1951

"The monetary history of China" (1900-1940)

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Boston University

http://hdl.handle.net/2144/11261

Boston University
BOSTON UNIVERSITY
GRADUATE SCHOOL

Thesis

"THE MONETARY HISTORY OF CHINA"
(1900 - 1940)

by

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(A.B., Yunnan University, 1947)

Submitted in partial fulfilment of the requirements for the degree of
Master of Arts
1951
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Introduction

Relatively speaking, China is still in the primary stage of her economic life. Since the beginning of the 20th century, the authorities in China have been continuously claiming such reforms as the industrialization of the country, the reorganization of her financial system, and the development of the nation's transportation and communication. Such reforms, in reality, can not be successfully achieved unless the nation has a sound monetary system. Except the revolutionary currency reform in 1935 which temporarily stabilized China's foreign exchange rate and domestic price level until the outbreak of the Sino-Japanese War in 1937, China has not been able to maintain a sound currency system.

Under the present chaotic currency condition, fund will not flow onto production channel and the speculation in commodity hoarding and in foreign exchange are unavoidable, and the flight of capital abroad is a natural result.

To understand the present monetary condition in China, chaotic as it will be described later, it is necessary for one to trace her monetary history as far back as 1900.
The author hopes that this thesis will serve one to this end.

It was the intention of this author to extend the scope of this thesis to cover the monetary history of China during the period from 1900 up to 1951. Inadequacy of reference material and the un-reliability of such information as to the economic situation after V-J Day have prevented this thesis to give more discussion on China's monetary problem after the year 1945. However, since China's post war economic life has had no radical improvement, and is still characterized by the war time inflationary spiral, one can very well imagine her economic situation after 1945 from what it had been during the war years, only to modify that it has been worse since then.

The author wishes to acknowledge her sincere gratitude to Professor C. P. Huse and Professor M. Delano for their valuable suggestions in writing this thesis.
A. Lack of System

To be exact, there was no monetary system in China before the establishment of the present National Government. The currency condition in China was chaotic; it formed the most complicated mixture of medium of exchange, from the weight to a coin, that has ever existed in any one country.

It was composed of a number of systems: the cash coinage; the currency of silver bullion based on the tael unit; silver coins; the foreign coinage as well as provincial mintage; and finally there were the minor silver coins, fractional parts of the dollar circulating independently of the unit and with no limitation upon their legal tender quality.

We may regard the currency as on a bimetallic basis with the copper and the silver tael as units. It is different from the real bimetallism. The two metals in China were independent of each other and circulated without a fixed exchange ratio between them. The cash was a standard coin; the tael an uncoined unit of weight. Traditionally 1,000 cash was equal to one tael, the ratio varied from time to time.
B. Definition of Terms

I. Cash--A small copper or bronze coin, constituting the standard for the everyday transaction of the lower-income group. In the interior it was the principal currency for the majority of the people.

II. Copper coins--Nominal 10-cent pieces, inscribed at the mints as worth one-hundredth of a dollar, but actually only token coins intrinsically worth less than half of their nominal value in their relation to dollar and cash. There were also 20-cent pieces.

III. Tael--A unit of weight of silver of a given fineness representing the standard for practically all banking and commercial operations.

IV. Dollar--A coin of several makes of different weight and fineness, introduced by foreigners; used by them as well as post offices and central government bureaus in everyday's transactions.

V. Small Coin Silver--Silver coin nominally 10 or 20-cent pieces, but in reality token coins whose values depend upon their silver content. They were coined in large quantity at the various mints. Their weight and fineness were never constant. One dollar may exchange for about six 20-cent pieces, depending upon supply and demand and price of silver.
VI. Big Money Small Coin—Consisting of 50, 20 and 10-cent pieces whose values are in decimal progression. Ten 10-cent pieces or five 20-cent pieces equal one dollar, and actually circulated at that rate. Their silver fineness and content are less than the yuan dollar. Later on they were debased, and exchanged at about eleven 10-cent pieces and ten copper coins for one yuan dollar.

C. Different Currency Systems

I. Cash

Copper coins known as "cash" began to circulate in China about 1100 B.C. They were made of bronze, that is a mixture of copper and zinc. They were described as "a circular coin more than an inch in diameter with square hole in the middle for the convenience of stringing." It should consist of an alloy of 50 per cent copper, 41.5 per cent zinc, 6 per cent lead and 2 per cent tin. Each piece should weigh 3.78 grams. However, these standards of composition and weight are not free from counterfeiting and the cash in circulation would not measure up to them generally. The lack of uniformity in weight and size is owing to: (1) Concurrent circulation of the issues of many reigns of the Manchur Dynasty with the survivals of issues of preceding century. (2) The crude method of coining which rendered uniformity impossible, particularly when
the cash mints were not under the control and management of one central authority. (3) The circulating of many counterfeit coins.

Ordinarily, cash may be considered a coin of universal acceptability, except in trade centers where it was the only currency.

II. The Silver Currency

Silver was first introduced as currency in commerce during the paper regime in 1367.

The silver unit is the tael. We must know that there is no coin representing a tael. The tael is actually a measure of weight, equivalent to 1.3 ounces avoirdupois. Thus in a land where the tael was the measure of value and also the measure of weight, confusion of term is almost inevitable.

The relation between copper and silver currency has never been on a definite fixed ratio. One tael is supposed to be equal to 1.50 silver dollar. One silver dollar is about equal to 1,000 cash or 1,000 cents.

The tael is decimally divided into mace, candareens, etc. Through lack of government regulation, the weight of tael is irregular and the purity of silver bullion is variable. Thus commercial usages have come to recognize several degrees of fineness in the bullion in every
important market. The weighting and testing of the bullion not only wasted time, but also had the danger of inaccuracy.

All taels of silver in China were not of even weight, nor of even fineness. Out of the estimated 170 different kinds of taels, there were three principal taels, namely Haikwan tael, Kuping tael and Shanghai tael.

Haikwan tael is the tael with which the foreign businessmen had most to do in China, inasmuch as it was the money of account in which all the custom dues were paid. Theoretically this tael is of pure silver, 100 per cent fine, and the depository banks for custom fund must account to the government in pure silver for all the money collected. But in practice it is a purely fictitious and nonexistent currency. Custom dues were paid in local currency at a rate fixed on the opening of the various customhouses throughout the country.

