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The financial reconstruction of China and the consolidation of China's present indebtedness.

Georges Padoux

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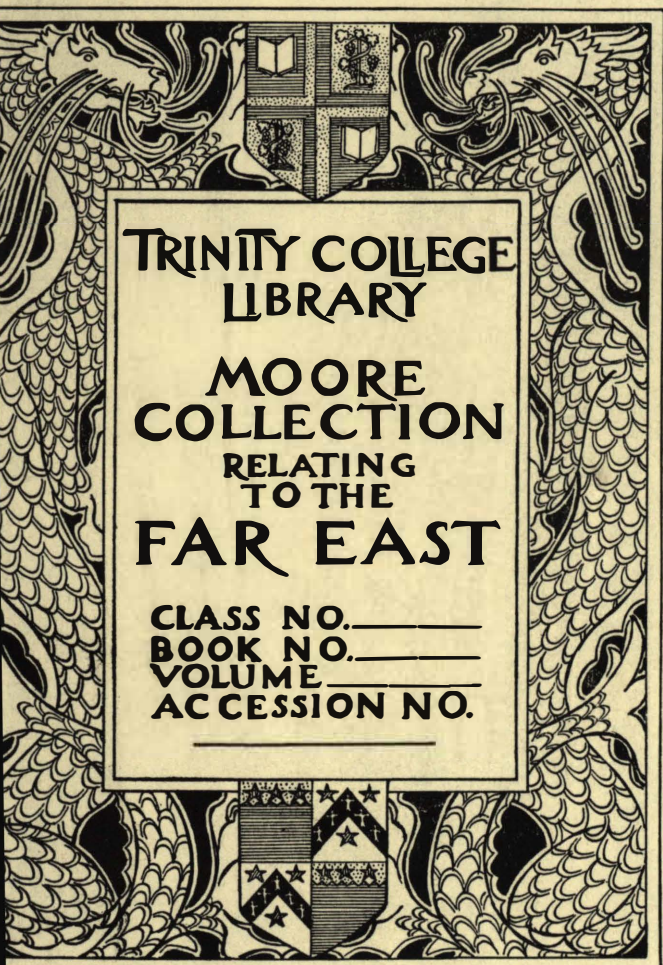


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Memorandum
for the
National Commission for the Study of Financial Problems

**The Financial Reconstruction of China
and
The Consolidation of China's Present Indebtedness**

by

G. PADOUX

Adviser to the Chinese Government

PEKING

January 1923.

Na-Che-Pao

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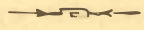
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**Memorandum
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**The Financial Reconstruction of China
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I. — The Constitutional and Political Problem.

The financial reconstruction of China is not primarily a financial problem. It is a constitutional and political question, the solution of which lies in the readjustment of the relations between the Provinces and the Central Government.

The Manchu regime had evolved an elaborate and well balanced system of internal administration which left to the Provinces a large autonomy, whilst affirming the superior authority of the Throne. All officials down to the Magistrate were appointed from Peking, under two very strict rules, viz.: 1° that no person could hold office in his native province, and 2° that the term of office was limited to three years, with only one possible extension. The Government was very careful to select as Viceroys or Governors personages devoted to the Imperial Family, and, in the distribution of offices, to keep the balance even between Chinese and Manchus, as well as between the various

provincial parties or clans. The consequence was that the governing body of a Province would always consider themselves as representing the Central Government, and would not think of identifying with the population under their control, or supporting provincial interest against Imperial prerogative. Their task was facilitated by the granting of wide powers which enabled them to settle direct most of the local questions. Once the Imperial authorities in Peking were satisfied with the loyalism of the holders of the main official positions, they would leave them a free hand in the administration of the province, provided only that the taxes and provincial contributions be duly remitted every year to the Central Treasury.

When additional revenue was required for meeting new obligations, international or domestic, an equitable understanding would always be reached, the provinces showing the same consideration for the needs of the Central Government as Peking would show for the local interests.

The foundations of the system were shattered by the 1912 revolution. The whole structure was built on the devotion of the Viceroys and Governors to the Emperor. The Emperor abdicated. Most of the high officials resigned or disappeared. A Provisional Republican constitution was promulgated which treated China as a highly centralized State, thus ignoring the main constitutional problem of the country. The Central Government was left unarmed, with practically no power of control over the provincial authorities, whilst the provinces were being given local Assemblies through which they could develop separatist tendencies. The old machinery kept in motion for some time, but soon the provincial chiefs, whether Civil Governors, or Military Governors, or General Inspectors, found that it was more profitable to side with the Provinces than with the Central Government, seeing that in fact the money was coming from the Provinces and that it was easier for the provinces to live apart of the Central Government than for the Central Government to dispense with the support of the Provinces.

Thus developed the present condition of affairs. It cannot improve materially unless the nature of the relations between the Central Government and the Provinces be clearly defined (which is the constitutional side of the problem), and unless the new distribution of power between the Provinces and the Central Government is accepted by the provincial authorities or forced upon them (which is the political side of the problem). No reduction of the army, no disbandment of the superfluous soldiery is worth being undertaken so long as the Tutchuns, Civil Governors, or other such provincial chiefs can defy the orders of the Government, seize the revenue, and recruit fresh troops at their own will. Neither can the finances of the Government be put on a sound basis if the proceeds of Government taxation continue being appropriated by the local military or civil authorities.

II.—The Comparative Situation of China.

Happily for China, the resources of the country are so great and the charges so light that even a moderate improvement in the political situation would remove many of the financial difficulties.

With more than 400 millions inhabitants, it is doubtful whether the governmental, provincial and local taxation in China proper exceeds 500 millions dollars a year, an average of \$1,20 per head. It is almost nothing when compared with taxation in the other parts of the world. Precise figures cannot be worked out because of the fluctuations in the rates of exchange and because the budgets of most of the foreign Powers are still subject to important variations from year to year. But a rough calculation, which is quite sufficient for our purpose, shows that the annual *per capita* revenue derived from taxes and duties in the following countries, reduced into silver, amounts to:

Great Britain.....	\$ 170
France	\$ 90
Italy	\$ 24
Belgium.....	\$ 30
United States (Federal taxation only).....	\$ 120

Of course, fully developed States of Europe and America can pay higher taxation than China. But turning to the countries of Asia which are lying on the coast of the Pacific and whose conditions may compare with those obtaining in China, the figures are, *per capita*:

Japan	\$ 16,00
Philippines.....	\$ 7,50
French Indochina.....	\$ 5,50
Siam.....	\$ 9,50
Dutch East Indies	\$ 15,00

The Chinese average of \$ 1,20 is about one fifth of the average taxation paid in French Indochina, and one eighth of the average taxation paid in Siam. Yet, the population of China is more industrious, more hard working, and has more resources, agricultural, commercial, industrial and mineral than the population of French Indochina or Siam. The Chinese nation feels the burden of taxation not so much because it is excessive than because the system is cumbersome, because it works injustice on many classes of citizens, because it is made the pretext for all sorts of malprac-

tices, and above all because the taxpayer is given very little in return for what he pays. If slightly reformed and properly controlled, and if its proceeds were used for the real benefit of the people, a nett revenue of nearly 450 millions dollars could easily be collected.

