Hupei, Anhwei, and elsewhere. In August of this year, for example, the amount remitted to Shanghai from outports was CNC\$1,468,073,411,000 in excess of the amount remitted from Shanghai. The excess for September is believed to be over two trillion....A large share of the Chinese government's expenditures is made in Shanghai. It is estimated

that of government expenses which currently total approximately CNC\$5,000,000,000,000 per month, one third is spent in Shanghai.... In August bank deposits in Shanghai were estimated to be 56 percent of total national deposits. The figure is believed to be higher now.... There has been a drastic redistribution of wealth and income in Shanghai in the period since V-J Day. Part of this has been a "natural result" of the inflation, but government policy has aided the process. The result: a small upper stratum has accumulated great wealth; the working class has improved its economic position tremendously; and the middle class has been "virtually wiped out as an economic class". The business group generally has fared well, but the key groups which have profited most are reported to be the real estate dealers, cotton mill owners, stock brokers, and a few corrupt officials and army officers. (Most people agree that many officials and officers are honest and long-suffering.) The working class has done well because wages were set at a high level and were pegged to the monthly commodity price index. Many people assert that this was dictated by conscious political motives on the part of the government because of its fear of disaffection and the spread of leftist sentiment among the working class. In any case, the present prosperity of the masses has resulted from this policy. Although the commodity price index reportedly has been manipulated to a certain extent in recent months, wages are still high. As is usually the case during inflation, the salaried middle classes have suffered, and the prosperity of the working class is due, at least partially, to a transfer of wealth from the middle class. A college professor in Shanghai earns about the same amount as a rickshaw coolie earns in a good month, and many organizations are embarrassed by the fact that their professional workers are paid at approximately the same level as their manual laborers. Government employees are terribly underpaid, and a good deal of the existing corruption is attributed to this fact. The recent government decision to increase salaries by 125 percent helps, but civil servants are still poorly paid.

These facts at least help to explain the present economic situation in Shanghai. Many of the factors underlying the situation are highly artificial and temporary, and this fact makes one feel, as one person said to me, that Shanghai may be "riding high for a fall". It is clear, also, that Shanghai's relative prosperity is in part due to income and wealth deprived from other parts of the country and in this sense is at the expense of the rest of the country. The social and political implications of the current redistribution of income and wealth are still somewhat open to speculation, but undoubtedly the changes now taking place will be of some permanent significance.

One cannot escape the inflation in Shanghai. It is ever-present and all-important. A dollar is worth more today than it will be tomorrow, and as a consequence all money is "hot money". As a general rule people spend money as soon as they get it if they can. Printed notes are converted into more substantial

commodities such as cloth, fuel, land, or, in the case of the average person, more consumption goods. In spite of the astronomical figures for bank deposits, savings in currency are much lower in real value than before the war. The manager of one of Shanghai's large private banks told me that the U.S. dollar value of savings deposits in his bank had been reduced from \$20,000,000 to \$100,000. Insurance savings have been wiped out completely. One Chinese man I know well figured out that an insurance policy of his worth roughly U.S. \$1000.00 before the war was worth on the day I talked with him U.S. \$00.0064, or less than a penny! Prices continue to sky-rocket. In the first three weeks of October the wholesale commodity price index in Shanghai rose from 74,367 to 108,357 (1931 = 1). The current interest rate for loans from the bank I mentioned above is 16 percent per month, and the bank does not make loans for periods longer than a month. The free market exchange rate for U.S. dollars is now over 80,000 to one, and although the rate fluctuates the trend is steadily upward. The most important single cause of this inflationary situation is not difficult to define. With a civil war on its hands the Chinese government is spending more than it receives in income. The difference is made up by the issuance of paper money. The current rate of note issue, although not made public for obvious reasons, is "reliably estimated" to be around CNC\$40 billion per day.