The theoretical weight of the Haikwan tael is not ascertainable with any degree of certainty. The treaty with Britain in 1858 provided that 583.3 grains being equal to a tael. In the same year a treaty concluded with France established the tael at 583.11. In actual estimate of the silver turned over for a Haikwan tael the variation was from 581 to 589.

Kuping tael was also a fictitious government money of account, formerly used by the government for all dues
other than custom duties, excepting those which were levied in kind or in copper cash. The normal Kuping tael is 575.8 grains of silver and 100 per cent fine. This is the receiving rate, while the paying rate is 1.5 grains or 0.2 per cent lighter.

Shanghai tael was the standard of international exchange for the trade in northern China and Yangtze valley. The Shanghai tael contains 524.93 grains of fineness silver. It was one of the local taels of the greatest importance in mercantile transactions in China.

III. Foreign dollars

The coastal trade with the Western countries brought foreign dollars into use since the sixteenth century. After the Opium War all the different kinds of foreign coins were declared lawful money in Canton.

The introduction of the foreign dollars into China added another element of confusion to the already complicated currency system. It is stated that the Portuguese and Spaniards brought the dollars into China first. Inasmuch as the tael was not a coin, but a weight, and the copper coin was too bulky for ordinary cash transactions, the foreigners found it necessary to introduce a medium of exchange which was more convenient than the cumbersome copper cash or silver bullion in indefinite taels. At the time when the foreign dollars came into
China, they were the only silver coins in the country, and they at once became popular.

The Carolus dollar of Spain was the first foreign dollar to be used in China, and for a great many years this dollar circulated at a premium above all other dollars. It is said that during Napoleonic War about three-fourths of the trade of China was paid in Carolus dollars.

Various other foreign dollars entered China during the nineteenth century, chiefly of which was the Mexican dollar, which was introduced into China about 1850-1860. In spite of the fact that the Mexican dollar was of 416 grains of silver and the Carolus of only 402.5 grains, during the decade from 1850-1860 the Carolus dollars circulated at a premium from 50 to 80 per cent over the Mexican and other dollars.

The foreign dollars had been circulated in China are Carolus dollars; Peruvian dollars; Bolivian dollars; Chilean dollars; American trade dollars, 26.957 grams, 900 fine; Mexican dollars, 27.000 grams, 900 fine; British trade dollars, 26.957 grams, 900 fine; Japanese Yen, 26.956 grams, 900 fine; and the Indian Rupee.

Many attempts were made from time to time to suppress the circulation of the foreign coins in China. The Mexican
dollars, however, as well as the Hongkong and the Strait dollars, had continued to circulate in China until 1925.

IV. Early Chinese Dollars

Before the institution of the Chinese Republic, various forms of provincial dollars were issued in China in varying degrees of fineness and of different weight. The earliest Chinese silver dollars were issued in the province of Fukien and Formosa in about 1835, and were 7 mace, 2 candareens in weight, and supposedly of pure silver. The majority of the provincial silver coins, however, were supposed to be equal to seventy-two-hundredth of the Kuping tael, 900 fine.

The first modern mint established in 1887 at Canton, not as a part of the national currency system, but as a provincial undertaking for the convenience of trade. This operation was followed by some provinces. Without central Government direction, the designs of coins were different and the quality and weight were not uniform, the addition of these provincial dollars to the circulation further confused the currency condition.

The Canton mint commenced operation in 1890. The standard coin was fixed at .70 tael in weight (treasury tael) 900 fine. The fractional parts were of four denominations, namely, 50-cent piece, 20-cent, 10-cent and 5-cent piece. The 50-cent was 860 fine, the 20-cent 820
fine and the 5-cent piece 800 fine.¹ One cent pieces were also minted. Counting in terms of the new silver dollars, about three million dollars worth of coins were issued during the first year; but only a fractional part of the total value was in dollar pieces. Judging from the economical condition in China the dollar piece was too large for ordinary use. In making minor coins, the mints gained lots of profit.

The provincial dollars never succeeded in displacing the Mexican and other foreign dollars. As we have already mentioned, the silver mints soon after their establishment devoted their energy to the coinage of the fractional silver coins with the result that the latter depreciated.

V. Republican dollars

During the Republic, five types of Republican dollars had been put into use. The first of these bears the portrait of Dr. Sun-Yat-Sen and were issued by the mint in Nanking. The Li-Yung-Hung dollar was the next coined at Wuchang mint. The third of these coins contained the portrait of late president Yuan-Shih-Kai and was first coined at Tientsin mint in December 1914. Later, dollars bearing the effigy of Li-Yung-Hung were also issued from the Tientsin mint.

¹ Wei. Currency Problem in China, pp 52 to 55.
According to the currency regulation of 1914, the unit of the Chinese currency was to be the Yuan (or dollar), and it was of 72 candareen gross weight, 90 per cent fine. Before the currency regulations were promulgated, however, as the national coinage law, the fineness was reduced to 89 per cent pure silver, each dollar to be 72 candareens. The maximum variation in weight and fineness allowed under this law, was three one-thousandths and coins showing greater variation in weight and fineness were to be reminted. All mints were supposed to strictly observe this law.

From December, 1914, when the Yan dollar began to be minted, until March 1920, 383,902,948 dollars were minted in China. Meanwhile foreign dollars were being replaced to a considerable extent by the Chinese dollars and the number of Mexican dollars steadily diminished. The reason for the popularity of the native coinage lies in the low silver content of the dollars; they drove the better coins out of circulation.

VI. Subsidiary coinage

The dollar was too large for the majority of the Chinese people, hence they had taken readily to the use of the subsidiary "small money" mainly 10 and 20-cent pieces. The mint authorities had had a steady demand for
these particular pieces, and, that, coupled with the incentive of large coinage profit from these small pieces, inasmuch as the silver dollars were 900 fine while these small coins were of 820 fineness or less, caused the mints to pour out enormous quantities of small coins to earn tremendous profit.