National debts are at present a crushing burden on most of the European and American Powers. Their *per capita* ratio reaches appalling figures in several countries :

Great Britain	\$ 1,440
France	\$ 1,310
United States (Federal debt only).....	\$ 433
Belgium	\$ 312
Italy	\$ 190
Japan	\$ 50

Now, the present public debt of China, domestic and foreign (exclusive of railway debts which are not included in the above foreign statistics) is under 1,900 millions silver dollars, or *Four Dollars Seventy Five cents* per head, two hundred and fiftytimes less than the *per capita* ratio of the British and French public debt.

The service of the secured Chinese debts, domestic and foreign, requires at the most 95 millions dollars a year. The consolidation of the unsecured debts, as shown below, may require during the next years from 40 to 45 millions a year. That is to say a maximum grand total of 140 millions dollars per year leaving 300 millions. or 25 millions per month, for the governmental, provincial and local expenditure. This is quite enough for making a start in efficient administration and balancing a reasonable budget. More money will of course be soon required for police, education, hygiens, agriculture, trade and otherwise fostering the economic development of the country. A few reforms in taxation would at once bring in the necessary revenue seing that for every *ten cents* increase in the *per capita* ratio the Treasury would receive an additional 40 millions dollars a year.

III.—The unsecured indebtedness.

The first step towards financial reconstruction is the settlement of the present unsecured indebtedness of the Chinese Government. For some of these debts the creditors have succeeded in getting irregular payments. For most of them neither interest nor capital had been paid for one year or more. The situation affects the local financial market, since all the Chinese Banks are on the list of the creditors and are badly in need of the money owing to them. It affects still more the credit of China at home and abroad. It blocks every possible

attempt of the Chinese Government to raise loans for constructive purposes at reasonable rates. It puts the Ministry of Finance in the most difficult position. Some sort of remedy must be found if national bankruptcy is to be avoided.

In the statistics compiled in October 1922 by the Ministry of Finance, the unsecured indebtedness is reported as follows, interest being calculated up to the end of the year 1922:

Unsecured domestic loans	\$ 132,560,000
Unsecured foreign loans	239,930,000
Chinese Banks short term debts as approved by the Redemption Commission.	34,500,000
Treasury Notes.	33,700,000
Chinese Banks short term debts	48,250,000
Total	\$ 488,940,000

To this total must be added:

The amount due under the renewed Austrian Loan agreement.

The agreement seems to have been cancelled, but the money is nevertheless still owing to the present bondholders . . . . £ 5,200,000

Interest on the whole of the unsecured debt up to July 1923, no settlement of the consolidation question being possible before that date. . . . . \$ 25,000,000

The calculations for exchange in the statistics of the Ministry of Finance are not quite safe. The sterling is reckoned at 8 dollars to the pound, whilst the present rate is 9. The rate adopted for the yen is also too low. A conservative estimate would work as follows:

Principal

<i>Debts in silver dollars or Taels reduced into silver dollars . . .</i>	\$ 234,588,000
<i>Debts in sterling . . . . .</i>	£ 3,136,000
Plus Austrian Loans	£ 5,200,000
Total	£ 8,336,000
at \$9 to the pound	75,024,000
<i>Debts in francs. . . . .</i>	Fcs 167,500,000
at fcs 7 to the dollar	23,927,000
<i>Debts in yens. . . . .</i>	Y 162,655,000
at \$0.90 to the yen.	146,389,000
<i>Debts in gold dollars. . . . .</i>	GD 12,342,000
at \$1.90 to the GD.	23,468,000
Total	\$ 508,396,000

Interest

Interest up to December 31st 1922.	\$ 41,000,000
Interest from January to June 1923.	25,000,000
Grand Total.	\$ 569,396,000

The unsecured indebtedness of the Chinese Government, as it will stand by the middle of the year 1923 may be accordingly put, in round figures, at 570 millions dollars. A large part of the capital of such indebtedness has already matured or will soon mature. Interest is also in arrears. There is no hope of finding sufficient money to satisfy the creditors according to the original contracts. It might even prove impossible to pay them were time only granted, because part of the money has been borrowed at such high rates that the accumulated interest would exceed the future available resources of the Government. Consolidation is imperative as the only way out the difficulty.

Consolidation, as a general proposition, means the redemption of the existing debts through the issue of new bonds, the substitution of new bonds for the old ones involving :

- 1) an extension of time for the short terms debts,
- 2) a reduction of the interest in every case where excessive rates have been charged,
- 3) as a compensation for such extension of time and reduction of interest, the granting of adequate securities.

Consolidation will be a success if sound and reliable security is offered. Creditors whose debts are overdue, or whose debts are shortly to mature, and creditors entitled to high rates of interest under their contracts will certainly agree to accept, in exchange for what is due to them, long term bonds bearing a reasonable rate of interest if payment of interest and repayment of capital are fully guaranteed, that is to say if the pledged revenue is sufficient and sufficiently controlled to secure complete payment of coupons and amortization of the new bonds on due dates.

IV.— The Customs Revenue.

The better the security China can offer her unsecured creditors, the better the terms of the consolidation will be for the Chinese Government.

The best security in China is the revenue of the maritime and native customs under the control of the Inspector General.

Is it possible to secure the consolidation of an indebtedness of about 5 millions dollars on the revenue of the Customs ?

In order to answer the question, let us figure what the future nett revenue of the Customs is likely to be. By *nett revenue* is meant the revenue available for loans and indemnities after the ordinary and extraordinary administrative expenses of the Customs service have been met.

The nett revenue of the Customs for the year 1922 amounted in round figures:

For the Maritime Customs, to	Sh. Tael	52,150,0
For the Native Customs. to	Sh. Tael	4,200,0
Total.		56,350,0
or in dollars at the rate of 73	\$	77,191,5

say *Seventy seven millions dollars.*

The increase to the full 5% which has come into force on the 17th of January 1923 will work only during part of the present year, all goods having left foreign ports prior to such date being charged the old tariff. It may be expected however to give 8 millions dollars in 1923 and 10 millions dollars in 1924.

The raising of the import tariff from 5 % to 7 ½ % for ordinary goods and to 10 % for luxuries may yield 28 millions. As it is unlikely that it may work in 1923, let us reckon it from 1924 only.

