

# How London, Wall Street Backed Japan's War Against China and Sun Yat Sen

by Mike Billington

During the same period that Mussolini and his Fascists were brought to power in Italy—the first of a series of synarchist regimes which took power across much of Europe in the 1920s and 30s—the British imperial architects of this process were also at work in Asia. The bankers controlling the Versailles Conference of 1919, rather than establishing peace after World War I, imposed a regime of financial looting across Europe and Asia, which rapidly created conditions conducive to the emergence of Bonapartist tyrannies backed by those same bankers, and thus set in motion the horrors of 20th Century fascism and the conflicts which became World War II.

The British needed the United States to bail them out of the bloody hell they had created in the Great War, but after that war, they did not intend to allow any American-style republican governments to arise in Europe or Asia, to threaten neither their hegemony in the former, nor their colonial domination in the latter. Sun Yat Sen<sup>1</sup> was the name of their primary problem in Asia. Sun, who had led the republican revolution in China in 1911, had failed to consolidate that revolution. But he was leading a government in the south of China at the end of World War I, in opposition to both the regime in Peking, and the various warlord-led autonomous governments (which had Western backing) in much of the rest of the country. Sun represented a powerful republican force in Asia, dedicated to bringing China out of the century-long colonial subversion at the hands of the British East India Company's private armies, drug dealers, and bankers. He used methods drawn from both Chinese antiquity, and the American System of political economy, mastered through an education in Hawaii at the hands of leading figures of that tradition.<sup>2</sup>

Against this threat to their Empire, British synarchist banking interests, centered around Bank of England head Montagu Norman, Hongkong and Shanghai Bank director

Sir Charles Addis, and J.P. Morgan chief executive Thomas Lamont, deployed militarily and politically to destroy Sun Yat Sen and his influence. The British feared that American cooperation with Sun could break the power of European colonial policy in China, or even establish a republican center in Asia. As we shall demonstrate here, when their subversion and looting failed to crush Sun's republican movement, the British threw their weight behind the synarchist/fascist forces in Japan, financing the Japanese military occupation of the Chinese mainland.

The British, and their J.P. Morgan allies, had been battling Sun Yat Sen for years before the 1919 Versailles Conference. They had intervened after the 1911 Revolution, promoting various forms of dictatorship, monarchical restoration, and regional warlordism, to drive Sun and his Kuomintang (KMT—or, "Nationalist Party") out of Peking, and, if possible, to kill him. However, when China was betrayed to Japan at Versailles (*as Sun Yat Sen had warned it would be*), a surge of nationalism threatened to sweep Sun and his KMT into power, while also giving rise to the Chinese Communist Party. Thomas Lamont and Sir Charles Addis soon determined that Japanese control of China would be more secure for the synarchist international, and commenced with direct sponsorship of the Japanese occupation, thus launching World War II.

As with the British sponsorship of Hitler's rise to power, the British would pay a steep price for their folly, and the world would only survive due to the American intervention under Franklin Roosevelt.

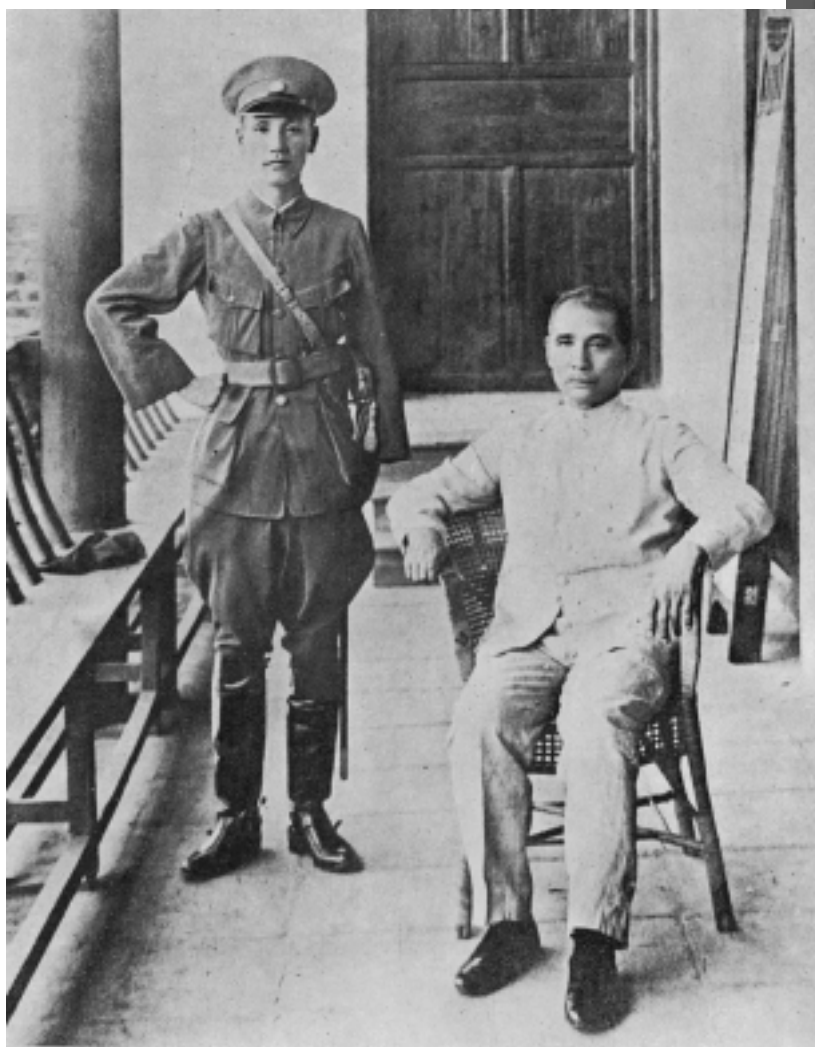
## Sun vs. Liang Chi-chao

Before presenting the details of the roles played by Lamont and Addis in this perverse drama, I will provide some background on the synarchy's ideological battle against republican principles within China, from the late 1890s through the 1911 Republican Revolution in China, and World War I. Just as Sun Yat Sen was directly educated, and inspired, by the republican principles of the American Revolution, so his main antagonist within the reform movement, Chinese philosopher and political activist Liang Chi-chao, was a creature of

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1. I have used the transliterations of Chinese names most commonly used in the early 20th Century, rather than the currently used Pin Yin.

