

# Contribution and Modern Public Debt: On the Nature of Patriotic Public Debt in the Late Qing Dynasty and the Early Republic of China<sup>\*</sup>

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There are different opinions about the first modern domestic debt in China. The theorists judge whether a certain public debt has modernity according to whether it has modern public debt form, ignoring the inconsistency between form and content, institutional provisions and actual implementation. The modern nature of public debt must have both the form and content of modern public debt. Based on the analysis of the issuing background, system design, collection and repayment of patriotic bonds in the late Qing Dynasty and the early Republic of China, it is considered that the part of patriotic bonds subscribed by the Qing royal family is still the nature of donation and return, while the part subscribed by ordinary businessmen and people in the early Republic of China has a modern nature. The dual nature of patriotic bonds is closely related to the social background when the bonds are issued.

*Keywords:* donation and return, modern nature, patriotic bonds, late Qing Dynasty and early Republic of China

Patriotic bond is a domestic bond issued at the time of regime change and plays an important role in the history of modern Chinese public debt. In recent years, some scholars have paid more attention to it. Studies have focused on the issuance process of patriotic bonds in the late Qing Dynasty, the reasons for their failure, the donations from relatives and nobles in the issuance and their significance during the Xinhai Revolution (Liu, 2009; Wang, 2012; Yao, 2002; Pan, 2005; Meng, 1996; Zhou, 2000, pp. 434-435). There is lack of proper attention to the nature of the bonds and the handling of the early Republic of China. Therefore, the author regards the issuance of patriotic bonds in the late Qing Dynasty and the early Republic of China as a whole, from the aspects of issuing background, system design, raising and repayment, and makes use of modern bond theory to explore its nature.

## Background and System Design of Patriotic Bonds' "Issuance"

Patriotic bonds were "issued" by the Qing government under the background of serious insufficiency of fiscal revenue and expenditure. After the Sino-Japanese War, the Qing government was under great pressure to pay reparations, and the financial crisis was aggravated. The outbreak of the Wuchang uprising made its

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already poor financial situation worse (The Second Historical Archives of China, 1979, pp. 172-173; Chen, 1979, p. 213; The First Historical Archives of China, 1981, p. 44). In order to ease the financial difficulties, the Qing government stepped up negotiations with foreign countries in an attempt to obtain large sums of money (Counsellors Office of the Head Office of the People's Bank of China, 1991, p. 840). The plan of the Qing government to finance the fiscal deficit by borrowing foreign debt was aborted. At the time of "empty treasury and no self-protection", the Qing Court had no time to take into account the "lack of credit" caused by the issuance of domestic debt, and once again borrowed domestic debt on a large scale (The First Historical Archives of China, 1997, p. 68).

When the patriotic bonds were issued, the rule of the Qing government was shaky. At this time, the national revolutionary wave was rising, and the southern provinces broke away from the Qing Dynasty. Wealthy businessmen settled their families, hid their property, or emigrated. The Qing Dynasty was riddled with holes, disorganized and lost its authority to rule the world and command all directions, and the legitimacy of its rule was also questioned by the people. In this context, the Qing government raised public debt and suppressed the revolution in order to maintain its precarious rule. Although the purpose of borrowing is different from the sovereign private debt, having certain national credit is the premise and basis of the existence of modern public debt. At this time, the Qing government had lost the basic credit needed to issue national debt. From the perspective of system design, the Qing government formulated the Constitution of Patriotic Bonds, the Implementation Rules of Patriotic Bonds, and the Rules for the reward and disposal of Patriotic Bonds to carefully plan the issuance process of bonds<sup>1</sup>. The Constitution of Patriotic Bond stipulates in detail the purpose, total amount, denomination, purchase period, and object of raising of the bond. Among them, the Bank of the Qing Dynasty was the agent of the collection and repayment of bonds, and the bond notes could be used as the preparation for the bank to issue paper money, and the holders could buy and sell or redeem at will, which met the requirements of the modern bond system. "Voluntary" means that when the borrower borrows, the borrower can choose whether to borrow or not, borrow more or less, etc., which is one of the important characteristics of modern public debt (Zhang, 2007, p. 16). From this point of view, the series of documents issued by the Qing government have strong compulsion. Although the constitution clearly stipulated that all subjects of the Empire could buy bonds, it was required that the princes, the grand officers outside Beijing, the government officials outside Beijing, and those who held public office must buy them. Not only that, the Qing government also graded the purchase according to the income of each member, and rewarded the excess buyers according to the subscription amount, punished the buyers who had the obligation to buy but did not do their best at their discretion, ordered those who hid their income to double the purchase, and severely punished those who deliberately resisted the non-buyers.

