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How Chiang Was Captured

BY AGNES SMEDLEY

Sianfu, December 15, 1936

THE uprising in Sianfu and throughout China's Northwest is a logical sequence to the events of the past year. The growing hostility of the Chinese people to what is known as Nanking's "surrender policy" with respect to Japan has extended to Chinese soldiers and officers in every part of the country, even including many under the command of General Chiang Kai-shek. One of the first armies so affected was the Tungpei, or North-eastern Army, under the command of Marshal Chang Hsueh-liang. The Twenty-ninth Route Army in Hopei is also imbued with this hostility, as are the troops in Kwangsi and those of Yang Fu-cheng in Sianfu. Months ago General Yang Fu-cheng and Marshal Chang Hsueh-liang welcomed student delegates from Peiping and called mass-meetings of their soldiers to hear the message of the National Salvation movement, which appeals to people of every class willing to fight Japanese imperialism. General Chiang Kai-shek, in the attempt to crush this rising tide of criticism and hostility, not only passed his special emergency laws, but whipped students in the streets, and kidnapped and arrested students, professors, and writers. He also sent Blue Shirt units through China to penetrate all National Salvation groups and hold the opposition in check by spreading the rumor that the Nanking armies would fight the Japanese within three months.

During the past year Marshal Chang Hsueh-liang, pressed by the officers and men of his army, has asked

the Japanese-German alliance and the German and Italian recognition of Manchoukuo.

Then came the Japanese invasion of Suiyuan and the armed occupation of Tsingtao. All propaganda to the contrary, none but General Fu Tso-yi's troops are fighting in Suiyuan; General Chiang has only three divisions in Shansi and Suiyuan, and these are in the rear. Not one Nanking plane has attempted to drive off the Japanese bombers. In late October Marshal Chang Hsueh-liang sent urgent telegrams to General Chiang Kai-shek and to General Chen Cheng, Chiang's ablest military commander, asking for a new policy of resistance to the Japanese and for a united front which would include the anti-Japanese Red Army. He was refused. Later he met General Chiang and argued for defense against the Japanese. General Chiang refused and made threats. Marshal Chang continued to obey General Chiang's orders in public. In a lecture at the military school in Sianfu he said that the Tungpei Army must continue to fight the Red Army, which was the nearest and most dangerous enemy. The Japanese, he said, were not the chief enemy. After the lecture the student-commanders openly criticized this policy, saying it meant surrender to Japanese imperialism. On the following day men rose in class to oppose it. Still obeying General Chiang, Marshal Chang dismissed these men from the school. At the same time students, soldiers, and even officers were canvassing every household in Sianfu collecting money for the Suiyuan troops. This action had led in other cities to the arrest of students, but in Sianfu the authorities did not dare arrest them.

Now Marshal Chang in a long and urgent letter made another appeal to General Chiang, reminding him of his promise at the last Kuomintang Congress that he would fight if the Japanese took one more inch of Chinese territory. "I and all my officers and men have obeyed you faithfully for years," wrote Chang, "believing that you would lead us against the Japanese. You have not done so. However, it is not too late. We now demand that you give us the right and opportunity to drive out the Japanese. In any case, I must tell you that I cannot control my army much longer." In reply to this ultimatum General Chiang asked the Marshal to meet him in Loyang. Nothing came of this meeting except a promise by General Chiang to come to Sianfu and meet the Tungpei commanders in person.

Behind the scenes, however, many events had taken place. The Tungpei troops had had enough of fighting their own countrymen in the Chinese Red Army. They had suffered serious defeats and refused to try any longer to do what General Chiang with a million men had been unable to accomplish in eight years of ceaseless warfare. Moreover, the Red Army was appealing to them to



more than once for authority to move against the Japanese. After the formation of the People's Front in Spain and particularly in France, agitation arose for a Chinese People's Front to fight China's chief enemy, Japanese imperialism. But General Chiang and his followers looked rather to Fascist Germany and Italy as examples, and the true face of fascism was revealed to China in

vidual years, without any indication of accumulated delinquency. With four or five years' taxes delinquent and litigation on hundreds of thousands of individual bills in various stages of court proceedings, the county treasurer—the choice of the local Tammany—just gave up. Fraud was rampant. Tax payments were recorded which were never made. A recent examination preparatory to the installation of modern bookkeeping (now that both horse and barn have been stolen) revealed that no court orders overruling objections and opening the way to tax sales or tax receiverships had been placed on the books since 1928. All this not only discouraged taxpaying; it made it impossible to initiate a tax-collecting campaign. No one knows today how much, within millions of dollars, is owing the city; how much, within hundreds of dollars, each piece of delinquent property owes; how much, within tens of millions, has been washed off the books by reductions and remissions.