Besides, there is a gradual increase of revenue resulting from the natural development of trade. From 1911 to 1922 the average increase has been 2 millions taels a year. From 1917 to 1922 it is more than three millions taels a year. From 1919, after the last tariff revision, to 1922, it is over four millions taels a year. It is steadily increasing, and with a tariff to be raised from 5 to 7 ½ and 10 % we may safely anticipate it to be three millions dollars (Taels 2,200,000) a year for the next five years (from 1923 to 1927). After 1927 we may figure it for another ten years at two millions dollars a year.

Working on those data, the probable nett future revenue of the Customs may be calculated as follows:

For the year 1923:

Nett revenue of 1922	\$	77,000,0
Increase from the full 5 % during part only of the year		8,000,0
Increase from development of trade.		3,000,0
Total.	\$	88,000,0

For the year 1924.

Nett revenue of 1923 . . . , ...	\$ 88,000,000
Increase from the full 5% during the whole of the year . . .	2,000,000
Increase from new 7½ and 10% tariff	28,000,000
Increase from development of trade	3,000,000
Total.	\$ 121,000,000

For the year 1925:

Nett revenue of 1924	\$ 121,000,000
Increase from development of trade	3,000,000
Total	\$ 124,000,000

For the year 1926:

Nett revenue of 1925	\$ 124,000,000
Increase from development of trade	3,000,000
Total.	\$ 127,000,000

For the year 1927:

Nett revenue of 1926	\$ 137,000,000
Increase from development of trade	3,000,000
Total	\$ 130,000,000

For the year 1928:

Nett revenue of 1927.	\$ 130,000,000
Increase from development of trade	2,000,000
Total.	\$ 132,000,000

and so on till the nett revenue reaches. . . . . \$ 150,000,000

But the nett revenue of the Customs is already earmarked for the service of the foreign loans of 1895, 1896 and 1898, of the Boxer Indemnities, of the Reorganization Loan of 1913 and of various domestic loans.

The following table shows what is required for meeting these obligations.

The figures of the foreign loans have been compiled from the official tables of interest and amortization attached to the original loan contracts.

The Boxer Indemnity is calculated at 50 % of its outstanding amount, that is to say less the German, Austrian and Russian shares, with the further assumption that the deferred annuities of the years 1917-1922 are postponed to 1941-1945.

Sterling is calculated at 10 dollars to the pound.

The domestic loans are tabulated in accordance with the official figures published by the Ministry of Finance.

Table I

Table 1

CHARGES OCUS

Years	Russo-French loan 1895	Anglo-German loan 1896	Anglo-German loan 1898	Boxer Indemnity 1901	Reorgaird Year tion LLoan 1911914
	\$	\$	\$	\$	\$ \$
1923	8.366.700	9.521.000	8.277.000	18.370.000	13.500.000.000
1924	8.366.700	9.513.000	8.274.000	18.370.000	15.000.000.000
1925	8.366.700	9.505.000	8.270.000	18.370.000	15.000.000.000
1926	8.366.700	9.497.000	8.267.000	18.370.000	15.000 . . . .
1927	8.366.700	9.489.000	8.263.000	18.370.000	15.000 . . . .
1928	8.366.700	9.480.000	8.259.000	18.370.000	15.000 . . . .
1929	8.366.700	9.470.000	8.255.000	18.370.000	15.000 . . . .
1930	8.366.700	9.460.000	8.250.000	18.370.000	15.000 . . . .
1931	8.366.700	9.450.000	8.246.000	13.370.000	15.000 . . . .
1932	. . . . .	9.440.000	8.241.000	26.500.000	15.000 . . . .
1933	. . . . .	. . . . .	8.236.000	26.500.000	15.000 . . . .
1934	. . . . .	. . . . .	8.231.000	26.500.000	15.000 . . . .
1935	. . . . .	. . . . .	8.225.000	26.500.000	15.000 . . . .
1936	. . . . .	. . . . .	8.220.000	26.500.000	15.000 . . . .
1937	. . . . .	. . . . .	8.214.000	26.500.000	15.000 . . . .
1938	. . . . .	. . . . .	8.208.000	26.500.000	15.000 . . . .
1939	. . . . .	. . . . .	8.201.000	26.500.000	15.000 . . . .
1940	. . . . .	. . . . .	8.194.000	26.500.000	15.000 . . . .
1941	. . . . .	. . . . .	8.187.000	18.300.000	15.000 . . . .
1942	. . . . .	. . . . .	8.180.000	18.300.000	15.000 . . . .
1943	. . . . .	. . . . .	8.172.000	18.300.000	15.000 . . . .
1944	. . . . .	. . . . .	. . . . .	19.300.000	15.000 . . . .
1945	. . . . .	. . . . .	. . . . .	18.300.000	15.000 . . . .
1946	. . . . .	. . . . .	. . . . .	. . . . .	15.000 . . . .
1947	. . . . .	. . . . .	. . . . .	. . . . .	15.000 . . . .
1948	. . . . .	. . . . .	. . . . .	. . . . .	15.000 . . . .
1949	. . . . .	. . . . .	. . . . .	. . . . .	15.000 . . . .
to	. . . . .	. . . . .	. . . . .	. . . . .	15.000 . . . .
1960	. . . . .	. . . . .	. . . . .	. . . . .	15.000 . . . .

[illegible]

Table II gives the total of the charges on the Customs Revenue, in dollars, the charges for foreign obligations in gold being converted into silver at the rate of ten dollars to the pound.