2. Mark Calney, "Sun Yat-Sen and the American Roots of China's Republican Movement," *American Almanac, New Federalist*, January 1990.



*Deadly adversaries: At left is modern China's founder, Dr. Sun Yat Sen (seated) with his successor Gen. Chiang Kai-shek in 1918. Sun's nationalist, "American System" revolution was the prime target of Japan's post-WWI looting war on China. It was also the target of J.P. Morgan international fascist banker Thomas Lamont, shown here being honored by fellow synarchist Henry Luce's Time on Nov. 11, 1929. Lamont enthusiastically supported and funded Japan up to a few years before Pearl Harbor, including Japan's occupation in China, and ran a virtual embargo of international credit to Nationalist China.*

the European synarchy. Since synarchism arose as a synthetic ideology to combat the spirit and practice of the American Revolution, especially in Europe, it is lawful that Sun and Liang would emerge as the opposite poles among those promoting change in China in the last days of the Ching Dynasty.

While Sun was organizing a revolutionary movement in the 1890s—to overthrow the Ching (Manchu) dynasty and aim at building a republic on the American model—Liang was collaborating with the leading reformer of the day, Kang You-wei. Kang had won the ear of the young Emperor Kuang Hsu, organizing him to declare a series of reforms (known as the 100 Days Reform of 1898), but without challenging either the Imperial form of government, nor the semi-colonial status of China under the European powers' "spheres of influences." The Ching court and the military soon cracked down on the young Emperor and his reform-minded friends. The Empress Dowager Tz'u Hsi placed her son under a form of house arrest, and ruled in his stead. Liang Chi-Chao fled to Japan, where

he spent most of the first decade of the 20th Century. There, both he and Sun Yat Sen, in exile as a result of his role in several armed uprisings in the south of China, established separate organizations, competing for the support of the Chinese exile community in Japan and elsewhere.

This conflict between Liang and Sun became the centerpiece of the debate among young Chinese over the fate of China. Sun and his followers published a journal called *Min Bao* (*The People's Journal*); while Liang had his own journal, called *New Citizen*. The two journals were read by Chinese around the world. *Min Bao* promoted the overthrow of the dynastic system and the building of a republic, while *New Citizen* preached reform under a constitutional monarchy; *Min Bao* promoted Sun Yat Sen's Three Principles of the People, based on Abraham Lincoln's concept of government of, by, and for the people; while *New Citizen* called for enlightened absolutism as the only alternative to anarchy; *Min Bao*'s first issue carried pictures of the Yellow Emperor (the

revered Chinese Emperor of antiquity) and George Washington; while the *New Citizen* pictured Napoleon and Bismarck.

Liang's ideological evolution directly parallels the synarchist movement of the 18th and 19th Centuries. He began as a student of Giuseppe Mazzini, praising the British asset Mazzini as a prophet and the principal theorist and ideologue of patriotic movements in Europe. Liang translated Mazzini's works, and in 1900 wrote an essay called "Ode to Young China," seeing himself as the Chinese spokesman for the Young Europe movement created by Mazzini (which was in fact British Lord Palmerston's operation to prevent any influence of the American Revolution from spreading in Europe).

Like Mazzini, Liang admired, above all others, the British Parliamentary system and the Anglo-Saxon race ("a race greatly endowed with the spirit of independence and self-reliance—the Chinese must learn from the Anglo-Saxons.")<sup>3</sup> He compared the British Prime Minister to the ephor of Sparta in ancient Greece (Liang's history of Sparta and Athens turned Friedrich Schiller on his head, praising Sparta's superiority to Athens for its discipline and order).

Liang then stepped back in time to the French Revolution, which became the subject of his admiration in numerous essays. Over time, he came to question the mass killing of the Jacobins, but, like the synarchists who orchestrated the process, he transferred his admiration to the right-wing dictatorship of Napoleon. This then led him to the *Staatsrecht* school of the Swiss jurist Johann Kaspar Bluntschli. Liang quoted Bluntschli in his polemics against Sun Yat Sen, arguing, in an essay entitled "On Enlightened Absolutism"—in lockstep with synarchist theory—that the opposite of absolutism is not democracy or republicanism, but anarchy, and that revolution can lead only to dictatorship, not to a republic. He compared the school of Legalism in ancient China to the absolutism he so admired in Napoleon and Bluntschli—and on this, Liang was correct, in that the Legalist School was the fascist order of that day. It gave rise to the tyranny of the Ch'in Dynasty (221-206 BC), which burned the Confucian texts and buried Confucian scholars alive, setting China back for more than a millenium until the Sung Dynasty Confucian renaissance of the 10th and 11th Centuries.<sup>4</sup>

Liang traveled to the United States in 1903, sponsored by the Protect the Emperor Society. While primarily addressing the Chinese communities in the United States and Canada, he also met with President Theodore Roosevelt and J.P. Morgan. While he was duly impressed by these august spokesmen for the anti-American synarchy in the United States, his view of the Chinese was more cynical: "The Chinese people have to accept authoritarian rule for now,

and do not merit liberty." He said that many Chinese were "drunk on republicanism," but that he had "returned from America to dream of Russia."

Perhaps the most revealing aspect of Liang Chi-chao's work was his sponsorship of a new writing style, which demonstrates his failure to grasp the fundamentals of the creative process. Liang followed Aristotle in describing scientific thinking as a process of syllogistic formulations, and followed Hobbes in virtually outlawing metaphor. In his essay "On Enlightened Absolutism," Liang described his new style as "strict and forthright logical argumentation, dual application of induction and deduction, without daring a word of subjective fancy." He warned that the greatest danger is emotionalism, and complained that "there can be found no spirit of scientific investigation, but only emotional

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## Sun's 'American' Economic System

Dr. Sun Yat Sen, the father of the Chinese Republic, based his fundamental principles, known as the "Three Principles of the People," on the concept presented by Abraham Lincoln in his Gettysburg Address: "government of the people, by the people, and for the people," an historical connection which Dr. Sun never failed proudly to present to any audience. In fact, he considered this concept to connect his view of a world truly governed by both Christian morality and reason, to the profound truths of the Confucian tradition which had governed China for 3,000 years.