VII. Paper money

In 1851-1861 the Government issued paper money which was nominally redeemable, but actually never redeemed and later repudiated. With the exception of the first year of the Republic, 1912-1913, when both Central and provincial Governments issued notes, the issue of paper currency since 1862 was for the first time in the hand of banks and individuals. There was also considerable note currency issued by the banks and money changers current in local markets, of this paper currency, a part of it was based on the cash. The cash note was local in character. There was also an increasing amount of silver notes based on tael and the dollars issued by foreign banks circulated extensively in commercial centers.
Chapter II

THE PROBLEM OF CURRENCY REFORM

A. Initial Movement

An edict was issued on the 26th of August, 1901, which was the first effective step in the attempt to improve the currency condition of the country. It ordered the closing of the provincial mints except those at Canton and Wuchang, and legalized the circulation of the coins issued by the two mints on account of their uniform weight and fineness. As a matter of fact, the edict was not taken seriously and the provincial mints continued their activities, uniformity of weight and fineness were out of question.

To supply the insufficiency of cash in provinces, another edict authorized the provinces along the Yantze River and seaboard to coin the new copper Yuan. The copper coinage was successfully put into circulation. This issue yielded a considerable profit to the provincial Government, but caused hardship to the public on account of depreciation.

The steady fall in the price of gold and silver became so serious that it caused financial crisis, and the Government on account of its foreign obligation was threatened with bankruptcy.
Of course, the effect of the disturbances of the fluctuating exchange-rate between gold and silver-using countries was worldwide. Fundamental currency reforms in many silver-using countries performed right after 1903, such as Philippine, India, Siam, etc.

In order to meet foreign indemnity and to solve domestic financial crisis, caused by shifting foreign exchange rate, special commission was sent to Japan to study and investigate the Japanese gold-standard system with the view to its introduction into China. The legations in Europe were instructed to participate in the conference and discussions which were being carried on by the American and Mexican commissions with the European Governments.

A memorial was sent to Empress Dowager by the Chinese minister at St. Petersburg, Hu Wei-Te. Mr. Hu suggested the accumulation of a gold reserve for the gold standard system. His plan can be listed as follows1:

1. Name and weight of the coins--The gold coinage unit should be called "Yuan" in place of tael. He recommended that this new unit should have the weight of a Mexican dollar. The gold coin must be worth so many silver coins and the coin so many copper ones, each piece having its own name.

1Wagel, Srinivas R. Chinese Currency and Banking, pp 92-94.
2. The amount to be coined would be 800 million Yuan, of which 15 per cent should be in gold yuan and the rest would be in silver coins.

3. The withdrawal of the old coins--The old coinage must be stopped immediately and the old coins withdrawn gradually. The new silver unit was to be 27.073 grams in gross weight and 920 fine, and the remaining 80 parts being the nation's seigniorage. On the coinage of 800 million yuan, the profit would be 64 million dollars with which the government can build a gold reserve and pay its debts.

4. The capital outlay--A currency loan had to be raised to introduce the new system.

5. The introduction of the new coinage--Government disbursement and taxation paid and received in new coin.

6. To secure public and foreigners' confidence was to deposit the borrowed gold among the various foreign banks. A periodical statement of mint operations must be prepared and made available to the foreign ministers at Peking, in conformity with the practice of the nations.

Mr. Hu did not mention about mint ratio, he paid no attention to the relationship between market ratio and mint ratio. By overlooking this point, his plan was fundamentally defective and unworkable.
Foreign Interest In The Reform Movement

When all countries were adopting the gold standard, even Siam, the only two countries that remained silver standard countries were Mexico and China. Even in the silver-using colonies and dependencies of Great Britain and France several commissions were appointed to inquire in detail into the most feasible manner for reforming the currency; and in practically all these places it was arranged to have the gold exchange standard. Mexico proposed to the Government of the United States to arrange for an international inquiry into the silver question. China joined the request.

In response to the request of China and Mexico, a Commission on International Exchange was created by the U. S. Government in 1903. This Commission included Mr. Jeremiah W. Jenks.

Mr. Jenks met the argument that silver should continue the standard for a while by the statement that the interim, before the national currency was put on the gold basis, there would be a great disturbance of business. The first effect of such a situation would be to increase the gold value of silver because of the necessity to restrict the fluctuation in the gold value of silver coins. Any other method but that of adopting gold at once, Mr. Jenks believed, would be followed by a period of
unsettled business conditions. His plan to reform China's currency can be summarized as follows: 1

1. The Chinese Imperial Government promptly to take effective steps, satisfactory to the majority of the Indemnity Treaty Powers, to establish a general monetary system consisting chiefly of silver coins with a fixed gold value.

2. In the establishment and management China was to invite and employ acceptable foreign assistance.

3. In pursuance of this plan, the Chinese Government to appoint a foreign comptroller of the currency who shall have general charge of the system for China; he to have acceptable associates in charge of the mint or of such work as he may prescribe.

4. The comptroller to make monthly reports in detail of the condition of the currency, including amount in circulation, loans, drafts and foreign credits, etc. His accounts, but not those of the general Government, to be open at reasonable times to inspection by accredited representatives of the Powers interested in the indemnity, provided the Chinese Government judges that such a provision would be wise in order to secure confidence in the system.

1 Comission on International Exchange of the U. S.--Memoranda on A New Monetary System for China--pp 1-43.
5. The Chinese Government to adopt a standard of value. The unit to consist of grains of gold and to be worth presumably, approximately, the gold value of a tael, or somewhat more than a Mexican dollar. Provision to be made for the free coinage of suitable pieces, multiples of this unit, 5, 10 and 20, on demand, for a reasonable coinage charge. Eventually some to be coined on Government account.

6. China to coin as rapidly as possible silver coins, with an appropriate device, about the size of a Mexican dollar, for circulation in the country. These to be maintained at par with standard unit at a ratio of about 32 to 1. More to be coined thereafter, according to needs, as indicated by provisions following. Subsidiary and minor coins, silver, nickel and copper, of suitable weight and value to be provided.

7. Both the gold and silver coins to be receivable at par in payment of all obligations due to the Chinese Imperial Government in any of the provinces. When such obligations have been made in silver, the new coins may be tendered instead at their coin value.

8. The Government at its discretion, in conjunction with the viceroy, from time to time to declare, by proclamation, in the various provinces the new coins legal tender for debts incurred after the date fixed in the proclamation. Previous debts to be paid as contracted.
9. For the maintenance of the parity of the silver coins, the Chinese Government to open credit accounts in London and other commercial centers against which it may draw gold bills at a fixed rate, somewhat above the usual banking rate.

10. Should it be necessary to make the loan for the establishment of a general monetary system with adequate exchange funds, it to be secured by sources of revenue sufficient to yield an amount which will provide for the needed interest and sinking fund, such revenues to be managed in a manner satisfactory to the parties interested.