Year	Charges on Customs Revenue	Charges for Foreign Obligations in Gold	Total Charges
1897	1,000,000	1,000,000	2,000,000
1898	1,100,000	1,100,000	2,200,000
1899	1,200,000	1,200,000	2,400,000
1900	1,300,000	1,300,000	2,600,000
1901	1,400,000	1,400,000	2,800,000
1902	1,500,000	1,500,000	3,000,000
1903	1,600,000	1,600,000	3,200,000
1904	1,700,000	1,700,000	3,400,000
1905	1,800,000	1,800,000	3,600,000
1906	1,900,000	1,900,000	3,800,000
1907	2,000,000	2,000,000	4,000,000
1908	2,100,000	2,100,000	4,200,000
1909	2,200,000	2,200,000	4,400,000
1910	2,300,000	2,300,000	4,600,000
1911	2,400,000	2,400,000	4,800,000
1912	2,500,000	2,500,000	5,000,000
1913	2,600,000	2,600,000	5,200,000
1914	2,700,000	2,700,000	5,400,000
1915	2,800,000	2,800,000	5,600,000
1916	2,900,000	2,900,000	5,800,000
1917	3,000,000	3,000,000	6,000,000
1918	3,100,000	3,100,000	6,200,000
1919	3,200,000	3,200,000	6,400,000
1920	3,300,000	3,300,000	6,600,000
1921	3,400,000	3,400,000	6,800,000
1922	3,500,000	3,500,000	7,000,000
1923	3,600,000	3,600,000	7,200,000
1924	3,700,000	3,700,000	7,400,000
1925	3,800,000	3,800,000	7,600,000
1926	3,900,000	3,900,000	7,800,000
1927	4,000,000	4,000,000	8,000,000
1928	4,100,000	4,100,000	8,200,000
1929	4,200,000	4,200,000	8,400,000
1930	4,300,000	4,300,000	8,600,000
1931	4,400,000	4,400,000	8,800,000
1932	4,500,000	4,500,000	9,000,000
1933	4,600,000	4,600,000	9,200,000
1934	4,700,000	4,700,000	9,400,000
1935	4,800,000	4,800,000	9,600,000
1936	4,900,000	4,900,000	9,800,000
1937	5,000,000	5,000,000	10,000,000
1938	5,100,000	5,100,000	10,200,000
1939	5,200,000	5,200,000	10,400,000
1940	5,300,000	5,300,000	10,600,000
1941	5,400,000	5,400,000	10,800,000
1942	5,500,000	5,500,000	11,000,000
1943	5,600,000	5,600,000	11,200,000
1944	5,700,000	5,700,000	11,400,000
1945	5,800,000	5,800,000	11,600,000
1946	5,900,000	5,900,000	11,800,000
1947	6,000,000	6,000,000	12,000,000
1948	6,100,000	6,100,000	12,200,000
1949	6,200,000	6,200,000	12,400,000
1950	6,300,000	6,300,000	12,600,000
1951	6,400,000	6,400,000	12,800,000
1952	6,500,000	6,500,000	13,000,000
1953	6,600,000	6,600,000	13,200,000
1954	6,700,000	6,700,000	13,400,000
1955	6,800,000	6,800,000	13,600,000
1956	6,900,000	6,900,000	13,800,000
1957	7,000,000	7,000,000	14,000,000
1958	7,100,000	7,100,000	14,200,000
1959	7,200,000	7,200,000	14,400,000
1960	7,300,000	7,300,000	14,600,000
1961	7,400,000	7,400,000	14,800,000
1962	7,500,000	7,500,000	15,000,000
1963	7,600,000	7,600,000	15,200,000
1964	7,700,000	7,700,000	15,400,000
1965	7,800,000	7,800,000	15,600,000
1966	7,900,000	7,900,000	15,800,000
1967	8,000,000	8,000,000	16,000,000
1968	8,100,000	8,100,000	16,200,000
1969	8,200,000	8,200,000	16,400,000
1970	8,300,000	8,300,000	16,600,000
1971	8,400,000	8,400,000	16,800,000
1972	8,500,000	8,500,000	17,000,000
1973	8,600,000	8,600,000	17,200,000
1974	8,700,000	8,700,000	17,400,000
1975	8,800,000	8,800,000	17,600,000
1976	8,900,000	8,900,000	17,800,000
1977	9,000,000	9,000,000	18,000,000
1978	9,100,000	9,100,000	18,200,000
1979	9,200,000	9,200,000	18,400,000
1980	9,300,000	9,300,000	18,600,000
1981	9,400,000	9,400,000	18,800,000
1982	9,500,000	9,500,000	19,000,000
1983	9,600,000	9,600,000	19,200,000
1984	9,700,000	9,700,000	19,400,000
1985	9,800,000	9,800,000	19,600,000
1986	9,900,000	9,900,000	19,800,000
1987	10,000,000	10,000,000	20,000,000
1988	10,100,000	10,100,000	20,200,000
1989	10,200,000	10,200,000	20,400,000
1990	10,300,000	10,300,000	20,600,000
1991	10,400,000	10,400,000	20,800,000
1992	10,500,000	10,500,000	21,000,000
1993	10,600,000	10,600,000	21,200,000
1994	10,700,000	10,700,000	21,400,000
1995	10,800,000	10,800,000	21,600,000
1996	10,900,000	10,900,000	21,800,000
1997	11,000,000	11,000,000	22,000,000
1998	11,100,000	11,100,000	22,200,000
1999	11,200,000	11,200,000	22,400,000
2000	11,300,000	11,300,000	22,600,000
2001	11,400,000	11,400,000	22,800,000
2002	11,500,000	11,500,000	23,000,000
2003	11,600,000	11,600,000	23,200,000
2004	11,700,000	11,700,000	23,400,000
2005	11,800,000	11,800,000	23,600,000
2006	11,900,000	11,900,000	23,800,000
2007	12,000,000	12,000,000	24,000,000
2008	12,100,000	12,100,000	24,200,000
2009	12,200,000	12,200,000	24,400,000
2010	12,300,000	12,300,000	24,600,000
2011	12,400,000	12,400,000	24,800,000
2012	12,500,000	12,500,000	25,000,000
2013	12,600,000	12,600,000	25,200,000
2014	12,700,000	12,700,000	25,400,000
2015	12,800,000	12,800,000	25,600,000
2016	12,900,000	12,900,000	25,800,000
2017	13,000,000	13,000,000	26,000,000
2018	13,100,000	13,100,000	26,200,000
2019	13,200,000	13,200,000	26,400,000
2020	13,300,000	13,300,000	26,600,000
2021	13,400,000	13,400,000	26,800,000
2022	13,500,000	13,500,000	27,000,000
2023	13,600,000	13,600,000	27,200,000
2024	13,700,000	13,700,000	27,400,000
2025	13,800,000	13,800,000	27,600,000
2026	13,900,000	13,900,000	27,800,000
2027	14,000,000	14,000,000	28,000,000
2028	14,100,000	14,100,000	28,200,000
2029	14,200,000	14,200,000	28,400,000
2030	14,300,000	14,300,000	28,600,000
2031	14,400,000	14,400,000	28,800,000
2032	14,500,000	14,500,000	29,000,000
2033	14,600,000	14,600,000	29,200,000
2034	14,700,000	14,700,000	29,400,000
2035	14,800,000	14,800,000	29,600,000
2036	14,900,000	14,900,000	29,800,000
2037	15,000,000	15,000,000	30,000,000
2038	15,100,000	15,100,000	30,200,000
2039	15,200,000	15,200,000	30,400,000
2040	15,300,000	15,300,000	30,600,000
2041	15,400,000	15,400,000	30,800,000
2042	15,500,000	15,500,000	31,000,000
2043	15,600,000	15,600,000	31,200,000
2044	15,700,000	15,700,000	31,400,000
2045	15,800,000	15,800,000	31,600,000
2046	15,900,000	15,900,000	31,800,000
2047	16,000,000	16,000,000	32,000,000
2048	16,100,000	16,100,000	32,200,000
2049	16,200,000	16,200,000	32,400,000
2050	16,300,000	16,300,000	32,600,000
2051	16,400,000	16,400,000	32,800,000
2052	16,500,000	16,500,000	33,000,000
2053	16,600,000	16,600,000	33,200,000
2054	16,700,000	16,700,000	33,400,000
2055	16,800,000	16,800,000	33,600,000
2056	16,900,000	16,900,000	33,800,000
2057	17,000,000	17,000,000	34,000,000
2058	17,100,000	17,100,000	34,200,000
2059	17,200,000	17,200,000	34,400,000
2060	17,300,000	17,300,000	34,600,000
2061	17,400,000	17,400,000	34,800,000
2062	17,500,000	17,500,000	35,000,000
2063	17,600,000	17,600,000	35,200,000
2064	17,700,000	17,700,000	35,400,000
2065	17,800,000	17,800,000	35,600,000
2066	17,900,000	17,900,000	35,800,000
2067	18,000,000	18,000,000	36,000,000
2068	18,100,000	18,100,000	36,200,000
2069	18,200,000	18,200,000	36,400,000
2070	18,300,000	18,300,000	36,600,000
2071	18,400,000	18,400,000	36,800,000
2072	18,500,000	18,500,000	37,000,000
2073	18,600,000	18,600,000	37,200,000
2074	18,700,000	18,700,000	37,400,000
2075	18,800,000	18,800,000	37,600,000
2076	18,900,000	18,900,000	37,800,000
2077	19,000,000	19,000,000	38,000,000
2078	19,100,000	19,100,000	38,200,000
2079	19,200,000	19,200,000	38,400,000
2080	19,300,000	19,300,000	38,600,000
2081	19,400,000	19,400,000	38,800,000
2082	19,500,000	19,500,000	39,000,000
2083	19,600,000	19,600,000	39,200,000
2084	19,700,000	19,700,000	39,400,000
2085	19,800,000	19,800,000	39,600,000
2086	19,900,000	19,900,000	39,800,000
2087	20,000,000	20,000,000	40,000,000
2088	20,100,000	20,100,000	40,200,000
2089	20,200,000	20,200,000	40,400,000
2090	20,300,000	20,300,000	40,600,000
2091	20,400,000	20,400,000	40,800,000
2092	20,500,000	20,500,000	41,000,000
2093	20,600,000	20,600,000	41,200,000
2094	20,700,000	20,700,000	41,400,000
2095	20,800,000	20,800,000	41,600,000
2096	20,900,000	20,900,000	41,800,000
2097	21,000,000	21,000,000	42,000,000
2098	21,100,000	21,100,000	42,200,000
2099	21,200,000	21,200,000	42,400,000
2100	21,300,000	21,300,000	42,600,000

