

INSTITUTE OF CURRENT WORLD AFFAIRS

ADB--22

Shanghai, China
October 26, 1948

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Dear Mr. Rogers:

Economic pressures on laboring groups in Shanghai are rapidly creating a situation of tension in this confused, hectic city. If these pressures are not relieved, labor unrest will grow, and the situation may soon become explosive.

"The present economic crisis in Shanghai is the worst I have seen in my forty years here", says one local manufacturer. His opinion is not an extreme one. Many people at all economic levels believe that the present economic chaos in Shanghai is the worst within memory, and they look forward to the future with increasing apprehension.

The position of Shanghai's laboring force in this crisis becomes more unfavorable daily. All wages are frozen at the level of August 15 of this year. Theoretically, all prices are also frozen, at the August 19 level. But in actual fact, despite energetic attempts at control, black markets have reappeared, and the prices of commodities are gradually climbing. Furthermore, many goods have disappeared from shop counters and cannot be found by the average purchaser. The flow of food and raw materials into the city from the interior has dropped to a fraction of normal. Farmers and other producers are either holding their goods in anticipation of the collapse of price control or selling them in places outside of Shanghai where controls are less rigid. Existing stocks of commodities have been almost completely cleaned from the counters by panic-stricken buyers, for the conversion of gold, silver, and foreign currencies to the new monetary unit, the gold yuan (GY), flooded the market with idle capital which had few outlets. As confidence in the GY evaporated the average citizen frantically converted his money into commodities. In addition, some of the remaining stocks of goods have gone underground, in spite of the vigorous crack-down against hoarders, because merchants are reluctant to sell all of their stocks at prices for which they cannot be replaced. Wages, however, have remained more rigidly frozen than most prices, because they are more easily controlled. As a result, the average working man not only finds it difficult to buy the food and other necessities which he requires, but he sees the real purchasing value of his wages dropping every day.

Unemployment and lay-offs are increasing, mainly because manufacturers' stocks of raw materials are dwindling or have disappeared. Most factories are continuing operations, but the future looks black because raw materials are becoming more scarce daily. Unemployment

and idleness are adding to the laborers' difficulties. Last month, for example, of the estimated 85,000 textile workers in Shanghai roughly 10,000 lost over ten days of work due to curtailed production. There are no reliable estimates of the total number of unemployed in the city at present, but unofficial estimates vary from 100,000 to 300,000. If the inability of manufacturers to procure raw materials continues, the number of unemployed will increase rapidly in the near future as shut-downs increase.

An additional element of instability in the whole picture is the tremendous number of wretched refugees who have flooded the city. No one knows how many there are, because although a few have been jammed into refugee camps and large numbers are cared for by friends and relatives, many still form a floating population of destitutes who sleep on doorsteps and in gutters. It is a mystery how they survive. In June of this year it was estimated that the influx of these refugees into Shanghai amounted to 6,000 daily, and guesses concerning the total number of refugees now in the city vary from half a million to a million. These refugees add to the prevailing confusion and uneasiness.

The process of accelerated economic deterioration which has led to the present situation in Shanghai began less than two months ago. Ironically, it was the result of the first major attempt at economic and financial reform carried out by the Chinese Central Government since the end of the war.

On August 19 of this year the Central Government dramatically announced the issuance of its new currency, the gold yuan. The new GY, the Government said, was backed by a 100 percent reserve made up of gold, silver, foreign exchange, bonds and securities, and government-owned properties. All gold, silver, and foreign currency was called in for conversion to the new notes. Definite conversion and exchange rates were established: 3,000,000 to one for CNC (the old Chinese currency) and one (US) to four (GY) for U.S. dollars. A legal limit for Central Bank note issuance was set at 2 billion GY. Immediate registration of all foreign exchange assets held abroad was ordered. A program of financial reform designed to balance the national budget and international balance of payments was outlined. All prices and wages were frozen. Strikes, hoarding, speculation, and black marketeering were forbidden. And strict economic controls were instituted.