This is the economic setting of life today in Shanghai. The political setting is not so chaotic (I am speaking of the city itself rather than the country as a whole), perhaps, but in many respects it is not less complicated. There are undertones of all sorts of political activities and machinations. Although Shanghai is a Kuomintang-controlled city, there are many opposition groups functioning in various ways. Much, if not most, political activity is secret or underground, however, and it is difficult to get anything more than suggestions of what is really going on. If one could read the Chinese newspapers, many of which are said to be organs of various political cliques and groups, one at least could follow intra-party Kuomintang rivalries, but when one cannot read Chinese it is much more difficult to put a finger on political developments and trends. Some people say that Shanghai is the real center of organized political activity in China, and others go even further in asserting that real policy decisions are made in Shanghai rather than Nanking. I do not know if these are exaggerated statements, nor do I know how much the political activity in Shanghai affects China's millions of people throughout the country, but there is little doubt that Shanghai is a center of political activity which should be understood by a person trying to fathom China's political life. I do not pretend to have scratched the surface in the few days that I was there, however, so I will confine myself to reporting on a few of the many interesting conversations I had while in the city.

I talked with many people in Shanghai, and I tried to see people of various political shades. In addition to interviewing Hsieh Jen Chao, Secretary-General of the Kuomintang Party in Shanghai, I talked with Carson Chang, head of the Democratic Socialist Party (which is one of two minority parties participating in the present Nanking government, the other being the Young China Party), and with a group of liberal leaders. The meeting with the latter group was particularly worthwhile and worthy of report and summarization.

I arrived in Shanghai on October 27. On the next day, October 28, the Ministry of Interior announced that the Democratic League had been declared illegal because of new evidence revealing collaboration with the Communists. The Democratic League, a loose combination of various non-Communist and non-Kuomintang groups, had up until that time been the focal point for organized opposition to the Kuomintang, and around it have clustered various persons and organizations dissatisfied with the present regime. Six days after my arrival in Shanghai, on November 2, I participated in a discussion which included six Chinese liberal leaders and three Americans (including myself). Neither of the two top leaders of the Democratic League (Chang Lan and Lo Lung-chi) were present, but some of the top leaders of liberal elements in Shanghai which have grouped themselves around the League and have looked to it for direction were included. In view of the time and the circumstances of the meeting, I will not mention any names, however. The discussion lasted for over two hours. Most of it was carried on in Chinese, but an English-speaking member of the group translated for me. (I could follow only a small part of it in Chinese.) At the end of the session, this man summarized in English some of the main points made during the discussion. I took verbatim notes on his summary, and I think they are worth quoting in part.

"What should America do about the present situation in China? It should give moral (and purely moral) support on the side of peace, unity, and democracy. It should otherwise follow a hands-off policy because the present government isn't worthy of its support (a) because it doesn't represent the people, (b) because it is so rotten and corrupt that it cannot be helped, and (c) because even if it could be propped up for a little while it would result in misery for the people and continued civil war, and ultimately it would collapse.... We see no evidence of Soviet help to the Communists. Not even the U.S. and Chinese governments can present any such evidence.... The loss of Outer Mongolia and Dairen is regrettable, but it is due to (a) international complications such as the Yalta Agreement, and (b) Kuomintang misrule. If Mongolia hadn't been misruled it wouldn't have gone over to Russia.... If the U.S. and other countries give China moral support but keep hands off then the Chinese will be able to solve their own problems. If the U.S. interferes, even with good will, it will in effect impose its will on the Chinese people. If the Chinese are left alone they can work out their own salvation.... The present regime is so utterly corrupt that it is beyond redemption. It is beyond the possibility of any help. It is not worthy of any help.... We may have reasons to have some fear of the Communists, but at least they are going in the right direction. They are for

the people and are going in the direction of justice and democracy.... The present regime must go. Something will come next. It couldn't be as bad as the present regime. Even if it has faults the people will be able to cope with the situation.... We are against the Kuomintang, but not all of us will go all the way with the Communists. Lo Lung-chi (spokesman for the Democratic League), for example, says he goes 70 percent of the way with the Communist program, and that's probably about right.... Ideally our middle group would like to see a third party or group of parties in power. Unfortunately, there is no hope for that under the present regime. You would say that there probably wouldn't be any more chance for it under the Communists. We don't believe that is so, because the Communists are at least going in the right direction. We believe we would fare better under the Communists."