Table II

TOTAL CHARGES ON CUSTOMS REVENUE

Years	Foreign Obligations	Internal Loans	Total
	\$	\$	\$
1923	58.034.700	36.220.739	94.255.43
1924	59.523.700	32.053.112	91.576.81
1925	59.511.700	29.127.260	88.638.96
1926	59.500.700	30.875.971	90.376.67
1927	59.488.700	24.644.775	84.133.47
1928	59.473.700	25.948.793	85.422.49
1929	59.461.700	21.646.046	81.107.74
1930	59.446.700	17.423.664	76.870.36
1931	59.366.000	6.322.500	65.688.50
1932	59.201.000	6.052.000	65.253.50
1933	49.756.000	5.782.500	55.538.50
1934	49.751.000	5.512.500	55.263.50
1935	49.745.000	5.242.500	54.987.50
1936	49.640.000	4.972.500	54.612.50
1937	49.634.000	4.702.500	54.336.50
1938	49.628.000	.. .. .	49.628.00
1939	49.621.000	.. .. .	49,621.00
1940	49.614.000	.. .. .	49.614.00
1941	41.487.000	.. .. .	41.487.00
1942	41.480.000	.. .. .	41,480.00
1943	41.472.000	.. .. .	41,472.00
1944	33.300.000	.. .. .	33.300.00
1945	33.300.000	.. .. .	33.300.00
1946	15.000.000	.. .. .	15.000.00
1947			
to	15.000.000	.. .. .	15.000.00
1960			
1961	nil	.. .. .	nil
1962	nil		nil

Comparing now the figures in Table II with the figures of the probable future revenue of the Customs, as we have worked them out, Table III shows which nett balance may be available for consolidation purposes.