The job of defending the gold yuan and enforcing the new controls in Shanghai, the key economic center in China, fell to 39 year-old, Russian-educated Maj. Gen. Chiang Ching-kuo, son of the Generalissimo. As head of SESO (Shanghai Economic Supervisory Office) he immediately began cracking down on all violations of the new regulations. An expanded Economic Police Force started searching for black markets

and combing Shanghai's warehouses for hoarded goods. Every effort was made to wipe out "yellow ox gangs" which engaged in speculative buying, and a "tiger hunt" was started against corrupt or illegal practices on the part of the "big shots". Numerous arrests were made, and they included prominent and wealthy citizens - something almost unprecedented. A few executions were carried out with much publicity.

The methods used by Chiang have been described as "reform at pistol point". His energy, fearlessness, and honesty were admired by many, but it soon became apparent that his methods were antagonizing key groups whose cooperation was absolutely necessary for the success of such a program. Businessmen rebelled against his "stubbornness" and against the Government's unwillingness to make much-needed adjustments in the regulations. Lack of discrimination on the part of the authorities meant that the crack-down hit legitimate as well as illegitimate business. It soon became apparent, also, that the program lacked the over-all planning which would have been necessary to ensure the success of such sweeping reforms. No provisions were made to establish adequate rationing of necessities, to ensure the continued flow of food and raw materials into the city, to absorb the idle capital created by the money conversion, or to carry out wage and price adjustments.

Initially the public reacted enthusiastically to the reform measures, and the reforms worked for about a month. Then confidence cracked. In addition to the economic forces at work undermining the program, the loss of Tsinan struck a telling blow at public confidence in the Government's ability to survive. The downhill process began and led rapidly to the present situation where the whole economy of the city is on the verge of falling apart. Chiang Ching-kuo continues to hold the lid on the explosive situation, "at pistol point", and discussions are in process concerning the establishment of over-all rationing, extending control to cover interior areas in a more effective way, increasing food and raw material supplies, and adjusting some of the price levels. It is difficult to say whether or not these steps, if successfully carried out, can now retrieve the situation. Some people believe that economic disintegration has already gone too far and that now it is inevitable that the August 19 program will collapse completely. There is not much optimism in any quarter that corrective measures can be completely successful at this stage.

The attitude of leaders of organized labor in Shanghai at present is that somehow their position must be improved without undermining the reform and control program as a whole. They are concentrating on pressing for immediate complete rationing of all necessities and have not yet asked for general wage adjustments or a return to the pre-August 19 system of wages according to a cost_of-

living index. They fear that if the whole system of control collapses the result will be economic chaos and that this might even be the final blow to the Central Government, the present position of which is shaky at best. It is natural that they exhibit this concern, because many of the labor leaders in Shanghai have a semi-official status and almost all of them are still unquestionably pro-Central Government.

According to H.Y. Shui, Chief Director of the Shanghai General Labor Union, the industrial labor force (which includes some handicraft as well as factory laborers) totals about 800,000 men and women, of whom 547,000 are unionized. The labor union movement in the city currently includes 503 different unions, he says, all of which are members of the officially-sponsored organization which he heads. This constitutes the largest and most important concentration of organized labor in China.

Organized labor has a short history in China, but today the labor movement undoubtedly is here to stay. It has become a force which cannot be ignored, and is not ignored, in both the economic and political life of major industrial centers such as Shanghai.

Chinese labor leaders themselves divide the history of the labor movement in their country into several definite stages. Prior to 1922 the first halting steps toward organization were taken. In some cases, old-style mutual welfare societies and guilds were converted into organizations resembling unions. In modern industries a few real unions were set up. As industrialism and nationalism developed between 1919 and 1922 the self-consciousness and urge to organize on the part of laborers increased also. Railway workers, miners, seamen, and mechanics were among the first to organize effectively.

The labor movement gained momentum in a spectacular way in 1922 and 1923. The Communists, who spearheaded the movement at that time, organized a China Labor Organization, the Secretariat of which directed the widespread strike movement of 1922. Workers who returned from World War I Labor Corps experience in France and students who returned from a "work and study in France" project were prominent leaders of organizing activities. During 1922 and early 1923 a wave of strikes took place in China. The most important of these were the Hongkong Seamen's Strike and numerous railway strikes, the latter engineered for the most part by the Communist-led First Labor Congress which met in May, 1922. Strikes also took place in Hankow, Changsha, Shanghai, and other industrial centers. Most of these strikes (and in fact the whole labor movement at that time) were characterized by strong anti-foreignism.