Sun gave primary credit for the successful development of the United States to the work of Alexander Hamilton, both as the head of the Federalist fight for a Constitution, and in his economic policies. He believed that responsibility rested with the government for the development of the physical infrastructure and the creation of a credit system necessary for successful agricultural and industrial progress. The success of such a system had proven itself in the progress of the United States.

Himself a Christian, Dr. Sun shared the Renaissance view of the American Founding Fathers, whose works he read during his youth, when he left his home in southern China to study in Hawaii with American missionaries. He attacked equally the two dominant systems that had developed in opposition to the American system: the free trade model of Adam Smith, and the Marxist model of class warfare. Sun had the "advantage" of having seen the massive death and destruction imposed upon his nation over the previous century by the British under the banner of

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3. Tang Xiaobing, *Global Space and the Nationalist Discourse of Modernity: The Historical Thinking of Liang Qichao*, 1996.

4. see Michael Billington, "The European Enlightenment and the Middle Kingdom," *Fidelio*, Summer 1995.

spontaneity among the educated in our country.” His hatred of actual science gushed forth in his polemics against Sun Yat Sen, whom he ridiculed for “dreaming of republicanism, just as he dreamed of importing trains and ships.”

## Revolution and J.P. Morgan

Sun Yat Sen’s revolutionary movement came to power in 1911, and Sun Yat Sen was proclaimed the first President of the Republic. However, despite forcing the abdication of the Imperial Court in Peking, the revolution had seized actual power only in the South. Sun did not want to engage in battle with the core of the imperial army, which remained largely intact under Imperial General Yuan Shi-kai. In a calculated move to avoid further civil war while preserving the Republic, Sun agreed to step down from the presidency in favor of

Yuan Shi-kai, with the agreement that Yuan would honor the Republic and its laws. Sun took the position as head of the National Railroad Bureau, to pursue the development of the “International Development of China,” as he would later call his program.

The calculated risk failed, as Yuan Shi-kai rapidly transposed his reign into a dictatorship (and even restored the monarchy for a brief period before his death in 1916). Sun and the KMT were driven out of the government and the legislature. By 1913, Sun had established a counter-government in the South of China—it would be another 15 years before the nation would finally be unified under Sun’s KMT. Liang Chi-chao, on the other hand, was welcomed into Yuan’s government in Peking, where he held a series of cabinet posts, including those of justice, finance, and state counselor.

“free trade,” and thus appreciated Hamilton’s repeated warnings that such free trade arguments were simply a ruse for colonial economic domination and looting. Hamilton, said Sun, was concerned about “liberty and equality pushed to excess,” and “founded the Federalist Party which advocated the centralization and not the diffusion of sovereign power.” He described the U.S. Constitution as “the first complete constitution in human history,” and adopted the policy of strong centralized government with a separation of powers in his own proposed Constitution for the struggling Chinese Republic.

## ‘A Sheet of Loose Sand’

In his highly developed programmatic proposals for the *International Development of China* written in 1919—using the vision of the expansion in the western U.S. as a guide—Sun mapped out the criss-crossing of the vast Chinese interior with railroads, while dams across the great river systems would provide power and eliminate the massive death and destruction of recurring floods. Sun reflected the Hamiltonian rejection of Adam Smith’s free trade dogma: “All matters that can be and are better carried out by private enterprise should be left to private hands, which should be encouraged and fully protected by liberal laws. . . . All matters that can not be taken up by private concerns and those that possess monopolistic character should be taken up as national undertakings.” He added that the unbridled competition of the Adam Smith school had proven to be “a very wasteful and ruinous system. . . . It has been discovered by post-Darwinian philosophers that the primary force of human evolution is cooperation, and not struggle as that of the animal world. . . . If we still retain the custom of free competition or *laissez-faire*, it will be like encouraging a lame man to contend with an automobile in a race.”

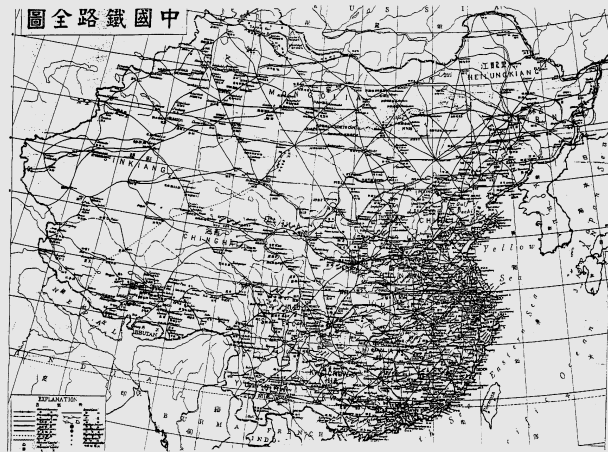
Sun studied the heated debates by Hamilton and his collaborators with the spokesmen for “pure democracy” and libertarianism. He attacked Thomas Jefferson for accepting libertarian arguments from J.S. Mill, Rousseau, and others. The application of Mill’s “extreme liberty for the individual” would create a society that is like “a sheet of loose sand,” said Dr. Sun. He praised the U.S. for following the Hamilton model, while pointing out that libertarian “pure democracy” had seized control of the French Revolution. In a haunting passage, almost a premonition of the Cultural Revolution 50 years later, Sun describes the French Revolution: “No one in the country dared to say that ‘the people’ did not have intelligence and power; if one did he would be accused of being a counter-revolutionist and immediately brought to the guillotine. The result was that a mob tyranny was instituted. Anarchy followed, society was panic-stricken, no one was sure of his life from morning till evening. Even a member of the revolutionary party might, because of a careless word which offended the multitude, be sentenced to death.”