Year	Foreign Disbursements	Interest Loans	Nett Balance
1922	58,021,700	38,430,722	19,590,978
1923	59,523,700	33,653,112	25,870,588
1924	59,211,700	33,124,280	26,087,420
1925	59,500,700	33,875,271	25,625,429
1926	59,422,700	34,044,742	25,377,958
1927	59,472,700	32,348,792	27,123,908
1928	59,451,700	31,548,842	27,902,858
1929	59,442,700	31,423,621	28,019,079
1930	59,306,000	29,222,700	30,083,300
1931	59,301,000	29,000,000	30,301,000
1932	49,755,000	27,122,200	22,632,800
1933	49,751,000	27,122,200	22,628,800
1934	49,748,000	27,122,200	22,626,000
1935	49,745,000	27,122,200	22,623,000
1936	49,742,000	27,122,200	22,620,000
1937	49,739,000	27,122,200	22,617,000
1938	49,736,000	27,122,200	22,614,000
1939	49,733,000	27,122,200	22,611,000
1940	49,730,000	27,122,200	22,608,000
1941	49,727,000	27,122,200	22,605,000
1942	49,724,000	27,122,200	22,602,000
1943	49,721,000	27,122,200	22,599,000
1944	49,718,000	27,122,200	22,596,000
1945	49,715,000	27,122,200	22,593,000
1946	49,712,000	27,122,200	22,590,000
1947	49,709,000	27,122,200	22,587,000
1948	49,706,000	27,122,200	22,584,000
1949	49,703,000	27,122,200	22,581,000
1950	49,700,000	27,122,200	22,578,000
1951	49,697,000	27,122,200	22,575,000
1952	49,694,000	27,122,200	22,572,000
1953	49,691,000	27,122,200	22,569,000
1954	49,688,000	27,122,200	22,566,000
1955	49,685,000	27,122,200	22,563,000
1956	49,682,000	27,122,200	22,560,000
1957	49,679,000	27,122,200	22,557,000
1958	49,676,000	27,122,200	22,554,000
1959	49,673,000	27,122,200	22,551,000
1960	49,670,000	27,122,200	22,548,000
1961	49,667,000	27,122,200	22,545,000
1962	49,664,000	27,122,200	22,542,000
1963	49,661,000	27,122,200	22,539,000
1964	49,658,000	27,122,200	22,536,000
1965	49,655,000	27,122,200	22,533,000
1966	49,652,000	27,122,200	22,530,000
1967	49,649,000	27,122,200	22,527,000
1968	49,646,000	27,122,200	22,524,000
1969	49,643,000	27,122,200	22,521,000
1970	49,640,000	27,122,200	22,518,000
1971	49,637,000	27,122,200	22,515,000
1972	49,634,000	27,122,200	22,512,000
1973	49,631,000	27,122,200	22,509,000
1974	49,628,000	27,122,200	22,506,000
1975	49,625,000	27,122,200	22,503,000
1976	49,622,000	27,122,200	22,500,000
1977	49,619,000	27,122,200	22,497,000
1978	49,616,000	27,122,200	22,494,000
1979	49,613,000	27,122,200	22,491,000
1980	49,610,000	27,122,200	22,488,000
1981	49,607,000	27,122,200	22,485,000
1982	49,604,000	27,122,200	22,482,000
1983	49,601,000	27,122,200	22,479,000
1984	49,598,000	27,122,200	22,476,000
1985	49,595,000	27,122,200	22,473,000
1986	49,592,000	27,122,200	22,470,000
1987	49,589,000	27,122,200	22,467,000
1988	49,586,000	27,122,200	22,464,000
1989	49,583,000	27,122,200	22,461,000
1990	49,580,000	27,122,200	22,458,000
1991	49,577,000	27,122,200	22,455,000
1992	49,574,000	27,122,200	22,452,000
1993	49,571,000	27,122,200	22,449,000
1994	49,568,000	27,122,200	22,446,000
1995	49,565,000	27,122,200	22,443,000
1996	49,562,000	27,122,200	22,440,000
1997	49,559,000	27,122,200	22,437,000
1998	49,556,000	27,122,200	22,434,000
1999	49,553,000	27,122,200	22,431,000
2000	49,550,000	27,122,200	22,428,000
2001	49,547,000	27,122,200	22,425,000
2002	49,544,000	27,122,200	22,422,000
2003	49,541,000	27,122,200	22,419,000
2004	49,538,000	27,122,200	22,416,000
2005	49,535,000	27,122,200	22,413,000
2006	49,532,000	27,122,200	22,410,000
2007	49,529,000	27,122,200	22,407,000
2008	49,526,000	27,122,200	22,404,000
2009	49,523,000	27,122,200	22,401,000
2010	49,520,000	27,122,200	22,398,000
2011	49,517,000	27,122,200	22,395,000
2012	49,514,000	27,122,200	22,392,000
2013	49,511,000	27,122,200	22,389,000
2014	49,508,000	27,122,200	22,386,000
2015	49,505,000	27,122,200	22,383,000
2016	49,502,000	27,122,200	22,380,000
2017	49,499,000	27,122,200	22,377,000
2018	49,496,000	27,122,200	22,374,000
2019	49,493,000	27,122,200	22,371,000
2020	49,490,000	27,122,200	22,368,000
2021	49,487,000	27,122,200	22,365,000
2022	49,484,000	27,122,200	22,362,000
2023	49,481,000	27,122,200	22,359,000
2024	49,478,000	27,122,200	22,356,000
2025	49,475,000	27,122,200	22,353,000
2026	49,472,000	27,122,200	22,350,000
2027	49,469,000	27,122,200	22,347,000
2028	49,466,000	27,122,200	22,344,000
2029	49,463,000	27,122,200	22,341,000
2030	49,460,000	27,122,200	22,338,000
2031	49,457,000	27,122,200	22,335,000
2032	49,454,000	27,122,200	22,332,000
2033	49,451,000	27,122,200	22,329,000
2034	49,448,000	27,122,200	22,326,000
2035	49,445,000	27,122,200	22,323,000
2036	49,442,000	27,122,200	22,320,000
2037	49,439,000	27,122,200	22,317,000
2038	49,436,000	27,122,200	22,314,000
2039	49,433,000	27,122,200	22,311,000
2040	49,430,000	27,122,200	22,308,000
2041	49,427,000	27,122,200	22,305,000
2042	49,424,000	27,122,200	22,302,000
2043	49,421,000	27,122,200	22,299,000
2044	49,418,000	27,122,200	22,296,000
2045	49,415,000	27,122,200	22,293,000
2046	49,412,000	27,122,200	22,290,000
2047	49,409,000	27,122,200	22,287,000
2048	49,406,000	27,122,200	22,284,000
2049	49,403,000	27,122,200	22,281,000
2050	49,400,000	27,122,200	22,278,000
2051	49,397,000	27,122,200	22,275,000
2052	49,394,000	27,122,200	22,272,000
2053	49,391,000	27,122,200	22,269,000
2054	49,388,000	27,122,200	22,266,000
2055	49,385,000	27,122,200	22,263,000
2056	49,382,000	27,122,200	22,260,000
2057	49,379,000	27,122,200	22,257,000
2058	49,376,000	27,122,200	22,254,000
2059	49,373,000	27,122,200	22,251,000
2060	49,370,000	27,122,200	22,248,000
2061	49,367,000	27,122,200	22,245,000
2062	49,364,000	27,122,200	22,242,000
2063	49,361,000	27,122,200	22,239,000
2064	49,358,000	27,122,200	22,236,000
2065	49,355,000	27,122,200	22,233,000
2066	49,352,000	27,122,200	22,230,000
2067	49,349,000	27,122,200	22,227,000
2068	49,346,000	27,122,200	22,224,000
2069	49,343,000	27,122,200	22,221,000
2070	49,340,000	27,122,200	22,218,000
2071	49,337,000	27,122,200	22,215,000
2072	49,334,000	27,122,200	22,212,000
2073	49,331,000	27,122,200	22,209,000
2074	49,328,000	27,122,200	22,206,000
2075	49,325,000	27,122,200	22,203,000
2076	49,322,000	27,122,200	22,200,000
2077	49,319,000	27,122,200	22,197,000
2078	49,316,000	27,122,200	22,194,000
2079	49,313,000	27,122,200	22,191,000
2080	49,310,000	27,122,200	22,188,000
2081	49,307,000	27,122,200	22,185,000
2082	49,304,000	27,122,200	22,182,000
2083	49,301,000	27,122,200	22,179,000
2084	49,298,000	27,122,200	22,176,000
2085	49,295,000	27,122,200	22,173,000
2086	49,292,000	27,122,200	22,170,000
2087	49,289,000	27,122,200	22,167,000
2088	49,286,000	27,122,200	22,164,000
2089	49,283,000	27,122,200	22,161,000
2090	49,280,000	27,122,200	22,158,000
2091	49,277,000	27,122,200	22,155,000
2092	49,274,000	27,122,200	22,152,000
2093	49,271,000	27,122,200	22,149,000
2094	49,268,000	27,122,200	22,146,000
2095	49,265,000	27,122,200	22,143,000
2096	49,262,000	27,122,200	22,140,000
2097	49,259,000	27,122,200	22,137,000
2098	49,256,000	27,122,200	22,134,000
2099	49,253,000	27,122,200	22,131,000
2100	49,250,000	27,122,200	22,128,000

Table III

Table III

BALANCE AVAILABLE FOR CONSOLIDATION

(In round figures)