From the time of the repression of the Peking-Hankow Railway Strike in early 1923, until the first part of 1925, the labor movement was largely underground. Organizational activity con-

tinued, however, in spite of attempts at suppression on the part of worried government officials, and on May 1, 1925, the Second Labor Congress met in Canton and formed an All China Labor Federation. The Kuomintang's interest in organizing and using labor groups had increased greatly since the party reorganization with Communist advice in 1924, and Kuomintang labor organizers became active along side of the Communists.

A textile workers' strike in Shanghai in May, 1925, led to the May 30 Incident when mass demonstrations of workers and students against the British were accompanied by violence. This incident resulted in rising resentment and increased nationalism in many parts of the country, and labor organizing activity also increased. From then until 1927 the labor movement really merged with and became an integral part of the revolutionary tide which swept the Kuomintang into power in Nanking. In January, 1927, Hankow workers occupied the British Concession a day before the Nationalist armies took over. In March, 1927, a general strike was called in Shanghai, workers seized the police station, arsenal, and garrison, and a short-lived "people's government" was proclaimed. In effect, a Worker's Commune captured the city and turned it over to the approaching Nationalist troops.

The Kuomintang-Communist split in April, 1927, again changed the labor picture radically. In the preceding period both parties had organized labor and used labor organizations for joint revolutionary purposes. After that date, the two parties competed for control of the labor movement, with the Kuomintang as the party in power while the Communists were still revolutionary.

The Kuomintang had the better position, for it was in control of the major industrial cities where the urban proletariat was located, but the Communists continued agitating among laborers even though their influence and power among them declined. The Communists, forced into rural areas, shifted their emphasis and concentrated upon agrarian reform and peasant support to a degree which in many respects made them unique among Communist parties. They never entirely gave up underground activity among urban labor groups, however, and within their own territory they have pushed their own forms of organized labor wherever it has been possible.

Apparently lacking confidence in the complete political reliability of labor groups and fearing Communist infiltration, the Kuomintang has generally followed a policy of surveillance, supervision, and control of labor organizations. During certain periods it has suppressed some unions and concentrated on rooting out Communist elements. At other periods it has fostered the development of government-sponsored and -supervised unionism. These two policies have often been simultaneous. The labor movement in Nationalist China during the past two decades cannot, therefore, be described as a completely "free" labor movement. Nonetheless, unionism and labor organization have grown in numerical importance and strength.

Today in Shanghai it is difficult to make sweeping generalizations about existing labor unions and their leaders, because there are unions of many types, and they possess varying degrees of independence of action. On the one hand are unions such as the postal workers' and the telephone workers' unions which have a fairly high degree of independence. Because their workers are both skilled and literate and because their leaders are aware of their favorable bargaining position, unions such as these exercise a good deal of independence in making decisions and following their own policies. The leaders of these unions, although all members of the Kuomintang, are actually elected by the union members and represent the interests of the membership. Other unions such as the rickshaw pullers' union and the textile workers' unions in many plants are led by men who are reliably reported to be appointed directly by the Kuomintang party headquarters, and their main allegiance is often to the party rather than the union members if there is a conflict of interests. Between these extremes are unions which represent varying degrees of either independence or control. At the very bottom, particularly among the "Pootung proletariat", making up the coolies, wharf workers, construction workers, and the like, the notorious Tu Yueh-sen, who once was a dominant power among Shanghai labor, still has considerable influence. Tu's power still extends into some other labor groups, also, but it does not seem to be the controlling force which it once was.

The organizational structure of unions in Shanghai also varies. There are branches of a few large national unions including railway workers, postmen, communications workers, seamen, and others. Apart from these few national unions, however, all others are locals. Some are organized on an "industrial" or vertical basis and include all the workers in a large factory or industry. Others are organized on a craft basis. In the case of craft unions, however, the individual unions are confined to plant branches in a single establishment and are not united into an over-all union including all the members of the same craft in the city.