More than half the "uncollected" taxes are on personal property—\$180,000,000, or 44.3 per cent of the total personal-property levies for 1928-34. The creaking Illinois constitution provides for uniform taxation of real and personal property. The inequity of the latter tax has been universally recognized since Governor Altgeld pointed it out in 1894.

The personal-property assessor is without the power of search. He cannot take sworn testimony. And he is supposed to ascertain not only the value of tangible personal property but of intangibles—stocks, bonds, bank accounts. The only thing he can do is guess. A gentleman renting a desk in a public stenographer's office for \$5 a month and calling himself the Wilson Finance Company is assessed at \$55,555.55. The firm of Dowdle Brothers, one of the city's biggest contractors, is assessed at \$278.

And now we get to the root of Chicago's recurring crises. Only an amendment to the state constitution will permit the substitution of some source of revenue more equitable and more collectible than the personal-property tax. The obvious resort is a state income tax, and that is what the men who really run the machine that appears to run Chicago and Illinois will not permit. That is where "State Street"—the business interests—fits into the picture of the political organization whose petty peculations cost the wealthy a few dollars a year in the present types of taxes, in campaign contributions, and in outright graft. Aside from any other coincidence of interests—and there are many—the business leaders support the political system that supports the present tax system.

That is why the movement for a city manager sponsored by the City Club and the *Chicago Daily News* cannot obtain the support of the city's commercial and industrial giants and their "Civic Federations" and "Citizens' Committees on Public Expenditures." The present governor, Horner, "demanded" a revenue amendment to the state constitution when he ran for governor in 1932 and for reelection in 1936. Between elections the present constitution seems to suit him.

Chicago is ripe for reform. One scandal after another has broken on the heads of the bosses. The sins of the Kelly-Nash machine have brought Chicago's political

morality to an all-time low. Taxpayers will take it out on those boodlers, by whom they won't pay their taxes; they'll throw them out of office. But when the election comes along, everybody is for Roosevelt and Roosevelt is for everybody, and Ickes sees the light and comes through with an Outer Drive Bridge, and the Kelly-Nash New Deal sweeps every office in the county. And the taxpayers are going to pay their taxes besides, because they are the stockholders in a monopoly that can assess the stockholders without limit.

The present crisis will doubtless be "relieved." Silas Strawn's Citizens' Committee relieved the crisis of 1930 with a sales drive for high-interest tax warrants and a \$75,000,000 revolving cash fund that revolved once and stopped. There will be more of this kind of relief, and Chicago will come through—on the bankers' terms. New laws for the forfeiture of delinquent property and the adjudication of tax levies before the bills go out will be passed. The legislature will grant the city new licensing powers at once, because the electricians' union, after giving the city a taste of three hours' darkness the other night, is going to go on a real strike unless pay reductions are restored, and most of the rest of the employees are suing the city besides. "If restorations were made to all city employees, it would amount to \$2,800,000," said Mayor Kelly, "and the city just hasn't got it."

The city would have it if there weren't any Mayor Kelly and if there weren't "civic leaders" who support the system that produced him. The city would have it if the taxpayers didn't believe—about 25 per cent correctly—that "it all goes for graft anyway." The city would have it if it found out why a total of \$30 was collected in 1935 on the barber-shop license fee running from \$5 to \$50 per shop. The city would have it if the *Chicago Tribune*, wringing its hands over "the tax muddle," wanted to tell the real instead of the superficial reasons why people don't pay their taxes.

"There is much to indicate that in the field of political intelligence the people of Chicago are subnormal," Professor Herbert D. Simpson wrote in his book, "Tax Racket and Tax Reform." The city-manager campaign gives the people of Chicago an opportunity to repudiate their reputation and to break the iron network of racial and national subcommunities which provides the key to their political impotence. But before Chicago can vote on city management the right to change its charter must be granted by the legislature.