Years	Nett Revenue	Charges	Deficit	Surplus
	\$	\$	\$	\$
1923	88.000.000	94.250.000	6.250.000	.. . . .
1924	121.000.000	91.500.000	.. . . .	29.500.000
1925	124.000.000	88.700.000	.. . . .	35.300.000
1926	127.000.000	90.500.000	.. . . .	36.500.000
1927	130.000.000	84.150.000	.. . . .	45.850.000
1928	132.000.000	85.500.000	.. . . .	46.500.000
1929	134.000.000	81.100.000	.. . . .	52.900.000
1930	136.000.000	77.000.000	.. . . .	59.000.000
1931	138.000.000	66.000.000	.. . . .	72.000.000
1932	140.000.000	65.000.000	.. . . .	75.000.000
1933	142.000.000	55.500.000	.. . . .	86.500.000
1934	144.000.000	55.500.000	.. . . .	88.500.000
1935	146.000.000	55.000.000	.. . . .	91.000.000
1936	148.000.000	55.000.000	.. . . .	93.000.000
1937	150.000.000	54.500.000	.. . . .	95.500.000
1938	150.000.000	50.000.000	.. . . .	100.000.000
1939	150.000.000	50.000.000	.. . . .	100.000.000
1940	150.000.000	50.000.000	.. . . .	100.000.000
1941	150.000.000	41.500.000	.. . . .	108.500.000
1942	150.000.000	41.500.000	.. . . .	108.500.000
1943	150.000.000	41.500.000	.. . . .	108.500.000
1944	150.000.000	33.500.000	.. . . .	116.500.000
1945	150.000.000	33.500.000	.. . . .	116.500.000
1946	150.000.000	15.000.000	.. . . .	135.000.000
1947				
to	150.000.000	15.000.000	.. . . .	135.000.000
1960				
1961	150.000.000	nil	.. . . .	150.000.000

It appears from Table III that a 6,250,000 dollars deficit is to be foreseen for the year 1923, but that there will be a surplus balance of 30 millions dollars in 1924, regularly increasing each year till it reaches 72 millions dollars in 1931. The increase in the balance is due to a large extent to the total of the existing charges dropping from 94,250,000 dollars in 1923 to 66 millions in 1931 and to 55 millions in 1933.

It seems therefore that a consolidation scheme may be based on the Customs Revenue, provided:

a) that means be devised to find some additional funds during the first years, and

b) that interest only on the consolidation bonds be paid up to 1931, redemption beginning in 1932.

The available surpluses from 1932 onwards are sufficient to secure amortization in a short period of time.

V.—A Consolidation Scheme

A mere glance at the tables of the Chinese Foreign and Domestic indebtedness, as published in October 1922 by the Ministry of Finance, shows that the indebtedness consists of a variety of debts, few loans totalling more than ten millions dollars, and most of them being loans of less than one million dollars. The currencies are different, some of the debts being in silver dollars, some in sterling, some in yens, some in francs, etc. The rates of interest and the dates or periods of repayment also widely differ. It seems impossible to consolidate such a mass of heterogeneous obligations with bonds in one single currency, bearing all the same rate of interest, and redeemable under the same conditions.

With regard to the currency, there can be no question of converting the domestic debts in dollars into bonds in a foreign currency. On the other hand, if creditors of debts in foreign currencies are offered bonds in silver dollars, they will point out that the conversion of sterling or gold dollars into Chinese currency involves a risk, and that they will not accept the risk unless conversion is made at a higher rate than the then prevailing exchange quotation. A creditor in sterling for instance may request that his debt be converted into dollars at the rate of eleven to the pound when the market rate is nine only, and so on. The best system, to avoid discussions and losses for the Government, would be to issue as many sets of new bonds as there are different kinds of currencies employed in the loan agreements, say one set in Chinese dollars, one set in sterling, one set in francs, etc., and to offer dollar bonds to the dollar creditors, sterling bonds to the sterling creditors, franc bonds to the franc creditors, etc.

The next point is interest. Most of the unsecured debts bear interest at the rate of 8% or over. In substitution for them, well secured bonds guaranteed on the revenue of the Customs ought to be accepted at lower rates, coupled with a reasonable redemption premium, for instance 7% bonds issued at 87,50 and redeemable at 100. But several of the unsecured debts have been contracted at better terms for China, e. g. the Loans of the Chicago Bank and of the Pacific Development Co at 6%, the French Industrial Loan of 1913 at 5%, the War Participation Loan at 7%. For the 7% loans, 7% bonds ought to be offered at par. As to the 6% and 5% loans, the original terms ought to be preserved or new bonds issued at 6% and 5%.

So much the same for the periods of redemption. The 1913 French Industrial Loan is redeemable in 34 years beginning from 1930. There is no reason to alter the original schedule and to substitute for it a shorter period of amortization. For other loans it may be advisable sometimes to offer bonds redeemable in a longer period. This may facilitate negotiations since the Government has no power to impose consolidation and must discuss terms with each creditor.

Taking into consideration the following facts:

- a) that part of the unsecured indebtedness bears interest at less than 8%;
- b) that when rates over 8% were agreed it was on account of the risk involved in lending money to the Government without proper securities, and that once adequate security is furnished the excessive rates must be lowered;
- c) that the capital of some of the debts may be reduced, since it is disproportionate with the amounts actually received by the Treasury; and
- d) that among the unsecured debts are \$33,700,000 Treasury Notes which the holders never expected to be redeemed in full and on which a substantial rebate may be imposed,

it seems that the total unsecured indebtedness of the Chinese Government, as it will stand by the end of 1923, may be met by the issue of consolidation bonds to a nominal amount not exceeding 625 millions dollars, bearing interest at 7% per year from October 1st 1923, the first semi-annual coupon being payable on April 1st 1924.

The calculation is based on the assumption that the Commission to which the Washington Agreements have entrusted the duty to establish the 2½ Customs surtax will meet and reach a decision before the end of the year.

Now the service of *interest and amortization in twelve years* of a nominal capital of *625 millions dollars* bearing interest at 7% requires \$77,814,000 a year.

Interest alone requires \$ 43,750,000 a year. If it is to run from Octobre 1923 the charge for the year 1923 will be \$ 10,937,500.

From Table III it appears that amortization cannot begin prior to 1932, the surpluses from 1923 till 1931 being sufficient to pay interest only.

Table IV shows how the scheme can work:

Table IV

TABLE SHOWING SERVICE OF A CONSOLIDATION 7% LOAN OF 625 MI
DOLLARS NOMINAL REDEEMABLE IN TWELVE YEARS FROM THE
SURPLUSES OF THE CUSTOMS REVENUE.