## Class War ‘Disease’

This “tyranny of the mob,” like the bestial Darwinian notion of “survival of the fittest,” could only lead to a false materialist sense of reality and to the collapse of society, Sun warned. “From ancient times until now, man has exerted his energies in order to maintain his existence. And mankind’s struggle for continuous existence has been the reason for society’s unceasing development, the law of social progress. Class war is not the cause of social progress, it is a disease developed in the course of social progress.” Marx thus knew nothing of the real process of social progress, concluded Dr. Sun: “Marx can only be called a social pathologist, not a social physiologist.”

—Mike Billington

## The American System and Dr. Sun Yat Sun



*Dr. Sun's plan for China's development: an integrated system of railways, water projects, and other infrastructure programs.*

*Right: Schiller Institute edition of Dr. Sun Yat Sen's The Vital Problem of China.*



With this background, the focus shifts to the synarchist designs to subvert the new Chinese republic. China had been under increasing British domination (although never fully colonized) since the Opium Wars beginning in the 1840s, with other European powers granted "spheres of influence" in and around China, although the overall process remained under British control. In 1895, Japan joined the game, defeating China in a war over influence in Korea. Japan colonized Korea, and adopted Manchuria and Inner Mongolia as its sphere of influence in China. In the process, Japan also established a special relationship with the British, in league with several allied New York banking houses. Kuhn Loeb's Jacob Schiff, for instance, was issued a Japanese Royal Order for his role in financing Japan's war with Russia in 1905, a war fought in part over areas of control within China.

The House of Morgan, functioning as an arm of British imperial policy within the United States, first became seriously involved with the formation of a bankers' Consortium for China, in 1909, consisting of banking interests from the United States, Britain, France, and Germany. The British, under Hongkong and Shanghai Bank chief Sir Charles Addis, took overall direction of the Consortium, with a J.P. Morgan representative leading the American Group. Although the Consortium did finance a Shanghai-to-Canton rail line, their primary task was to prop up the decayed Ching dynasty against the mounting republican revolutionary pressure.

When President Woodrow Wilson took office in 1913, one of his first acts was to pull the United States out of the Consortium, labeling it a tool of imperial policy interests in China. Wilson appointed Professor Paul Reinsch as United States emissary to China. Reinsch was the leading China scholar of the day, and a co-founder with Wilson of the American Political Science Association. Reinsch came from the circles of Robert LaFollete in Wisconsin, and, although inexperienced in diplomacy, or in dealing with colonialist and synarchist machinations, he believed in America's dedication to nation building, through its leadership in science and industry, as the necessary basis to end the colonial exploitation of China, and to help build a modern and prosperous sovereign state. He embraced the Open Door policy first put forward by John Hay, Secretary of State in the McKinley Administration in 1899, as a means of breaking the colonial spheres of interest which divided China. Reinsch's student, Stanley Hornbeck, would serve the same cause from within the State Department over the next decade.

Reinsch negotiated contracts for literally dozens of great projects in China between 1913 and 1919. These included a massive flood control and irrigation project called the Huai River Conservancy; a national plan to unify the rail system and add 10,000 miles of rail lines over 20 years; a military and commercial shipbuilding project with Bethlehem Steel; oil exploration with Standard Oil; reconstruction of the Grand Canal; several agricultural programs; and more. Unfortu-

nately, all but a few of these projects never came to fruition.<sup>5</sup>

Reinsch never overcame (or even understood) the power of the synarchy over global finance. The beginning of World War in August 1914 shifted available funds and priorities away from Asia, undermining development—but just as deadly to Reinsch's plans was the continued sabotage from the British and from J.P. Morgan's Wall Street; from the Japanese and their western banking supporters; and, eventually, the sell-out of China by his friend in the White House, Woodrow Wilson.

Reinsch arrived in China in the wake of President Yuan Shi-kai's expulsion of Sun Yat Sen's KMT from the Parliament in 1913. Reinsch, as expected of a United States diplomat, supported Yuan's government in Peking, but he was committed to the unification of the nation, offering American contributions towards national infrastructure development, north and south.

Furthermore, Reinsch took measures to implement Sun's railroad development plans. During 1912, while Sun served in Yuan's government as head of the National Railroad Bureau, he had developed a plan for a unified rail system for China, published several years later as the center-piece of his *The International Development of China*. The proposal aimed at connecting China internally, and also to its neighbors, through extensive rail and port development, while also correcting one of the problems created by the colonial legacy—each rail system in the different colonial spheres of influence had track of a different gauge, allowing for the extraction of raw materials by each power, but rendering impossible, travel or transport from one part of the country to another by rail.

### **'Forestall the Chicago People'**

Reinsch took the lead in 1914 in bringing together leading construction firms from the United States, Britain, France and Germany, working on a modified version of Sun's proposal. He created a Sino-International Construction Company, to carry out the unification and expansion of the rail system. Reinsch was stung when President Wilson rejected the plan at the last minute—the first of many confrontations with his friend Wilson, which would end in a total break in 1919.

Reinsch also began to recognize that his foremost enemies were located at the House of Morgan, whom he recognized to be dedicated to the British policy of keeping China divided. To counter the Morgan influence, Reinsch looked for alternatives to Morgan domination of foreign financing for China. He turned first to Frank Vanderlip, head of National City Bank, helping Vanderlip create the American International Corporation (AIC) in 1915. This looked promising, as a series of railroads for central and southern China were negotiated in 1916, as well as several port and canal projects. Here, too, the plan collapsed, as AIC eventually went along with Morgan

and British opposition to any development which infringed on the spheres of influence policy.

Reinsch then turned to Chicago, where John Abbott of the Continental and Commercial Trust and Savings Bank, Reinsch believed, was more independent of Wall Street and London. When the Chicago connection began to show results, with a series of loans, and plans to bring the governments of the north and the south together for joint development projects under Abbott's direction, Morgan began lobbying for a new bankers Consortium, which, in the words of Secretary of State Robert Lansing, was intended to "forestall the Chicago people."