When the Kelly-Nash "regular Democratic" organization tried, unsuccessfully, to dump Horner in the gubernatorial primary last spring, the Governor threw his own strength to the Republican side of the house and passed the permanent registration law. "It will cost us 200,000 votes," said National Committeeman Pat Nash publicly. Horner hasn't forgotten last spring. If he breaks with the machine on the city-manager legislation he will win the support of the *News*—which, even under Frank Knox, is still Chicago's only independent newspaper. The machine, its grip on the state restored by the last election, is confident that Horner won't dare rebel. But bedfellows have been known to make strange politics.

form a common front against the Japanese and had proved its sincerity by many compromises in tactics. General Chiang, knowing that a truce had existed for months, sent three of his best-trained and best-equipped divisions into Kansu under General Hu Chung-nan, Blue Shirt chief. General Hu boasted to Marshal Chang that he would annihilate the "red remnants," but Marshal Chang sagely remarked that this was a big boast. Then, said General Hu, he would so weaken them that they could be destroyed gradually. Marshal Chang replied, "Beware, lest it is you who are so weakened." General Hu marched against the reds and in the three weeks preceding November 18 advanced eighty *li* into Red Army territory. The reds slowly retreated. Then on November 18, and again on the twenty-first, they swooped down, surrounded two brigades of Hu's crack division, and captured them with all their equipment. Some of the captives were sent back to Papa Hu to tell the other troops what had happened. The others were disarmed and read a lecture on the folly of Chinese fighting Chinese at such a time. Meanwhile the rest of the invading army had retreated, this time covering the eighty *li* in three days. To General Hu, Marshal Chang sent a telegram saying in effect, "I told you so!"

A short while before, Marshal Chang had organized a special military training school for students in Sianfu, which was attended by about a hundred students from the North. General Chiang objected to this school and wired Marshal Chang that he had information that many of the students were Communists. Marshal Chang replied that he took any man who loved his country and was willing to fight for it, and added, "From whom did you get your report? I ask because my representatives in Peiping got the same news from the Japanese. I suggest that you do not believe everything the Japanese say."

The Generalissimo kept his promise made at Loyang and on December 7 came to Sianfu to consult with the Tungpei commanders, who had agreed with the commanders of General Yang Fu-cheng to ask for permission to move against the Japanese at once. General Chiang arrived in Sianfu with a large retinue. With his secretary, Chen Ta-chen, his nephew, Chiang Hsiao-hsien, and his bodyguard he lived in the hotel-temple at Lintung some twenty or thirty miles northwest of the city. The others lived in the Sianfu guest house. The Generalissimo would not meet the Tungpei and Yang Fu-cheng commanders at a general conference. Instead, he began his famous tactics of splitting them into cliques and trying his "silver bullets" on them. Admitted to his presence one at a time, to a man they answered him in phrases like these: "My mother, General Chiang, was killed by the Japanese; my two brothers and my sisters were slaughtered." "My native land is occupied by the Japanese." "My father's body, slit with Japanese bayonets, remains unburied in my native village." "Your word we must obey, Generalissimo, and we have done so up to today. But we refuse longer to fight our own people."

To which General Chiang replied, "You have one duty before you—to destroy the reds."

On December 9 an incident occurred that did little to improve the situation. On that day, an anniversary of the student movement, thousands of students, large and small, marched through the streets of Sianfu in support of the demand that armies be sent to the defense of Suiyuan and Shantung. The police force of Sianfu is under the control of Hsiao Li-tze, one of General Chiang's chief officials and civil governor of Shensi. General Chiang ordered him to break up the student demonstration and not allow them to march to Lintung to petition him. As the students marched toward Lintung, the police fired,



seriously wounding two little boys, twelve and thirteen years old. This incident sent Marshal Chang and a number of other leaders to Lintung in angry protest. They had already demanded the release of the seven National Salvation leaders in Shanghai, and had met with a categorical refusal, General Chiang stating definitely at this time that he was opposed to a People's Front.

The tense atmosphere in Sianfu was aggravated by the presence of the Blue Shirts, to whom General Chiang Kai-shek had handed a list of suspects to be arrested. The Blue Shirts were armed, and it was known that they were planning a coup. Marshal Chang, however, knew every Blue Shirt in the city, he knew of the blacklist, and men went into hiding. On the night of December 11 the commanders of the Tungpei Army conferred with those of Yang Fu-cheng's army. The next morning they struck with lightning rapidity; if they had not done so, their soldiers might have acted without them. General Chiang's headquarters at Lintung were surrounded at dawn. The first man captured was General Chiang's nephew, Chiang Hsiao-hsien, chief of the Blue Shirts. When the soldiers learned who he was, they shot him to death on the spot. General Chiang escaped in his nightshirt, but only one of his bodyguard would go with him. This lone protector accompanied him for a short distance, then thought better of it, and turned back to inform the Tungpei men of General Chiang's whereabouts. Soon the General was captured with his staff.