Year	Available surplus of the Customs	Service of consolidation Loan	Deficit to be met from other sources	Nett su of Cust
	\$	\$	\$	\$
1923	—6,250,000 ⁽¹⁾	10,937 500	17,187,000	...
1924	29,500,000	43,750,000	14,250,000	...
1925	35,300,000	43,750,000	8,450,000	...
1926	36,500,000	43,750,000	7,250,000	...
1927	45,850,000	43,750,000	.. . . .	2,100.
1928	46,500,000	43,750,000	.. . . .	2,750.
1929	52,900,000	43,750,000	.. . . .	9,650.
1930	69,000,000	43,750,000	.. . . .	15,250.
1931	72,000,000	43,750,000	.. . . .	23,250.
1932	75,000,000	77,814,000	2,814,000	...
1933	86,500,000	77,814,000	.. . . .	8,686.
1934	88,500,000	77,814,000	.. . . .	10,686.
1935	91,000,000	77,814,000	.. . . .	13,186.
1936	93,000,000	77,814,000	.. . . .	15,186.
1937	95,000,000	77,814,000	.. . . .	17,686.
1938	100,000,000	77,814,000	.. . . .	22,186.
1939	100,000,000	77,814,000	.. . . .	22,186.
1940	100,000,000	77,814,000	.. . . .	22,186.
1941	108,500,000	77,814,000	.. . . .	30,686.
1942	108,500,000	77,814,000	.. . . .	30,686.
1943	108,500,000	77,814,000	.. . . .	30,686.
1944	116,500,000	nil	.. . . .	116,500.
	etc.	nil	.. . . .	etc.

(1) Deficit

Some persons may think that the above figures are too optimistic. We believe them to be rather conservative. It must be noted for instance that the charges in sterling have been reckoned at ten dollars to the pound. If the present rate under nine dollars maintains as an average during the current year, the sterling charges in 1923 will amount to \$52,000,000 instead of the tabulated \$ 58,000,000, a decrease of \$ 6,000,000 which will almost entirely wipe out the initial deficit of \$ 6,250,000. There is also a probability that the full 5 % and the 2 ½ surtax will bring in more revenue than anticipated.

Anyway, taking the figures in table IV as they stand, the question is to find security for the adverse balances of the years 1923-1926, that is to say in round figures for :

\$ 17,000,000	in 1923
\$ 14,000,000	in 1924
\$ 8,500,000	in 1925
\$ 7,250,000	in 1926.

If the consolidation scheme is executed, all the present indebtedness will be included in it, and consequently all the pledged revenues other than the Customs will be freed from charges. More particularly, there will be no more claims over the surpluses of the Gabelle. It seems then that the said surpluses could be given as additional guarantee for such a period of time as deemed necessary. A maximum of one million 500 thousand dollars per month from October 1923 to June 1925 and one million from July 1925 till the end of 1926 would be sufficient. If the Government would like better to keep the Salt surpluses free of charges so as to be able to dispose of them, no doubt that an arrangement with the Chinese and Foreign Banks may be devised to that effect. Once a sound scheme for a 625 millions consolidation has been agreed upon, there ought to be no difficulty in finding some equitable adjustment for the deficit of the 1923-1926 period, inasmuch as the said deficit will probably be much less in fact than tabulated in table IV.

A method for meeting the possible 1923 deficit would be to have interest on the new bonds running only from January 1924, the nominal capital being proportionately increased. The Government might also consider the advisability of altering the amortization tables of the *National Consolidated Debt Service* created in 1921. A two years postponement of the redemption of some of the loans included in that service might easily procure a balance of two or three millions a year in 1924 and 1925.

VI.—Main Characteristics of the Proposed Consolidation Scheme.

1° No distinction is made in the scheme between the domestic and the foreign indebtedness. The idea is to treat all creditors of the Chinese Government alike and give them the same reliable security, whether they are Chinese citizens or firms, or nationals of Foreign Powers. It is a question of fairness and justice. It is also to the best interest of the country. The purpose of the consolidation is to restore China's credit. Such credit would not be restored if part of the indebtedness of the Chinese Government would remain unsecured, or unpaid, or irregularly paid. It has become essential for the Chinese Government that the investing public should make no distinction between China's internal and external credit, the external credit being considered as sound and the internal credit as bad or doubtful. When part of the credit of a country is doubtful, the whole of such credit is affected thereby. The Chinese Government must look forward for the time when they will be able to borrow money without having to give specific sources of revenue as guarantee: the first step towards such progress is regular and punctual performance of *all Government obligations*.

2° The effect of the consolidation, when completed, will be to substitute the Customs Revenue and the Salt Revenue for all the other pledged revenues. There will be no more foreign or domestic charges on the Wine and Tobacco tax, on the Stamp duty, on the Octroi, on the Title Deeds tax, etc. The Chinese Government will recover full rights over these various sources of revenue. Besides, the Salt Revenue will be pledged only for a few years and for a comparatively small amount. All the present creditors being satisfied, the Ministry of Finance shall not be any more pressed by their incessant demands for funds, and may devote its time and energy to the study of the most important financial problems.

3° A necessary condition for the success of any consolidation scheme based on the Customs Revenue is that all the *nett revenue* after payment of the expenditure of the Customs administration be appropriated by preference for the service of the consolidation bonds. No other expenditure to take precedence over the payment of interest and amortization of the said bonds. Consequently, the appropriations which have already been granted for the Wai Chiao Pou and for other such Government Departments, or which may be granted in future shall be paid only on the surplus remaining *after* payment of the interest and amortization of the consolidation bonds. If Government expenditure of whatever sort were allowed to take precedence over the consolidation bonds, the security of these bonds would be impaired, and the whole scheme would fail.

Since however the result of the consolidation would be to put most of the Salt surpluses at the disposal of the Government, the said expenditure might be made payable by preference from the said surpluses.

4° In connection with the above remark, it must be noted that "appropriations" out of the increase resulting from the full 5% tariff or out of the increase resulting from the 2½ surtax are not feasible. No separate accounts of the increase are to be kept by the Customs administration. The proceeds of the old tariff and of the increased tariff are to be received in one single account since they are to be paid by the importers in a lump sum. A merchant who imports in 1924 articles valued \$1000 will not be charged by the Customs \$35 for the old tariff, plus \$15 for the full 5%, plus \$25 for the 2½ surtax. He will be charged \$75 odd and the entry in the books of the Customs will be an entry for \$75. No subdistinctions will be made in the accounts and it will be impossible to charge in the accounts a particular expense to a particular portion of the revenue.

5° The question of a future increase of the tariff up to 12 ½ % as compensation for the abolition of *likin* has been entirely left out of the present Memorandum. The suppression of the *likin* cannot be carried out until the relations between the Central Government and the Provinces have been clearly defined and an agreement has been reached as to which revenue shall belong to the Government and which to the Provinces. Besides, it is admitted that the increase up to 12 ½ % will only compensate for the losses resulting from the suppression of the *likin*. The reform is not intended to procure additional revenue to the State and cannot be used for purposes of consolidation.

6° The question of the unpaid railway loans has also been left out of the Memorandum because these loans are secured on the railways themselves with additional specific guarantees and because their service may be met from the railways receipts.

January 23rd 1923.



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