11. The seigniorage profit from coinage to be kept as a separate fund. Whenever 500,000 taels shall have been accumulated, it to be placed in a gold deposit with the several foreign depositaries in proportion to the drafts made upon them. This process to be continued till at least taels worth shall be in the gold fund on deposit.

12. For replenishing the gold fund after its reduction by drafts, the comptroller to honour silver drafts drawn by foreign agents of the treasury in exchange for gold, at rates fixed by the comptroller.

13. Provision to be made for a banking law under which bank notes kept at par with the legal tender currency may be issued by an Imperial bank or by other responsible banks under the supervision of the comptroller.
14. As rapidly as is practicable the new currency to be introduced into the various provinces, the comptroller making use of the local governments, banks, business houses, and such other agencies as are best suited to the purpose.

15. Within five years the new system to be introduced into all the treaty ports and as far as possible elsewhere and all customs duties to be collected in terms of the new currency as fast as it is adopted in the provinces, and provision also to be made for the keeping of the tax accounts under the new system.

16. The new system to be put into effect when the new coins are ready for circulation.

17. The comptroller and the representatives of the Powers to be authorized to recommend economic reforms to the Imperial Government.

The advantages of this new monetary system for China were represented to be five-fold. First of all, it would bring about a fixed rate of exchange, would eliminate the element of risk and uncertainty from international commerce, and thus bring about a large increase in the volume of China's foreign trade. The finance of the Government would also be more certain and less embarrassing than when the value of the tael was fluctuating. The second advantage was that during the first four or five years of the introduction of the new currency, China would make a profit of about fifty million dollars in coinage. It was
stated that because of the uncertainty as regards currency, foreign capital was fighting shy of China—except that of speculators and others who had special schemes. Therefore, the third advantage was that China would, under the new conditions, obtain enough capital to develop her resources at lower rates of interest. Not only would China be able to borrow cheaply, but it would also be able to make it possible that some of the obligations could be met by loans bearing a lower rate of interest. A considerable saving in interest, sufficient to pay interest on the new loan for currency proper, was stated to be the fourth advantage. The last advantage was the maintenance of the value of the taxes collected. Under the old conditions, the gold value of Chinese revenue kept reducing on account of the decline in the gold value of silver, thus making it increasingly difficult for China to meet her foreign obligations.

Although the advantages of the gold standard system were enumerated in detail by Professor Jenks, as also the method by which introduction of the new system was to be facilitated, the authorities were certainly not enamoured of the proposal. The Government had not made up its mind as to what to do with the suggestion when it received a memorial from Viceroy Chang Chih-Tung opposing completely the gold standard plan. He pointed out the inadvisability of employing a foreign comptroller, the impracticability of
the gold system for China and the benefits of a silver standard for a new uniform coinage. Some of the objections of Viceroy Chang were forceful and others showed insufficient knowledge of currency and finance.

He argued that the official ratio between silver and gold was arbitrarily fixed at 32 to 1; while the gold price of silver fluctuated in world markets, so when China paid her foreign gold obligations she had to follow the international price. In case the gold value of silver declines, she had no benefit at all, while the foreigners upon entering Chinese boundary could get overvalued silver profit. Upon this point he misunderstood Mr. Jenks' plan as an effort to fix the gold price of silver, which is very difficult for most of the governments to do.

As to the employment of an foreign comptroller, he opposed very powerfully. He thought it was a step leading to the Powers' interference on Chinese financial condition. A country, whether strong or weak, should be independent of foreign influence and control.

Besides, the gold-exchange standard was not practicable for China. According to the very limited purchasing power and the low cost of labor, the daily commercial transactions and wage payment were counted in copper currency. Under such conditions, even the silver tael was too big to be used; gold coins were definitely beyond all practical purposes.
Mr. Chang favored silver standard. The depreciation of
gold can stimulate export and discourage import, which
would bring a favorable international balance for China,
according to him.

To operate a gold exchange standard successfully,
certain policies must be followed by the treasury or cen-
tral bank: (1) the national budget must be balanced, and
fiat money must be avoided; (2) exports and imports must
be kept in normal balance; (3) the local discount rate
must be so regulated as to conserve gold and prevent
inflation, and yet accommodate business; (4) credit and
currency must be controlled as to keep domestic prices in
line with foreign prices; (5) if foreign exchange rates
threaten to above or below the "gold points", the control-
ling authority must actively buy or sell foreign exchange.

None of these requirements for a successful gold
exchange standard could be fulfilled in China at that time.
These are the reasons: (1) Ever since the year of 1848,
China has been suffering from a series of foreign wars,
domestic conflicts, and accompanied by floods, droughts,
and plague. Huge military expenses and loss of regular
revenue have made her treasury exhausted. Consequently,
through the course of the past one hundred years the
Government never did get its budget balanced. (2) Imports
have been exceeding exports for decades due to the undeveloped economic conditions which made China dependent upon foreign goods in large quantities. (3) The local discount rate can only be regulated through an unified central authority. But the Chine Government's decree could hardly reach every locality until as recent as 1928. (4) As to the control of credit and currency, it was further complicated by local politics. Underprovincial self-interest, mint operations and paper money issues could not be kept in harmony with the national benefit. Since the price level might be different in each community, it was impossible to keep domestic price level in line with foreign prices.

(5) On the problem of buying or selling foreign exchange if its rates threaten to go above or below the gold-points, the Government has tried without any success. If the foreign trade balance could not be constantly maintained, the open market operation could only meet buyers' needs on foreign drafts. Few people would bring in gold remittance for sale. This situation, if allowed to last longer than it should, would exhaust the gold reserve. Then the nation would be forced to abandon its gold-exchange standard. This was exactly what would happen in China should the gold exchange standard be adopted.

C. New reform plans of 1905

Already before the arrival of Professor Jenks in China, the Board of Revenue, in cooperation with ministers of the
Financial Commission, tried to find a home-made formula, on the basis of which China's currency system was to be successfully remodelled. Subsequently the endeavors of the official organs were promoted by Viceroy Chang Chih-tung's opposition to the plans of Professor Jenks. Furthermore, the provinces had inaugurate a piratical money raising policy by flooding the country with newly minted copper coins. This unnecessarily large addition to the circulation was responsible for a considerable depreciation of the copper cent. The total production of 10-cash copper coins in 1904 was estimated at 1,693,700,000 pieces. During the following year a further quantity of 5,806,300,000 pieces were minted by the 16 copper mints.