Meanwhile, Japan had become an increasingly vocal and belligerent proponent of its special rights in China, against the Open Door. Reinsch, a fierce opponent of Japanese imperial designs in China, also recognized that Britain and Wall Street were sabotaging every plan for development in China, explicitly on the grounds that such plans would offend Japan's special interests, and jeopardize Western relations with Tokyo. Reinsch warned Washington of Japan's menacing ambitions when the Japanese army seized the German areas of influence in China, in Shandong Province, immediately after the start of the Great War in 1914, under the guise of supporting the British war effort against Germany. Then, in January 1915, Japan took further advantage of the preoccupation of the European powers with the war in Europe, to issue their infamous 21 Demands, declaring exclusive development rights in Manchuria and other critical areas of China, and demanding other, even more direct powers over Chinese military, economic and government policies.

Reinsch moved in January 1917 to circumvent Japan's claim to exclusive rights in Manchuria, by arranging financing for an alternative rail route to the Japanese-owned and controlled South Manchurian Railroad—a concession they had extracted from Russia and China after the 1905 Russo-Japanese War. Japan protested the new Chinese rail project, claiming that their 21 Demands (most of which had been accepted by President Yuan Shi-Kai) gave Japan a general preferential right concerning railway development in Manchuria and Inner Mongolia—even over the Chinese government itself! Reinsch shot back that the United States did not recognize special positions—but once again President Wilson rejected Reinsch's position, and even assured Japan that the United States would honor their special position in Manchuria.

### **Thomas M. Lamont, International Fascist**

The House of Morgan and their British allies were, by 1917, determined to put an end to these upstart American efforts to spoil their looting rights in China, and to allow China to be unified under republican rule. After President Yuan Shi Kai's death in 1916, the government of China was effectively divided among numerous warlords, a fractured government in Peking, and a separate government in the

5. Noel H. Pugach, *Paul S. Reinsch, Open Door Diplomat in Action*, 1979.

FIGURE 1

## China and Japan's South Manchurian Railroad



*Japan after World War I occupied Korea and sent forces to claim “special economic rights” in Manchuria, constructing with London and Morgan help, the South Manchurian Railroad for looting purposes. Chinese Nationalists’ moves to build railroads in Manchuria in the 1920s were subject to a London-Wall St. credit embargo in support of Japan.*

South under Sun Yat Sen—a division much to the liking of the colonial-minded Anglo-American bankers. It was nonetheless decided that a new Consortium was necessary—not to finance the development of China, but the exact opposite: to *prevent any loans from “rogue lenders”*, be they from Chicago or some third country, by asserting centralized control over all foreign lending—i.e., a precursor to the modern day International Monetary Fund (IMF) control over lending and economic policies toward developing nations.

President Wilson agreed to the new bankers’ Consortium, and with the end of the Great War, a new, second Consortium for China was established in October 1918. Two men were chosen to run the operation: as head of the British Group, Sir Charles Addis, head of the notorious colonial drug bank, the Hongkong and Shanghai Bank, and a close friend of Bank of England chief Montagu Norman; as head of the American Group, Thomas W. Lamont, the CEO to J.P. Morgan, who throughout the 1920s and 30s would contribute directly to

the creation of fascist regimes in Italy, Germany, and Japan. Both Addis and Lamont, in the tradition of the British East India Company’s control over the British Empire, were speaking not only for the banking houses they ran, but for the British Foreign Office and the United States State Department, respectively. John Abbott of Chicago Continental and Commercial Trust attempted to get the appointment as head of the Consortium, but the dominance of J.P. Morgan in the financing of the war effort in Europe was such that the Wilson Government dared not deny the Morgan demand to run the China Consortium.

Nonetheless, Abbott and Reinsch organized a conference in Shanghai in April 1919 between leaders of the North and South of China, focused on their plan (Sun’s plan) to unify the Chinese rail system; but also aimed at national political reconciliation. Sun Yat Sen strongly supported this effort, and called on the United States (rather than the British) to assume control of the management of the financing for any loans for the project. Said Abbott, “Everywhere, they look to America to save China.”

Sun had just completed his monumental *International Development of China*, which argued that the huge productive capacity developed (mostly in the United States) for the conduct of the

Great War, must be *maintained* by turning it towards the industrialization of China—not just for China’s sake, but as the only means to prevent the Western world from degenerating rapidly into economic depression, new conflicts, and another World War. Sun presented his plans to Reinsch, who had his Commercial Attaché Julian Arnold study it and discuss it with Sun in March 1919, preceding the Shanghai rail conference in April.

These promising developments were undermined by two simultaneous developments in France. First, the Versailles Conference, to conclude World War I and set international policies for the post-war era, was a disaster—not only for Europe, where the imposition of reparations on the decimated German economy assured the conditions of economic crisis which would allow the emergence of synarchist/fascist regimes; but also for Asia, where President Wilson sold out China by retaining the colonial spheres of influence, and granting Japan control over the former German regions.





*Thomas Lamont's close friend Inosuke was the "Hjalmar Schacht" of Japan, alternatively Finance Minister and Bank of Japan chief setting financial policy for the fascist regime, while professing disdain for the right-wing military chiefs. He was a leading figure in the London-Morgan China Consortium which played "IMF," blocking loans to China.*

Sun Yat Sen had forecast precisely this result when he argued against China's joining the war against Germany, in his 1917 book *The Vital Problem of China*. Sun challenged the British portrayal of Germany as militarist and aggressive, asking: "Is it right for England to rob China of Hong Kong and Burma, to force our people to buy and smoke opium and to mark out portions of Chinese territory as her sphere of influence? . . . If one really wants to champion the cause of justice today, one should first declare war on England, France and Russia, not Germany and Austria. . . . When another country is strong enough to be utilized, Britain sacrifices her own allies to satisfy its desires, but when that country becomes too weak to be of any use to herself, she sacrifices it to please other countries." Britain treats its friends like a silk farmer treats his silkworms, said Sun: "After all the silk has been drawn from the cocoons, they are destroyed by fire or used as fish food."