The Sian guest house was occupied by Yang Fu-cheng's troops at dawn and all the inmates captured. General

Hsiao Li-tze, who had ordered the firing on the students, was taken, along with practically every one of his officials. His Bureaus of Public Safety were all occupied and their chiefs taken prisoner. All the Blue Shirt headquarters, including their "secret" radio stations, were seized with their staffs and documents. One of Chiang's airplanes which landed in Sian to investigate was also captured. The 100 airplanes under General Chiang's command in Sianfu, ostensibly sent to fight the Japanese but in reality to bomb the Red Army, were all captured. In Sianfu the feeling was so bitter that one Chinese official in the General's party was shot because he looked Japanese.

Throughout Kansu these acts were duplicated. Tungpei troops attacked General Hu Chung-nan's troops, capturing one brigade outright in Lanchow. On all fronts there was open fraternization between the Tungpei soldiers and the Chinese Red Army. Martial law reigned in Sianfu for one day only; then shops were opened and life went on as before. A new administration was set up on the basis of the following eight points, which were outlined in a proclamation: (1) Reorganization of the Nanking government to include anti-Japanese representatives from all parties, groups, and organizations throughout the country; (2) the ending of civil war; (3) the immediate release of the National Salvation leaders in Shanghai; (4) the release of all political prisoners in the country; (5) the removal of all laws against and restrictions on the patriotic mass movement; (6) the protection of the people's civil rights—free speech, press, and assembly—and full political freedom; (7) the immediate realization of the last will and testament of Sun Yat-sen, which calls for an alliance between China and all countries that be-

lieve in its freedom and independence; (8) the immediate convocation of a National Salvation congress. On December 14 a Military Affairs Council was organized in which the anti-Japanese Red Army was accorded representation.

Thus ended one phase of a year-long struggle, in which Marshal Chang obeyed the orders of the Generalissimo until his entire army threatened to take independent action. Up to this time the prisoners have been treated with the greatest courtesy and care. At present the city bristles with anti-aircraft guns, and soldiers patrol the walls; heavily armed soldiers protect the mass-meetings at which all classes gather. Peace or war rests with Nanking. The Northwest will not fire the first shot.

Such is the situation down to December 15, evening.

[After ten days of negotiation Chiang Kai-shek was released on December 25 and flew to Nanking with his captor, Chang Hsueh-liang. While details of the ransom agreement were kept secret, the farcical "trial" and subsequent pardon of Chang Hsueh-liang were generally interpreted as part of a bargain by which Chiang Kai-shek agreed to accept the united-front program demanded by the Young Marshal. This interpretation was further confirmed by an agreement reached on January 17 whereby Chang's former aids, Yang Fu-cheng and Yu Hsueh-chung, were permitted to retain approximately their previous positions in the Shensi area. Right-wing Nanking elements, however, have repeatedly tried to undermine this agreement and at the last report were threatening to renew the anti-Communist campaign.—EDITORS THE NATION.]

High Finance Among Friends

BY JOSEPH EDMUNDS

THE curse of bigness, as everyone knows, is a substantial curse; but it requires the testimonials of the best-paid corporation managers to make this clear. Seated in the confessional of a Senate investigation, the men who rule the country admit that they have bad judgment but never bad intentions. This should console those who suffer during periods of economic collapse.

The Wheeler committee, whose chairman is Burton K. Wheeler of Montana and whose counsel is Max Lowenthal, has been investigating the affairs of a number of railroads chosen for study by Joseph B. Eastman. Since early in December the committee has held public hearings in Washington on various aspects of the Van Sweringen financing as handled by the New York banks. The principal witnesses have been William C. Potter, chairman of the Guaranty Trust Company, and his assistants in managing the banks' affairs. The Guaranty Trust Company is the largest trust company in the United States, having assets, and liabilities, amounting to more than

\$2,000,000,000. It appears from what Mr. Potter has said that the public is indebted to the company for an imposing proportion of its losses in Van Sweringen securities. The Wheeler probe has shown how some of these losses were brought about. Negligence, probably induced by the size of the transactions, was the cause of some; the confusion caused by a conflict between the banking and the public interest may have caused others. On occasion, when favored by every circumstance, the public escaped injury. Such a conflict of interests and such an escape are shown in the record of the committee's hearings. The following memorandum was written by a vice-president of the securities department of the Guaranty Trust Company:

In October, 1930, Alleghany Corporation had to make a payment of \$10,500,000 on account of the terminal properties in Kansas City and St. Joseph, Missouri, which it had contracted to purchase, but found itself unable to borrow the money needed for this purpose because