On August 22, 1905, Imperial sanction was given to a proposal regarding the reform of China's national currency. The plans then submitted consisted of ten regulations regarding the newly proposed currency and of eight rules concerning the Government Mint at Tientsin. The said regulations were the result of deliberations, extending over two years, between the Board of Revenue and a specially selected group of dignitaries.

The ten regulations constituting the memorial did not mention the standard for the newly proposed national currency. But in the mint regulations were embodied the following declarations:

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1The Currency Problem in China, by Wen Pin Wei, 1914.
(1) The coinage of the three metals will be known as the "Ta-Ch'ing gold coinage", "the Ta-ch'ing silver coinage", and "the Ta-Ch'ing copper coinage". All three are designed for general circulation throughout the empire.

(2) The original intention in the establishment of the central mint was the reform of the currency, by issuing a currency in three metals, gold, silver and copper, but the establishment of a currency system is a matter of serious importance and we cannot avoid a careful investigation to determine the proper weight and fineness of the gold and silver coins, and this problem has yet to be considered thoroughly and be decided."

Three months after the above memorials and regulations had been published, the Ministers of the Financial Commission and of the Board of Revenue submitted further and more definite regulations. In rejecting the proposal for introducing the new system on the gold standard the ministers, in the memorial submitting the new regulations, declared that China's accumulations of gold were not large and that hitherto in both public and private transactions it had been customary to use silver and copper. Hence they stated that after the silver coinage had been successfully introduced into circulation, then they would consider the matter of accumulating bullion for the minting of gold coins. But definitely they deemed it unwise to accept the gold standard at that moment.
D. The gold-standard scheme of 1907

China had been carefully watching developments in the gold-currency schemes of India, the Straits, Siam, the Philippine Islands and Mexico. By force of circumstances she was prevented from following the example set by those countries; but the unintentional delay taught China valuable lessons. Had she been enabled to carry the gold-currency scheme into effect, she would have saved herself the cost and trouble of modifying the system, as most of those countries were forced to do.

The continued postponement of the currency-reform project caused much disappointment among many of the Government officials. In the commencement of 1907 the Minister to Great Britian, Wang Ta-hsie, presented a memorial to the throne, suggesting the immediate adoption of the gold-standard for China. The memorial, however, only called forth severe criticism on the part of the Board of Revenue. Making use of that opportunity the Board announced its policy with regard to its own gold-currency scheme, which can be summarized as follows:

The gold-exchange standard was found to be the only feasible system and possible courses with which to achieve it were four. (1) To introduce the uniform national coinage based on silver; and subsequently to give the silver currency a fixed parity with gold; the course by which British India
adopted her gold standard. (2) To introduce the silver coins at a fixed value in gold at the very beginning, and to maintain them thereafter at their gold value; this being the Philippine currency system. (3) To introduce the system in a manner similar to (3); but at the same time to introduce a partial note circulation as a substitute for token silver coins. (4) To introduce the new national silver coins in the silver basis to replace the old coins and bullion currency. Subsequently to extend the note circulation to replace the new standard coins; the coins so withdrawn to be held as a trust fund or sold for gold. When the note circulation becomes universal, to declare for free coinage of gold at the market ratio of a given time and convert the silver notes into gold notes. If the gold reserves prove insufficient at any time, the notes may be redeemable in silver bullion at its market value in gold. The Board compared these four courses and found the fourth preferable because it combined the advantages of the others while free from the objections against them. In adopting this course the necessary steps to take would be (a) to prepare the necessary administrative machinery, (b) to put into circulation the silver coins, (c) to replace the coins by substituting a note circulation, (d) to recoin the standard pieces into subsidiary coins, and finally to declare for gold coinage at the market ratio of
the day and maintain the circulation at that ratio thereafter. The essential thing as a preparation, the Board declared, would be to prepare a sufficient gold stock, to accomplish which would require six or seven years of strenuous effort.

This proposal indicates that the Board of Finance was no longer constituted of men without experience and knowledge as had generally been the case in the past. The course of action it announced as best, however, was not intended to be put into immediate effect. Commenting on the policy thus outlined, the Ministers of State subsequently declared that the reform must be undertaken step by step, and dwell at considerable length upon the difficulties of introducing this plan of reform. But nothing further was heard about their scheme, and the Government continued its policy of inaction.

E. Dr. G. Vissering's Plan

Early in 1911, a contract was signed by the Chinese Minister of Finance with an international banking group. Under this contract, 10,000,000 sterling would be granted for the purpose of reforming China's currency system. China agreed to invite Dr. G. Vissering, late President of the Javasche Bank to act as monetary adviser to the Chinese Government under the terms of the currency loan
agreement. Dr. Vissering's appointment was made just on the eve of the Revolution, which broke out on October 10, 1911, and brought the Monarch system to an end. Hence the £10,000,000 currency has never been raised. Upon the Republic Government's invitation, Dr. Vissering reassumed his work in 1913. He believed that the only feasible system for China was the gold-exchange standard. He asserted that before taking any step, the token coins must be accepted at their face value throughout the whole country; and counterfeiting coin had to be absolutely prohibited. Moreover, he favored a gradual evolution instead of immediate achievement.

By the time when Dr. Vissering started to work, the currency system in China can only be described as chaotic. The provincial mints, for instance, under the control of various grasping militarists, had been minting coins of different kinds, of inferior quality, for revenue purposes. Consequently the country was flooded with depreciated copper and silver coins. The variation in weight and contents of silver dollar produced by different mints and by the same mint at different times was just astonishingly wide. There was not another country in the world where the currency was so bewildering to the newcomers as that of China. One would find on arrival in this country that he must pay his ordinary bills in dollars, which might be
Mexican or Carolus, or provincial dollars, or the new national dollars. He would, moreover, find that for bookkeeping purposes one cent was reckoned as one-hundredth of a dollar, and he might actually receive, or have to give 140 copper cents for a silver dollar. For imported goods and foreign remittances he had to pay Haikwan taels and these taels, which did not exist as coins, had to be purchased in dollars at varying rates. Finally, he had to be very careful in accepting banknotes. Only those issued locally were as a rule to be accepted at face value.