The rights and duties of labor unions in Nationalist China are defined by the Labor Union Act of June 16, 1947, and other legislation. (The first Labor Union Act was enacted in 1929 and has been revised five times to-date.) The organization of unions in factories and industrial establishments of all sorts over a certain size is compulsory, and union membership is compulsory where such unions exist. In a city such as Shanghai all unions come under an officially-sponsored General Labor Union. In Shanghai the leadership of this union consists of 51 directors and 25 controllers elected by a general labor conference every two years. Seven standing directors, elected by the entire board of directors, meet every two weeks and conduct most of the union's important business. This General Labor Union is "supervised" by the Shanghai Social Affairs Bureau (SAB) which in turn is supervised by the Ministry of Social Affairs in Nanking. Relations between the SAB and the General Labor Union are on "a close personal basis" according to both union and SAB leaders.

The system as it is set up is one in which the unions are susceptible to a large degree of control and interference by the government authorities. There are many features of labor practice and organization, in addition to those already described, which make the unions seem strange to a person familiar with the labor movement in the U.S. or in Western Europe. The leaders in many of the weaker unions, for example, are selected by the Kuomintang rather than by the rank and file of the union's membership. Actually, almost none of the union leaders have a financially independent status. According to existing laws and regulations, they continue to receive wages from their employers while engaged in union duties. When carrying out union activities they are simply on "leave with pay" from their regular jobs. Union funds usually do not come from membership dues but are levied in the form of a small "tax" on wages and salaries and are then turned over to the unions. Legally no strikes are allowed in labor disputes during a minimum cooling off period when conciliation methods of settlement are employed, and if the parties resort to mediation then strikes are theoretically entirely forbidden. The SAB takes an active part in the negotiation of important agreements between labor and management and sits in on the settlement of major disputes.

In spite of these facts, labor unions are not all puppet organizations run by the SAB by any means. A responsible local newspaper editor (city desk) says quite emphatically that in his opinion "nobody can really control the unions in Shanghai now". One manufacturer states that the union in his factory "certainly isn't controlled by the Government", and others agree with him. The true situation seems to be that the degree of government control varies, in the case of different unions, from close to one hundred percent to close to zero percent. Perhaps the relationship between labor organizations in general and the Government is best described, as it was to me by a labor leader, an employer, and a representative of the SAB, as "interdependence".

Liberal union leaders recognize that they do not have complete independence but point out that the liability of official "supervision" is in many ways balanced by the advantages of official support in cases where the unions are able to maintain a degree of independence of action. "We don't have adequate sources of independent union income", says one such leader. "On their own our workers probably wouldn't be able to support a strong union, and without government sponsorship the union would have a hard time standing up against management, even though our relations with management at present are very good. As it is, we can at least continue in existence and can work for the welfare of our workers within the framework of the present set up."

The Government seems to be extremely wary of the possibility of antagonizing labor. This limits the extent to which control is

attempted.

The present Government labor policy as summed up by a spokesman for the Shanghai SAB is aimed at "promoting labor-management cooperation." This is without doubt one of the SAB's objectives, but the official labor policy also seems to include the following objectives as well: (a) to prevent the labor movement from getting too strong by fractionalizing labor rather than allowing it to organize on a craft-wide or similar basis, (b) to exercise influence and, to the degree that is feasible, control over the labor movement through officially-sponsored general unions such as the Shanghai General Labor Union, and (c) to pacify and satisfy labor by concessions and aid of various sorts (some of which I will mention later).

Generally speaking, labor unions are in a fairly good bargaining position. Vis a vis the Government this is primarily because of their potential political importance. Very few people have forgotten the events of 1927. Vis a vis management, unions of skilled laborers are in an excellent position because of the scarcity of skilled workers in China, and some of the other unions can fall back on Government support in dealing with their employers. In a vague but nonetheless real way the position of the unions is supported by the impressiveness of the tremendous number of people directly or indirectly connected with the labor movement. One foreign observer estimates that union members together with their families, dependents, and hangers-on include altogether almost half of the total population in Shanghai.