These men, some of whose opinions are contained in the above statements, are among the top leaders of the group vaguely called "China's liberal leaders", the group often singled out by the press in America as China's hope. They impressed me as being idealistic and sincere intellectuals. But after a give-and-take session of questions and answers I felt very disappointed with them on several counts. None of them impressed me as being men with special qualities of dynamic leadership. They did not have any positive, constructive program to propose, and even their dislike of the Kuomintang was expressed in emotional criticism rather than in the form of a well-reasoned indictment. Their political thinking impressed me as being very fuzzy, and in many respects naive. Their whole position was based on assumptions and convictions, many of them evidently not very well thought out, and their general approach was uncritically favorable toward Russia and the Chinese Communists (none of them have been in Communist territory), damning in regard to the Kuomintang, and suspicious toward the U.S.

These men claim to represent "the people". Other people I talked with stated that they have no political power but that they do represent the emotional point of view and attitude of many people in Shanghai who are so fed up with the present regime that they want almost any change. Without exception the people I talked with felt that it was a bad mistake and a blunder for the government to outlaw the Democratic League, and that this step eliminated the last important, vocal, opposition group. I did not find many people who were willing to attribute an important role to the Democratic Socialist Party or the Young China Party in the current situation.

My conversation with Carson Chang, head of the Democratic Socialist Party, was interesting nonetheless. He summed up his general point of view in the following statement. "I believe that more can be accomplished by trying to reform the present government from within than by working from the outside." How much he is accomplishing is a moot point according to others I talked with. I was impressed, however, by the fact that he does have some concrete and specific criticisms of the present political and administrative set-up and that he was able to outline a few specific changes, constitutional and otherwise, which in his opinion would

improve the situation even though the basic maladies will probably last at least as long as the civil war

The question of what U.S. policy toward China should be was being widely discussed and debated while I was in Shanghai, by both Chinese and Americans. There are widely different opinions. I heard U.S. Congressman Judd give an off-the-record speech in which he analyzed the situation in terms of the threat of Russian expansion and advocated immediate, all-out American aid to China. His general position has a good deal in common with that expressed in Bullitt's report. Some Chinese I have talked with agree with this position, but others do not. The comments made to me on the subject of U.S. policy by the leading editorial writer of one of Shanghai's largest "independent dailies" were particularly interesting. This particular man impressed me as being perhaps the most logical, analytical, and well-informed of any Chinese I talked to in Shanghai. He is a non-party independent ("I have vowed not to join a party and not to get personally involved in politics", he told me), but he is extremely critical of the present regime. (I will not name him at his request.) "I think America should aid China", he said to me, "but only under certain conditions. America should oversee the way in which the aid is used and should ensure that the aid is not wasted and that it is used in ways which benefit the Chinese people. Of course America will be accused of interference and imperialism, but it is in a position where it will be subject to such accusations in any case, and a policy of supervised aid would prove that the U.S. is interested in the welfare of the Chinese people and not solely in its security position vis a vis the Russians. It is true also that the present government in China would probably resent supervision, but the U.S. has to choose between keeping the friendship of the Chinese government or the Chinese people. If it gives aid which is unsupervised and which merely serves to prolong the civil war, the government leaders will remain its friends, but it will lose the friendship of the Chinese people. If it insists on supervising aid in a way which improves conditions in China, it may antagonize many Chinese government leaders, but it will gain the real friendship of the Chinese people."

Before I close this rather uncoordinated letter I want to quote one comment I heard U.S. Ambassador Leighton Stuart make in a private conversation (but which he said he was willing to have quoted). "The present top leadership in Nanking, including all the members of the cabinet, are superior in ability and integrity", he said, "to any that I have known during my experience in China and would compare favorably with the top leaders in other countries in the world today!" I will not attempt to comment on this statement, but in view of the widespread criticism of the present government I think it is worth reporting.

Yesterday, after finally collecting all my belongings from the Customs House, I came to Nanking by train. I must admit that the hectic atmosphere in Shanghai was beginning to get on my nerves by the time I left. The atmosphere here is more quiet and more pleasant.

Sincerely yours,
Doak Barnett
Doak Barnett