The first step in currency reform as was recognized in 1911 was the standardization of the silver currency. Dr. Vissering insisted that the dollar must be coined in technical sense not a commodity of fluctuating value; and the subsidiary coinage both silver and copper must also be standardized and universally accepted at its! face value; that the tael unit must be eliminated and all payments both public and private must be made in new unit; that the silver dollar must be of uniform weight and fineness.

Currency reform, however, ought not to end with the adoption of a standard silver currency. The exchange medium of the greater part of the world at that time was gold. The subsidiary silver, nickle, and copper coins were merely token, and the fluctuation in the value of silver
or copper had no direct effect upon the commodity. The fluctuation in foreign exchange is the chief obstacle in international trade. Exporters regarded exchange fluctuation as being the mainly responsible for their inability to secure orders from abroad; importers had found, to their high cost due to the high price of silver, accompanying by gambling in exchange, that their markets were completely demoralized. So Dr. Vissering was convinced that anything approaching stability in business can only be brought about by the introduction of a gold standard in China. And this, he further indicated, like other important reforms could only be effected when the nation possesses a stable government and regained the confidence of the foreign money market.

Dr. Vissering's plan for Chinese currency was published in 1912. Both the pure gold standard and the limping standard were ruled out as impracticable under the existing condition. He advocated the gold exchange system, and defined it on the more or less complete application of a system which consists of the circulation, within the country, of silver token currency, government currency or banknotes. That is, such means of payment have not in themselves a sufficient intrinsic value, or any value at all. Nevertheless, they are maintained at a parity with gold, not only by the extensive circulation of gold coins or by a large
stock of gold within the country, but also by an explicit reserve abroad, on which drafts are made for that purpose. He listed his plan as follows:

I). First Period

1. The very first step must be the adoption of future gold unit as foundation of the new system, in order to avoid speculation on the announcement of the gold par and also to avoid that the new unit would later on have to be raised to its future nominal value.

2. The organization of a central bank of issue.

3. The introduction of the new gold unit as money account for book credits and book transfer.

4. Securing the cooperation of the foreign exchange banks and the private Chinese banks for the introduction of the new gold unit into their bookkeeping.

5. The issuance of banknotes based on the gold unit.

6. The accumulation of a gold reserve against the banknotes issued.

7. The regulation of the management of this gold reserve.

8. Eventually declaring the banknotes as the legal tender.

9. To make a close study of the conditions of the balance of trade, and the balance payment of China.
II). Second Period

10. The establishment of weight, fineness and alloy of the token coins and of the new subsidiary coinage.

11. The issuance of these token coins and simultaneously

12. The accumulation of gold reserve against the token coins, and the regulation of its management.

13. If desirable, the coinage and the issuance of gold coins. Also, if desirable, the temporary admission of particular foreign gold coins as legal tender, and the temporary issuance of gold certificates.

14. The proclamation of unlimited legal tender of (a) the silver token coins of 1 and 2 units; (b) the above mentioned golds and eventually the gold certificates.

III). Third Period

15. The gradual withdrawal and demonetization of the old silver coins, as far as necessary of the old system, and of the present cash.

Dr. Vissering pointed out that this system was particularly suited to a country accustomed to the use of silver, where an actual gold coin was not needed while the gold required to maintain the parity of the silver coins would amount to a far smaller quantity than would be necessary if gold coins were in actual circulation.
Little had been done about Dr. Vissering's plan; the bad and worsening currency condition in China was still left untouched.

There were differences between Dr. Vissering's plan and Professor Jenks' plan. Professor Jenks strongly urged the adoption of the gold exchange standard from the beginning in order to avoid the disturbances of business that would come from the introduction of the standard silver coins and bullion value, and their subsequent increase in value by 20 to 30 per cent when the gold basis was adopted. Dr. Vissering, on the other hand, urges the advisability, during the introductory period, of having a gold exchange standard as far as possible and also at the same time a silver standard. He estimated it would take a number of years before the new currency would be the only one used. Meantime, the silver standard would be used concurrently.

F. National Currency Regulation in 1914 and 1915

The provincial mints, under the Republic Government, followed pretty much the traditional method to earn profit through debased coinage. This method resulted in depreciated currency. In order to correct such mistake, National Currency Regulations\(^1\) were passed in January, 1914. The following are their essence:

\(^1\)China Year Book, 1924.
Art. 1. The right of minting and issuance of national currency shall belong solely to the Government.

Art. 2. The unit of the national coin shall be called Yuan, and the yuan shall contain six mace, four candareens and eight LI (K'uping weight) or 23.978 grammes of pure silver.

Art. 3. The different kinds of national coins are: (A) Silver coins--1 yuan, 1/2 yuan, 20 cents piece, and 10 cents piece; (B) Nickel coin--5 cent piece; (C) Copper coins--2 cent, 1 cent, 5 li, 2 li, 1 li.

Art. 4. The value of the national coin shall be in decimal progression.

Art. 5. The weight and fineness of the coins shall be as follows: (A) 1 Yuan--gross weight 72 candareens with 90 per cent silver and 10 per cent copper; (B) 50 cent--gross weight 32.4 candareens with 70 per cent silver and 30 per cent copper; (C) 5 cent--gross weight 7 candareens with 25 per cent nickel and 75 per cent copper; (D) 5 li copper piece--gross weight 9 candareens with its fineness as 95 per cent copper and 4 per cent pewter and 1 per cent lead; ...etc.

Art. 6. One yuan piece shall be of unlimited legal tender quality; for 50 cent pieces the legal power tender only up to 20 yuans; for 20 cent pieces up to 5 yuan.
Art. 7. The designs of the national coins shall be promulgated by a Provisional Order.

Art. 8. The ratio of the difference between the weight of silver coins and that of the legal tender shall not exceed 3/1000. The ratio of the difference between the total weight of per 1000 pieces of the silver coins and the legal weight of that amount of coins shall not exceed 3/10000.

Art. 9. The ratio of the difference between the fineness of any piece of silver coins and the legal fineness shall not exceed 3/1000.

The law of the different nations on the subject of banking and the issue of notes vary considerably. The privilege of extraterritoriality enjoyed by foreign banks added further complication to the Chinese currency system.

The regulations restricting the issue of paper money as of October, 1915, which appear below, were the first official steps with regard to paper money issuing.