Compared with before the war working conditions among industrial laborers have improved considerably - up until the beginning of the present trend toward economic deterioration anyway - and the spread of unionism helps to explain the improvement. A survey made by the SAB indicates, for example, that average real wages among industrial laborers increased 3.15 times between 1936 and 1946. Some persons attack the reliability of this figure, but all statistical studies indicate that a definite rise in real wages has taken place. Working hours are still long, but the above-mentioned survey states that the average number of hours worked per day declined from 10.57 to 9.94 between 1936 and 1946. Child labor has been almost eliminated from most of the modern factories even though it, together with the apprentice system, persists in many handicraft industries. Female labor is almost as important as before and at present accounts for roughly one half of the industrial labor force, but conditions for women laborers are not generally "sweat shop" conditions to the same extent as before the war, and wage discrimination against women has decreased even though it has not been eliminated. The contract system of hiring workers is not nearly so common as previously and at present is found mainly where common unskilled laborers are all that is required. Even though Shanghai remains a cheap labor market when

compared with most industrial cities abroad, workers' wages and working conditions have been improved. Increased enlightenment on the side of management must receive part of the credit for this fact, but organized labor and government policies formulated with organized labor in mind are also responsible.

As has been mentioned already, the Government has in many ways tried to pacify and satisfy labor by granting concessions of various sorts. One of the most important of these concessions was made in regard to wage policy.

For a short period after the war it was touch-and-go as to whether real control of Shanghai would be established by the Communists or by the Central Government. Communist military forces stood by outside of the city and Communist leaders, including labor leaders, were working hard within the city. The allegiance of labor at that time was doubtful, for both the Communists and the Central Government had carried on underground work in Shanghai during the war. In that uncertain post-war atmosphere the Central Government made a strong bid for labor support by pegging wages to a cost-of-living (COL) index and setting base wages at a high level. Using a pre-war base year the SAB set the basic wage of unskilled laborers at a level comparable to the pre-war wage of a skilled laborer and scaled other wages upward accordingly. Pegging wages to a COL index, furthermore, protected workers partially against the inflationary spiral. This was a bold step in many respects and undoubtedly was an important factor in satisfying labor groups and obtaining their cooperation. When the Government attempted to freeze wages for a few months in early 1947 it led to the serious labor disturbances of May in that year, and the COL formula had to be restored. The abandonment of the formula again on August 19 of this year has created a parallel situation, but one which is much more critical because of the other factors at work.

Since the end of the war the Government has courted labor's favor in other ways as well. For example, in all governmental representative bodies at city, provincial, and national levels, sizable direct representation of labor as an occupational group is provided for. In the opinion of many observers, the SAB in Shanghai has definitely tended to favor labor unions in the settlement of labor-management disputes. And the Government has tried in various ways to protect the collective pocket book of the working class by such measures as subsidizing utilities and transportation to keep the rates low. At present, direct and indirect subsidies to utility companies in Shanghai are estimated to total 12 to 15 million GY\$, and the fact that the authorities prefer to pay these subsidies rather than permit rate increases which would make the companies self-supporting is interpreted in many quarters as a direct concession to labor pressure.

Government policies such as these have played an important role in keeping labor pacified, but labor unions have not been entirely docile. At various periods since the end of the war disputes and strikes have been numerous. Many of the strikes have been of the kind which would be called "wildcat" in the U.S. Most of them apparently have been economic rather than political in their motivation. In by far the majority of cases recorded by the SAB, the issues in the disputes have been discharge pay (laws specify that a worker be paid one to three months' wages, depending on length of service, upon being discharged), bonuses, and wages. In a minority of cases political instigation has undoubtedly been a factor. The SAB says that the labor disorders of January-February of this year were stirred up by agitators, and they may have been. In January 6,000 cabaret dancers mobbed the SAB headquarters and in February a strike in the Sung Sing Cotton Mill #9, which resulted in at least three fatalities, was quelled only after armored cars and tear gas had been used. Even since the strike ban of August 19 a few wildcat strikes have taken place - and all of them have been handled warily and with moderation by the authorities.