After the Xinhai Revolution broke out, the Qing government collapsed and the Republic of China was established, and the patriotic bonds were handled by the Beiyang government. On May 31, 1912, the Beiyang government promulgated the Regulations on Patriotic Bonds, which stipulated that the bonds were "no different from newly collected bonds" and that the holders were entitled to receive principal and interest from the central government of the Republic of China "in proof of credit". From the literal point of view, the regulations continued the Qing government's provisions on the amount of public debt raised, interest, guarantee, repayment

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<sup>1</sup> "Constitution of Patriotic Bonds", Cabinet Official Gazette, No. 116, 1911, pp. 5-6; "Implementation Rules of Patriotic Bonds", Cabinet Official Gazette, October 1911, pp. 121-123.

period, etc., eliminated the mandatory content, and better protected the rights and interests of creditors. Therefore, compared with the early public debt which was often cancelled for no reason due to the change of monarch, the reputation of patriotic public debt in the early Republic of China was greatly improved and its modern nature was evident.

### **The Collection and Repayment of Patriotic Bonds**

From the point of view of collection and repayment, patriotic bonds were distributed by compulsory means in the late Qing Dynasty. The government bonds had not been sold out, the Qing government was dead, and the government bonds had been borrowed without being repaid. After the establishment of the Republic of China, the political situation was relatively stable, and the Beiyang government issued bonds according to the regulations and paid the principal and interest on time, demonstrating the notorious national credit.

After the Constitution of Patriotic Bonds was issued, princes and nobles were asked to take the lead in donating money and set an example for the officials. The war and the situation are uncertain, and the major players are taking a wait-and-see attitude to bond buying. To this end, the degree branch asked to “allocate internal funds to buy patriotic bonds to promote, and those princes and ministers who do not buy will be corrected”<sup>2</sup>. Yuan Shikai knew that the performance of his relatives would directly affect the amount of public debt raised, so he “personally asked for donations from his relatives” and constantly pressed for military pay (Beijing Municipal Archives, 2006, p. 705).

Donations did not trickle in until December, but in limited amounts (Research Office of Chinese History, Institute of Modern History, Chinese Academy of Social Sciences, 1980, p. 335; Yun, 2004, p. 567; Rong, 1986, p. 201). The performance of the relatives and nobles and the Qing government is far from the idea; someone once said to Zheng Xiaoxu, “the relatives and nobles have private storage of 29 million, but are not willing to borrow as national debt, only Qing Di offers 100,000; although they are called the relatives and nobles, they can also destroy Qing regime” (Lao, 1993, p. 1372). In view of this, the Consultative Council discussed the means of raising funds on December 27, and decided that members should first purchase the money, and then persuade their relatives to donate it, and “investigate the real amount of their relatives’ deposits, and compel them to donate by force”<sup>3</sup>. Empress Dowager Longyu also issued orders on many occasions, asking the princes and ministers to destroy the family to alleviate the country’s difficulties (Chinese Historical Society, 2000, pp. 317-318). Under the repeated orders of the Empress Dowager Longyu and the constant urging of the fundraising minister, the princes had to donate freely (Wang, 2012, p. 60; Beijing Municipal Archives, 2006, pp. 707-708). Despite this, in addition to the money subscribed within the Qing Court and about 10.16 million yuan raised from the princes and civil and military officials in Beijing, ordinary businessmen and people hardly subscribed (Wang, 1933, p. 2).

After the fall of the Qing regime, the patriotic bonds were continued by the Yuan Shikai government. In March, the old degree branch published advertisements, widely publicized, and deepened the public’s understanding of public debt<sup>4</sup>. In May, the Ministry of Finance promulgated the “Regulations on Patriotic Bonds”, requiring holders to carry the actual proceeds of the original bonds and exchange the bonds within a

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<sup>2</sup> Shen Bao, 5th edition, November 5, 1911.

<sup>3</sup> Declaration, 7th edition, January 1, 1912.

<sup>4</sup> “Patriotic Bonds are now worthy of the name”, Declaration, 2nd edition, March 5, 1912.

specified time limit<sup>5</sup>. Some provinces have also made a lot of propaganda to promote the ordinary people to subscribe to the bonds, and have achieved a certain effect<sup>6</sup> (Zeng, 2008, p. 566). As of November 1915, the denomination of the bonds subscribed by the ordinary businessmen and people was 1,646,790 yuan, plus the money subscribed and solicited from the Qing Court which was 10.16 million yuan, a total of 11,806.79 million yuan (Wang, 1933, p. 2; Qian, 1984, p. 6).

The repayment of patriotic bonds was handled by the Beiyang government in two parts. For the part held by the Qing royal family, the Ministry of Finance will recover and destroy it, replace the six percent bond notes in the first year of the Republic of China, and cancel the outstanding interest<sup>7</sup>.

For the ordinary commercial and public subscription, the Bank of China will repay the principal and interest, and the total interest paid will be 660,618,7 yuan<sup>8</sup>. After four times of drawing lots, the principal was repaid in installments totaling 1.32 million yuan<sup>9</sup>. As of March 1921, there was still 326,779 yuan of principal unpaid, and the Ministry of Finance was allowed to settle the internal debt case for handling (Zuo, 1987, p. 2). After 1917, the patriotic debt was repaid with “capital notes”. The last time the principal was repaid, the market was out of Beijing banknotes, and the cash was discounted by 30%. In November 1921, the patriotic debt was fully repaid (Jia, 1930, p. 491).