Art. I. With the exception of the Bank of China all official and private banks and exchange houses, etc. must comply with these regulations. All printed and written notes of whatever amount bearing no name of the person payable nor the date of payment, or any note which can be exchanged for taels, dollars or subsidiary coins when presented for payment, shall be regulated as paper money.
Art. II. After promulgation of these regulations, all banks and exchange houses which shall be established and all those which have no paper money in the market shall not be allowed to issue note hereafter.

Art. III. In case where before the promulgation of these regulations special permission has been granted to any bank or exchange house by the Government to issue paper money, it shall be allowed to continue to issue the same, but as soon as the period of license expired all its paper money should be withdrawn from the market. With regard to those banks, which obtained no special permission from the Government, the amount of their paper money in the market shall not exceed the average amount of the last three months before the promulgation of these regulations, and no more notes shall be issued. At the same time the Ministry of Finance shall fix a date for them to recall all their notes from the market.

Art. IV. When a bank issues notes according to the provisions made in Art. III, it should have at least 50 per cent money as reserve, and the other 50 per cent may be in domestic loans, bonds or other commercial bonds as a security for the rest of the reserve funds. Should there be special circumstances requiring a deviation from the above rule, a petition should be sent to the Ministry of Finance for decision.
Art. V. All banks issuing notes should submit monthly statements on the amount of their notes in the market and the amount of reserve funds, to the Ministry of Finance or to the highest local officials to be transmitted to the said Ministry.

Art. VI. The Ministry of Finance may appoint officials or interest any public organ to institute investigations on the amount of notes issued, the ready money as reserve funds, securities, and all other documents of the note issue banks.

Art. VII. Any bank or exchange house violating the provisions made in Art II-IV shall be fined any sum from $500 to $5,000 and have its right to issue notes canceled.

Art. VIII. Any bank violating the provision made in Art. V, that is, failing to submit a monthly report or submitting a false one, shall be fined a sum between $50 to $500; and a bank refusing to be investigated as provided for in Art.VI. shall be fined a sum between $100 to $1,000.

Art. IX. These regulations shall come into effect from the date of their promulgation.

G. Chinese Banking Group and Currency Reform - 1921

The Chinese banking group, submitted on October 5, 1921, a number of memoranda to the Government, among which was the following on monetary reform: ¹

¹Lee, F. E. Currency, Banking and Finance in China--Washington, 1926
1. Gold should be adopted as the basis of Chinese monetary currency. As the first step toward the introduction of gold standard, action is to be taken to re-adjust the value of all silver dollars as well as all subsidiary coins both in silver and copper.

2. The use of tael should be abolished. The fineness of the legal tender should be properly defined so that silver dollars may serve as the sole Chinese medium of exchange and also find a place in the market quotation of the international currency. All the mints in the country, whether they are already in existence or are to be established, should be placed under a unified system of management so that all the silver dollars in circulation throughout the country may have a uniform fineness and legal standard. Moreover, silver dollars may be supplied for the extent of circulation.

3. Every restriction shall be imposed on the minting of old subsidiary coins, both in silver and in copper, proper steps should also be taken to withdraw all the old subsidiary coins in circulation from the market, in place of which new ones either in silver or copper should be minted so that a decimal system of coins may be maintained.

4. The profits realized from the minting of new subsidiary coins should be deposited in a sinking fund...
which would be solely used in the introduction of an uniform silver currency and in the adoption of gold standard. By the establishment of such fund, the raising of large loan may be avoided.

5. The paper currency throughout the country should be reformed so that it becomes uniform.

6. With a view to preventing obstruction in the introduction of a uniform paper currency, proposals should be made to stop the foreign banks from issuing notes.

7. As the note issue in foreign currency made by the foreign banks in Chinese territory infringes China's sovereign rights, strong action should be taken to have such note issued stopped at once.

At the fifth Annual Conference of the Chinese Bankers' Association held in Peking in April, 1924, resolutions were again passed with the currency situation. The problem of the fineness of the Yuan dollar, depreciated coins, the lack of uniform control over the various mints of the country, the flooding of the country with depreciated copper coins, the completion and the operation of the Shanghai mint, the measures for effecting a uniform currency, were discussed at great length and resolutions passed in connection with these problems.
All these currency reform movements discussed so far happened before the establishment of the Central Government of The Republic of China in 1928.

It should be borne in mind that even since the last years of the Manchur Dynasty, China had been governed by a number of warlords and local authorities who simply neglected or lost the decree of the Central Government. Following the collapse of the Manchur monarch in 1911, the new Government had actual political control of only a few provinces in the Northern part of China. The complicated currency system was becoming more complicated with each warlord issuing their new currency either in notes or in coins or both. Any discussion of reforming China's currency system during that period could only be regarded as academic. Even within those provinces under the Central Government reform was purely impossible as indicated in the preceding paragraphs.
Chapter III

SILVER CURRENCY IN CHINA

The first step in unification and control of the currency system was taken in 1928, when the Central Bank of China, first founded at Canton in 1924 and later at Hankow in 1926, was reorganized and officially inaugurated on November of the same year. At the same time, two semi-governmental banks, the Bank of China and the Bank of Communication were respectively charged into a specially chartered bank for foreign exchange and a specially chartered bank for industrial development. The Central Bank of China, as a full-pledged Government bank with a capital of CN $20,000,000 was given the important functions to unify currency, to consolidate the banking system, and to maintain stability in the domestic financial situation.

In 1929, further steps were taken toward currency reform when the Government invited Dr. E. W. Kemmerer to head a commission of American financial experts to study the currency and financial problems of the country and to make recommendations on the chief phases of financial policy and administration, including monetary reform, revenue policy, budget, accounting control, and the restoration of the national credit. These recommendations were embodied in a series of reports, of which the best known is that on
currency reform entitled "Project of Law for the Gradual Introduction of A Gold Standard Currency System in China, Together with a Report in Support Thereof", which was presented to the Minister of Finance under the date of November 11, 1929. This project envisaged two main aims, namely, the replacement of China's confused currencies by one uniform and nation-wide system and the gradual introduction of gold standard, precludes many subsequent reforms largely in Professor Kemmerer's recommendations. Thus, on March 8, 1933, the standard dollar coinage law, providing that the yuan should have a gross weight of 26.6971 grams of silver 880 fine and thus containing 25.493448 grams of silver, was promulgated by the Government as a preliminary step toward the abolition of the tael, which had ceased to serve any useful purpose, and whose continuation as a matter of habit had become a source of complication and needless confusion and expense to the public. The abolition, which was announced on March 1, 1933, was officially sanctioned in an order from the Minister of Finance, which provided that "on and after April 6, 1933, all public and private financial transactions were to be made in terms of silver dollars and not in tael", fixing in the meantime, the conversion ratio of one hundred of silver dollars to 71.5 taels.
For similar objects, the Central Mint started operation on March 1 as the only institution for the coinage of silver dollars, which by the end of the year had already put up a total of CN $150 million new currency.