Wilson's betrayal at Versailles, on April 30, 1919, unleashed in China a nationalist revolt called the May 4th Movement. This youth movement became the training and recruitment ground both for Sun Yat Sen's Nationalist Party, and for the emerging Communist Party. London's leading synarchist spokesman, Bertrand Russell, traveled to China in 1921-22, sponsored by none other than Liang Chi-chao's "Society for Chinese Lectures." Liang also sponsored John Dewey's trip to China, which was financed by the *New Republic*, a journal set up by Morgan partner, and old China hand, Willard Straight. Between them, Russell and Dewey set in motion a process of subversion which would infest China for decades, leading all the way to the nightmare of the Cultural Revolution in the 1960s.

Wilson's support for Japan's demands at Versailles be-

trayed not only China, but also his friend, United States Ambassador Reinsch. When the United States declared war on Germany in 1917, Reinsch was called upon to convince China also to join the war against Germany. Reinsch, who was believed by some to oppose the war, nonetheless convinced China, by promising the Chinese that they would be granted sovereignty over the former German territories in China, which had been occupied by Japan at the start of the war.

Wilson's contrary deal at Versailles, with Britain and Japan, stunned Reinsch, who wrote in response that the decision to allow Japan to retain the former German territories in China "destroyed all confidence in a League of Nations, which had such an ugly fact as its cornerstone." He considered the decision a threat to United States security and an abandonment of the Open Door, and supported China's refusal to sign the agreement. Reinsch even met with the May 4th Movement's student leaders, supporting their anti-Japanese boycott. On June 7, 1919, he resigned his position as United States envoy to China and officially broke with Wilson, warning that unless the Versailles decision was reversed, "the fruits of 140 years of American work will be lost."

There was a second event in France, on the sidelines of the Versailles Conference, which would prove to be even more deadly for the future of Asia. The newly created Consortium, with representatives from Britain, the United States, France, and Japan, met at the Paris offices of the Banque de l'Indo-Chine, chaired by Thomas Lamont. Fresh from their victory at Versailles, the Japanese delegation to the Consortium insisted that Manchuria and Inner Mongolia be excluded from the agreements of the Consortium, due to Japan's "special interests." Although Lamont agreed, the international anger over the betrayal of China at Versailles made it impossible to agree fully to the Japanese demand. Instead, the Consortium agreed that the South Manchurian Railroad, and other already existing Japanese projects in China, would be excluded from Consortium oversight, but they would not grant any *regional* exclusion—at least, not publicly. Lamont then arranged a trip to Japan for early 1920 to further discuss the synarchist strategy for Asia.

## Japan and China

Lamont's 1920 trip to Tokyo marked the beginning of a process whereby the British and their Morgan ally would systematically support and finance the Japanese occupation of China over the 1920s and 1930s, even as fascist regimes were being established across Europe. Lamont was joined in Japan by New York Federal Reserve Governor Benjamin Strong, a leading collaborator of Bank of England chief Montagu Norman. Lamont established close personal relationships with Inosuke Inoue, who would alternate between head of the Bank of Japan and Finance Minister, until his death in 1932, and Mitsui head Baron Takuma Dan, perhaps the richest man in Japan.



Inouye served as head of the Japan Group in the China Consortium. Faced with international opposition to Japanese imperial designs in China, Lamont and Inouye worked out a means to circumvent the official opposition of the Western governments, including that of the United States: the Western *banking groups* in the Consortium would exchange notes with the Japanese banking group, recognizing Japanese special interests in Manchuria and Inner Mongolia, despite their governments' opposition! However, the State Department learned of the plan and stopped it, much to the irritation of Thomas Lamont. Nonetheless, the private agreement between the bankers was understood among themselves, which was enough assurance for the Japanese to agree to membership in the Consortium without *formal* agreement to their special rights over the Northeast of China.

Lamont also visited China, presenting the conditions that were expected of the Chinese if they were to be granted any loans from the Consortium. These conditions included China's acceptance of international control over the country's railroads; the use of the tobacco and wine monopoly revenues to secure any loans (virtually every other income stream was already tied to British loans); and full payment on the German portion of the 1911 railroad bonds from the first Consortium. This last demand was particularly egregious, as China had renounced the German portion of the loan when they declared war on Germany in 1917—at the behest of the British and the United States—and in keeping with internationally accepted practice.

However, it turned out that J.P. Morgan had arranged for many of the German bonds to be sold to American investors, and they intended to collect! Lamont insisted that the bonds be paid in full, or there would be no new Consortium lending.

This was a convenient excuse for a previously determined policy of starving China of credit. In fact, for the entire life of the Consortium, it never offered, nor issued, a single loan to China!

Lamont also visited Sun Yat Sen, telling him that "President Wilson asked me to find out whether there were any way to bring peace between the South and the North, so that, joined together, the two governments could make proper disposition of the tuchens (warlords) that ravage and bleed the intervening country." According to Lamont, Sun responded: "Peace between the North and South? Why, yes. Just you give me \$25 million, Mr. Lamont, and I'll equip a couple of army corps. Then we'll have peace in short order." Whatever Sun's actual response, Lamont reported to Washington that Sun was a dangerous, anti-democratic and corrupt leader.

Lamont's trip to Asia was hailed in the United States as a triumph, supposedly for having convinced Japan to join the Consortium without the concessions they had demanded, even as Japan was expanding its investments and personnel (both civilian and military) into Manchuria and Inner Mongolia. Lamont immediately set out to convince the United

States government that Japan's development of the South Manchurian Railroad and the corridor surrounding it were worthy of credit from the United States banking system—that Japan could better develop China than China could itself! This was rejected by the State Department. Lamont slyly wrote to Inouye, suggesting that the "first loan (from the United States to Japan) should be something more purely Japanese, rather than intimately relating to the mainland of Asia."

### Loans to Japan, Embargo of China

Then, in 1923, when Japan was struck by an earthquake which devastated Tokyo, Lamont had his opportunity. In addition to taking personal responsibility for raising humanitarian contributions for Japan in the United States, Lamont quickly arranged, and won approval for, a \$150 million Imperial Japanese Government loan, raised in New York and London—the largest foreign loan ever placed in the United States market. Many more loans followed thereafter.