From the point of view of the way of raising and repayment, the patriotic bonds in the late Qing Dynasty were distributed by administrative means, and there were borrowings without repayments, which violated the voluntary and rewarding principle of modern public bonds. Patriotic bonds were purchased voluntarily by the people in the early Republic of China. The Beiyang government also formulated the “Punishment Order for Obstructing the Credit of Domestic Debts”, which imposed penalties and fines on those who intentionally delayed or did not pay principal and interest, converted the amount of money into injustice, and refused to accept the payment of taxes and debts in full<sup>10</sup>. It shows the sincerity of the government to repay debts and fulfill contracts. Not only that, the Beiyang government also properly handled part of the patriotic bonds subscribed by the Qing royal family, and paid the principal and interest on schedule for the part purchased by ordinary businessmen and people, demonstrating the notorious national credit.

### Conclusions

As to which domestic debt is the first domestic debt of modern nature in our country, there is quite a controversy in the academic circle. There are three mainstream views: General Tso’s fifth western expedition to borrow Chinese businessmen lending part said (Pan, 2007, pp. 65, 79; Li, 2006, p. 113; Xu, 1962, p. 3); interest lenders said (Liu, 2008a, p. 17; 2008b, p. 6); and Zhaoxin stock said (Yu, 2001, p. 23; Jiang, 2003, p. 23; Wang, 2000, p. 1422; Deng, 1990, p. 187; Zhao, 2002, p. 539). Carefully analyzing the basis of the above argument, it is not difficult to find that most of the theorists judge whether a certain bond has a modern nature based on whether it has a modern form of public debt. Scholar Li Yu noted that it is necessary to measure whether a certain bond has a modern nature from two aspects of form and content, but did not make a detailed analysis. It neglects the inconsistency between form and content, system regulations and actual implementation. The author

<sup>5</sup> “Notice of the Exchange of Patriotic Bonds for Notes”, Ministry of Finance, Official Gazette, No. 304, 1913, p. 19.

<sup>6</sup> Shen Bao, 6th edition, July 5, 1912.

<sup>7</sup> Liang Qichao, Secretary General of Finance, Government Gazette No. 661, 1917, p. 3.

<sup>8</sup> “Annual Repayment Table of Patriotic Bonds”, Statistical Monthly, No. 7, 1918, pp. 17-18.

<sup>9</sup> “Procedure for Repaying the Fourth Batch of Patriotic Bonds by Drawing Lots”, Fiscal Monthly, No. 72, 1919, pp. 4-5.

<sup>10</sup> “Penalty Order for Damaging Credit of Domestic Debt”, Current Affairs Report, No. 8, 1915, p. 99.

believes that the modern nature of public debt must have both the form and content of modern public debt, which not only has the provisions on the variety, issue amount, issue authority, object, price, interest and repayment method, but also has the sincerity and strength to repay the principal and interest of the bond on time. According to this, the author thinks that the part of patriotic bonds subscribed by the imperial family is still the nature of donation and return, while the part purchased by ordinary businessmen in the early Republic of China has a modern nature.

In terms of form, the Constitution of Patriotic Bonds in the late Qing Dynasty stipulated in detail the issuance amount, interest and repayment methods of the bonds, which had the form of modern bonds, but its mandatory provisions violated the voluntary principle of modern bonds and had a strong feudal character. In the early Republic of China, the Regulations on Patriotic Bonds retained most of the provisions of the late Qing Dynasty, while abolishing the mandatory content, which fully possessed the form of modern public bonds. In terms of the way of raising and repayment, the patriotic bonds were raised by compulsory means in the late Qing Dynasty. Before the bonds were sold out, the Qing government collapsed and the debt repayment became empty talk. After the establishment of the Republic of China, the Beiyang government continued to handle patriotic bonds, and paid the principal and interest on schedule for the ordinary businessmen and people in the early Republic of China, demonstrating the notorious national credit.

In the late Qing Dynasty and the early Republic of China, the nature of modern public debt is closely related to the social background at that time. When the patriotic bonds were issued at the end of the Qing Dynasty, the national revolution was surging, the prestige of the Qing government fell, and the credit was lost, which made it difficult to issue the bonds and there was no guarantee of repayment. In this context, the Qing Court had to donate relatives and nobles to sell public debt. The nobles saw the purchase of government bonds as a means to repay the Qing Dynasty. After the establishment of the Republic of China, the political situation was relatively stable, and all walks of life devoted themselves to the establishment of the National Congress and the constitution and the establishment of a new political system. In this environment, the Beiyang government issued government bonds in strict accordance with the regulations, and replaced the subscription part of the Qing royal family with Minyuan six percent bonds, and paid the principal and interest on time to the ordinary commercial and civilian subscription departments, maintaining the credibility of the government.

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