There are other indications that labor is not entirely passive. Foreign observers at the meeting in Nanking, in April of this year, which resulted in the creation of the China Federation of Labor on a nation-wide basis, state, for example, that the labor leaders assembled there showed a considerable degree of initiative and independence in discussing labor problems, criticizing Government policies, and making suggestions.

One of the largest and most important question marks in regard to the labor situation in Shanghai today is the strength of the Communist underground. There is no overt Communist activity because it is strictly forbidden, and agents who are discovered are disposed of without much to-do, as would be expected. Nonetheless, there is no doubt that an underground does exist and is of some importance. Few people venture to estimate its exact strength, but the prevailing opinion seems to be that it is not a vital part of the labor picture at this particular moment but might become very important in the event of serious trouble and disorders. The Communists claim that their links with labor groups throughout China are still strong. Lu Ting-yi, a Chinese Communist, states in an article published in the Russian "New Times" in June of this year that during 1947 the Communists in Shanghai, Tientsin, Canton, and Hankow induced 1,200,000 workers to strike in over 3,000 separate strikes. That figure is doubtful, but the claim is significant.

There have been indications recently that the Communists may be planning to place increased emphasis upon activities among labor groups, perhaps in anticipation of the time when they plan to take over industrial cities. In June of this year a well-publicized "Sixth Plenary Session of the All China Labor Congress"

was held in Harbin and claimed to represent 2,660,000 organized workers and employees in both Nationalist and Communist territory. At the Congress it was asserted that their organization was the direct lineal descendant of the China Association of Labor, a nation-wide labor welfare society which became defunct for all practical purposes when its leader, disagreeing with Central Government labor policies after the war, fled China and eventually went to Communist territory. These straws in the wind indicate that it is highly possible that the Chinese Communists will begin to reemphasize the importance of labor unions and of the urban proletariat in general in their program if and when they begin to take over the large cities where industrial workers are concentrated.

In the present economic crisis in Shanghai the leaders of organized labor have so far given full cooperation to the Government, but it is certain that their cooperation cannot last indefinitely if economic conditions continue on the present dizzy downward plunge. These union leaders, both those who are strong party members in the Kuomintang and those who are semi-independent, have ties and commitments to the present Central Government and certainly are not revolutionary leaders, but neither are they willing to go the whole way along the road to collapse. Rumbblings are already being heard and are growing louder. Addresses by prominent Kuomintang party leaders to union representatives, such as have been given during the past week, will not stop these rumbblings unless conditions improve. The general demoralization which seems to have gripped almost everyone in Shanghai in an unprecedented way has not skipped the labor union leaders, and if no improvement in the situation takes place pressure from below can be expected to force many of these leaders to action designed to express the popular feelings and demands. If the union leaders are slow to respond to such pressures from below the pressures may explode without their leadership.

The most critical element in the present situation is the shortage of food. Food stocks have been allowed to drop to a dangerous low point, and some high-placed officials now express fears that even if remedial steps are taken immediately they may not be able to prevent disorders and violence, because a time lag will make serious food shortages almost unavoidable. If violence takes place it will probably begin with disorganized rice riots. If it develops into organized action, which is possible since unionization has trained the workers in organization and collective action, the political implications would be serious to an extreme degree for the Government. It seems safe to predict that if events reach this stage a rapid and widespread alienation of laboring groups in Shanghai would be probable, and the Government might be faced with the spectre of 1927.

The economic aspects of the crisis now facing Shanghai are primarily man-made. In rural areas not far from the city are ample food supplies gathered during the recent harvest. The shortage of food, and of other commodities, has resulted from a reform program played as one of the Government's last cards and misplayed because of bad planning and bumbling. This fact has helped to create the present near-complete demoralization of people of all sorts and the feeling of cynicism and despair. More people than ever before feel that the present Central Government is approaching a point of complete bankruptcy.

It is in this context and under these pressures that the labor situation in Shanghai is becoming explosive.

Sincerely yours,

Doak Barnett

Doak Barnett

Received New York 11/1/48.