Meanwhile, Chinese bankers in Peking tried to free themselves from Consortium control. In 1920-21, they formed the Consolidated Loan Fund, aimed at reorganizing all domestic bonds such that the revenue from customs, salt, wine, and tobacco would be placed in the Fund, rather than subordinated to foreign control (primarily through the Hongkong and Shanghai Bank). All of this was within the sovereign rights of the Chinese Government. In October 1921, they issued a Manifesto of Chinese Bankers, demanding that the customs and other revenues be deposited in Chinese banks; that Chinese bankers participate in the Consortium; that foreign banks be forbidden to issue notes within China; and opposing further foreign ownership of Chinese railroads.

Within weeks there was a run on the Bank of China. Finance Minister Dr. W.W. Yen claimed that the run was "without warning and for no apparent reason." Dr. Yen was described by a British Minister in China as "made up of all the worst extra-Chinese elements. He is a Christian by religion, American by education, and having been Minister to Germany before and for the best part of the war, is anti-British, pro-Bosch and pro-American."<sup>6</sup>

Patriotic American interests also made one final attempt to break through the Consortium roadblock in China, by providing development programs to Sun Yat Sen's government in the South. Even while Sun was boycotting Hongkong trade, in retaliation for the British refusal to relinquish the salt revenues, the American military attaché and the vice-consul in Canton discussed plans with Sun for the development of the Canton harbor. United States Secretary of Commerce (later President) Herbert Hoover supported these efforts, until the death of President Warren Harding in 1923,

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6. Roberta Allbert Dayer, *Bankers and Diplomats in China, 1917-1925: The Anglo-American Relationship*, 1981.

after which President Calvin Coolidge backed the Consortium.

Even one of the representatives of the American Group in the Consortium, F.W. Stevens, argued that abandoning the South would sacrifice American interests to the British. Lamont denounced Stevens, telling him that unless he had “complete faith in the British Group then he was not the man for us.” Lamont even forwarded confidential anti-British memos from Stevens, both to Addis and the British Foreign Office!

Dr. Paul Mallman, a consulting engineer and chemist, arranged to build an iron and smelting plant in the South to produce steel rails. He later lodged a formal complaint in Washington that the Consortium had blocked the development, reporting that “United States Steel and J.P. Morgan and Co. were behind it,” and that he had learned that the Consortium had “ordered all money markets closed to China.”

## Division of China

British refusal to work with Sun Yat Sen was transformed into overt military operations against him in 1922. The British Consul General in Shanghai, after reviewing Sun’s *International Development of China*, accused Sun of trying to supplant colonial Hongkong as a trans-shipping center by Canton, and linked Sun to Bolshevik activities in the South. The British, under Addis’ direction, provided Chen Chung-ming, a warlord in the Canton region, with a \$500,000 loan to conduct a military assault on Sun and his KMT base in Canton, which nearly succeeded. At the same time Addis began making direct economic and military deals with other regional warlords, encouraging them to act independently of either Peking or Canton.

Similarly, Lamont, in 1923, said he doubted that “the existing civil organization (of China) can ever be revived.” He proposed the subdivision of China, through the establishment of “autonomous provinces, organized by the people, and the creation by them of an entirely new Central Government to maintain merely foreign relations.”

In 1924, facing the intentional vivisection of China by both the British and the United States, Sun turned to the new Soviet government in Moscow for support in building the military forces needed to unify the country. Although Sun died in 1925, his chosen successor, Chiang Kai-shek, led the KMT armies north in 1926, finally uniting the nation under republican leadership in 1928.

Lamont hurried off to Japan in 1927, determined to provide Anglo-American backing to Japanese control over the development of the resources in China—i.e., a colonial occupation. To achieve this, he had to overcome the anti-Japanese sentiment in the United States and elsewhere, which had grown ever more intense as Japan revealed its imperial intentions in China. “I believe in the Japanese people,” Lamont said to a Japanese audience. “That talk of war between our



*After Dr. Sun’s 1911 revolution toppled the Ching dynasty, Imperial General Yuan Shikai hung on, with international backing, as military dictator, and forced Sun to form an alternative government in the South of China for more than a decade.*

two countries, which we sometimes hear, is both wicked and silly.” His friend Inouye, then Finance Minister, gave Lamont detailed studies of Japanese plans for the expansion of the South Manchurian Railroad, and asked for a \$30 million loan, to be guaranteed by the Japanese Government. Lamont, in arguing for the loan in Washington, wrote: “The state of China’s administration—divided, corrupt, unofficial, and torn by strife—ruled out any possibility that China could develop the province [Manchuria] itself.”

Lamont further insisted, as in his discussions with Sen. Frank Kellogg, that Japan had “abandoned military force as a means of expansion in Asia, and had no imperialistic design on its neighbor.”<sup>7</sup> He argued that the “cardinal feature of their policy is friendship and cooperation with America.”<sup>8</sup> Speaking to the Institute of Pacific Relations (IPR) in December, 1927, Lamont urged these China-hands to encourage China to “compose their differences to the point of jointly inviting the amiable co-operation of foreign interests, the American, British and Japanese. We shall see no war over Japanese interests on the mainland of Asia.”

While Republican China continued to be denied access to credit, under the IMF-like control of the Lamont/Addis-led Consortium, Lamont’s J.P. Morgan poured money into Japan. When the State Department rejected Lamont’s effort in 1927 to get direct loans for Japan’s South Manchurian Railroad

7. Edward M. Lamont, *The Ambassador from Wall Street, The Story of Thomas W. Lamont, J.P. Morgan’s Chief Executive*, 1994.

8. *The Chinese Connection: Roger S. Greene, Thomas W. Lamont, George E. Sokolsky and American-East Asian Relations*, Warren I. Cohen, 1978].



*1898 “imperial reformer” Kang You-wei (left) and his protégé Liang Chi-chao (right). Liang became the ideologue of the post-imperial governments backed by Britain and Japan against Sun Yat Sen after 1911. Liang’s models were Napoleon and Bismarck; Sun’s were Washington and Lincoln.*

colonial project in China, Lamont advised the Japanese to create a holding company which would subsume the Railroad, so that he could arrange loans to the holding company without referencing the incursions into China. “What we have in mind,” he wrote to his friend Inouye, “is to avoid in this market the name of the South Manchurian Railroad.”

In response to the Northern Campaign to unify China under Chiang Kai-shek’s KMT, Japan militarists in 1927 further expanded their power over the government in Tokyo. A Japanese military intervention in Shandong, intending both to consolidate power in that province, and to interdict the KMT forces moving north, was met by international denunciation, and was pulled back. However, in 1928, the Japanese army in Manchuria blew up the train car carrying Manchurian warlord Chang Tso-lin, blaming it on the KMT, and expanded Japanese control in the region as a response to the “instability.”

Calls for sanctions and reprimands were heard across the Western governments, but J.P. Morgan continued the flow of cash into Japan, while Lamont continued defending and promoting Japan as America’s friend in the region. By 1931, J.P. Morgan had floated \$263 million in loans for Japanese borrowers, including direct loans to the government in 1930.

## **Mukden**

The Chinese government, both before and after the 1927 consolidation of Nationalist power, took measures to counter expanding Japanese control over Manchuria. In particular, the Manchurian warlord/governor Chang Tso-lin—and his son Chang Hsueh-liang, who became governor after the Japanese assassination of his father in 1927—worked with the Peking government to construct Chinese-owned rail lines in Manchuria, so as not to be dependent on Japan’s South Man-

churian Railroad for economic or military transport. The project was financed internally, through the proceeds of the Chinese-owned Peking-Mukden rail line. Japan condemned the effort by sovereign Chinese interests as a breach of the Japanese sphere of influence in their country!

In September 1931, Japan’s army in Manchuria carried out the infamous “Mukden incident.” The army blew up a stretch of the South Manchurian Railway north of Mukden, blamed it on Chinese subversives, and within hours, without requesting authority from Tokyo, seized Mukden and all the towns in a 200-mile radius north of the city—all within four days.

The League of Nations passed a resolution demanding that Japan withdraw from the conquered territory. The United States, which was not a member of the League, declared Japan in breach of the Kellogg-Briand Pact—an agreement among major powers, including Japan, signed in 1928-9, “for the renunciation of war as an instrument of national policy.”

But not Lamont. The Morgan CEO leaped to defend Japan. In a letter to his journalist friend Walter Lippmann, intended for publication, Lamont argued that: Japan would assure the peace in Manchuria; the Chinese had broken agreements by building competing railroads, in “deliberate economic wastage in duplicating existing facilities”; and China was “withholding payment on any Japanese bonds” and using the money for the competing railroad. “In other words,” he concluded to Lippmann, “China has conducted the most lawless and aggravating course possible. . . . They make the world believe that Japan hasn’t changed. I think it has.”

Lamont wrote to Finance Minister Inouye. Inouye, like his counterpart Hjalmar Schacht, portrayed himself as an opponent of the militarists, even while imposing policies which

could only be implemented through military force, domestically as well as in foreign policy. Showing that they understood the principle of the Reichstag Fire, by which Hitler would impose his Nazi dictatorship over Germany the following year, Lamont and Inouye *together* drafted a statement, signed by Inouye, to the *New York Times*, arguing that Japan had no option but to attack, and accusing the Chinese army of carrying out the (actually self-inflicted) bombing of the South Manchurian Railroad. The letter compared Japan's control of Manchuria to America's long-standing control of Panama, and insisted there would be "no war on China"; that the Japanese had only the "friendliest feelings toward the Chinese."

A sympathetic historian of the House of Morgan, Ron Chernow, had this to say about Lamont: "Along with his secret work for Mussolini, the Mukden incident is probably the most disturbing episode in Lamont's career."<sup>9</sup>

Japan responded to the outcry against its operations in Manchuria by further atrocities. Already holding all of Manchuria above Mukden, in December 1931 it deployed south towards the Great Wall of China, using air power to support the troop movements. The United States issued the Hoover-Stimson Doctrine, declaring that the United States would not recognize the impairment of treaty rights in China resulting from Japan's illegal military actions.

Within days of this declaration, Lamont arranged for the deferment of substantial debt payments owed by the Japanese, and due in January 1932!

## Morgan's Policy Eats Its Own

The militarists now seized full control in Japan. In late January, Japan used an attack on Japanese citizens in Shanghai, by Chinese protesting the Japanese incursions in Manchuria, as justification to unleash a full military assault on the densely populated city of Shanghai and its vicinity. For a month, Japan's navy and air force bombarded Shanghai, and sent bombing raids on the nation's new capital in Nanjing. Meanwhile, Japan declared the independence of Manchuria and Inner Mongolia, to be called the Kingdom of Manchukuo, under the puppet leadership of the deposed, last Manchurian Emperor of China, Pu Yi.

Within Japan, right-wing terrorists assassinated Lamont's friends Inouye and Baron Takuma Dan of Mitsui. Still, Lamont remained an advocate of Japan over China. He proceeded to arrange with another Japanese friend to set up in the United States a "Japanese Information Bureau," similar to one he had set up for Italy with Mussolini. He prepared a memo for the United States Government calling for a joint United States/Japan Declaration on trade and peaceful relations, so that "all war talk will immediately be silenced."

9. Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*, 1990.

When Franklin Roosevelt became the U.S. President in 1933, the Reconstruction Finance Corporation extended a loan to China to purchase United States wheat and cotton. Lamont and Addis protested vigorously, insisting that any loan must go only to the repayment of outstanding debts. Only when Japan declared all of China to be Japan's area of special responsibilities, in both security and trade matters, did Lamont begin to acknowledge that there were problems in Japan.

However, as late as 1937, after Japan had opened full-scale aggressive war across China, Lamont opposed any boycott or embargo against Japan—as he also extended his most profound support to Neville Chamberlain's appeasement of Germany at Munich as an "act of moral grandeur unequalled in our time."

How has the Morgan name survived their overt participation in the creation of a global synarchist network of fascist states? Part of the answer lies in the dumbing-down of the American population to the point that it would tolerate a statement like the following, again from the 1990 history of the House of Morgan by Ron Chernow: "By the 1920s, Lamont had recruited three new clients [for J.P. Morgan Bank]—Japan, Germany, and Italy—whose course would sharply clash with America's. It was strictly by chance that the bank became involved with three future enemies."



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