A. The Basis and Function of The Silver Standard

A silver standard is a system of money whereas the unit of value consists of the value of the fixed quantity of silver in a free-silver market. Broadly speaking, it is a system of money in which not only is silver the legal standard of value, but also the domestic supply of money is directly and ultimately related to the supply of silver. All legal provisions and arrangement for the redemption of currencies into silver in coin or bullion, for the free and unlimited coinage of silver, for the unrestricted export and import of silver, and for the definite reserve ratio against note issues, are merely customary accompaniment of the silver standard and useful devices for maintaining it.

The exchange between silver and gold countries is determined by the fluctuations in the demand and supply of foreign currencies at fixed point of time and by the market par of exchange reflecting the gold price of silver. Change in the price of silver will normally be expected to be reflected in corresponding changes in the rate of silver exchange. Being practically the only
important country in the silver standard, China's net balance of payments tended to exercise the marginal demand for silver and determine the price at which buyers must pay for the metal. The normal price of silver should be a manifestation of the underlying exchange equilibrium between China and foreign countries. Sometimes, the price of silver was determined by the appropriate exchange value of the Chinese currency, rather than vice versa, so that it tends, first, to effect the state of equilibrium between Chinese price and international prices, and secondly, to enable China to have just enough balance of payments to absorb the amount of the surplus silver supply offered at the rate she determined.

As a result of the inter-actions of these two principal factors affecting the rate of silver exchange, their net effects tend to be intensified or mitigated accordingly as they operate in the same or in the opposite direction. It is obvious that a rise or fall in silver exchange will be accelerated and longer sustained when a rise in the price of silver is accompanied by a favorable balance of international payments, or a fall by an adverse balance. Conversely, the silver exchange will not rise as rapidly or to the same extent as does the price of silver when the balance of payments is adversed, nor fall to a like extent when the balance of payments is favorable.
The fluctuation of the silver exchange represents, therefore, two sets of influences at work: the relative strength of the reciprocal demand for Chinese as against foreign currencies which is determined by the balance of international payments; and the market par of exchange as determined by the price of silver. The change in the former are necessarily limited by the specie points since the movement of gold or silver always provide an alternative medium of remittances for the settlement of international accounts. The change in the market par, on the other hand, depend entirely on the price of silver. The gold price of silver might change quite irrespective of China's and even much against her will, and her exchange is sacrificed as an innocent victim of the silver market. The movements of the silver exchange are, therefore, characterized by the magnitude of its fluctuations and by the irregularity and suddenness with which these fluctuations occur.

These sudden and irregular movements are fraught with serious and disturbing consequences to the domestic economy. In the first place, these fluctuations require instant adjustment in the domestic price and income structure and when the pressure is from forces impinging from without and when a renewed readjustment is required before it is completed, the process of adjustment is made especially difficult and painful. Moreover the erratic exchange
movement and their attendant exchange risk tend to prevent any inflow of short term fund, which are generally available under stable exchange to cover a temporary deficit in the international balance, with the consequence that whether the international disequilibrium be temporary or permanent, the domestic price and income structure have to bear the whole brunt adjustment. Apart from the frequency and rapidity with which the process of adjustment is necessitated by the fluctuation in the price of silver, the adherence to the silver standard tends to exaggerate the extent of adjustment required, once the international equilibrium is disturbed. While between the gold standard countries, the movement of gold bullion, if unneutralized by open-market operations, normally be expected to produce a rising price level in the countries receiving gold and a falling level in a country losing it, thereby the disequilibrium is corrected by some adjustments in the one and some adjustments in the other; under the silver standard, however, the reciprocal effect of specie flow is destroyed and rendered completely inoperative. An outflow of silver, while decidedly deflationary to the silver standard country, does not produce the opposite inflationary effect in the receiving gold standard countries where silver is only a commodity. On the other hand, an inflow of silver, while inflationary in a country on silver, does not at the same time give rise to any depressing influence in gold standard
countries whence silver comes. Owing to the absence of the reciprocal effect in price, the efficacy of specie flows in restoring an international equilibrium is reduced. Consequently, not only in the magnitude of specie movements required exaggerated, but the process of international adjustment is also retarded. While internationally, the adjustment of equilibrium is delayed and protracted, internally the price structure in a silver standard country becomes more independent of and less sensitive to the influence of world prices. When the world general prices are falling and with them the price of silver, the depreciation of silver as a monetary standard tends to have inflationary consequences in a silver-using country. On the other hand, when the world general prices are rising, and with them the price of silver, the appreciation of silver as a monetary standard will have deflationary consequences. When the price of silver is falling or rising more than the world general price, the discrepancies in their movements tend to exaggerate the inflationary or deflationary consequences as the case may be. Only in the unusual case and through the influence of non-economic factors, when the price of silver declines against rising world general prices or when it rises in face of falling world general prices do we find a similarity in the direction in which general prices in silver-using country and those in the world will move under normal
conditions. The price in silver standard country will move in an opposite direction to the movement of the world general prices and will be in a large measure isolated from the diffusing influence of the latter.

This discussion of the mechanism of the internal equilibrium, while indicating the complexity of the problem of readjustment once the equilibrium is disturbed, points to the basic and delicate difficulties with which the operation of silver standard is confronted.

B. Silver and Exchange

As we have already discussed that the exchange between China and gold-standard countries depend primarily upon the price of silver in world market. On the other hand, fluctuations in the balance of payments between China and gold-using countries, considerably speculative activities in Shanghai, react on the price of silver.

Among the gold-standard countries there is a par of exchange representing the ratio between the gold content of their respective coins. Between silver-using countries, there can be no fixed par, but there is a kind of movable par, which fluctuates with the variation of the silver price in London or New York. This movable par, or parity as it is called, is the amount in gold cents of English pence which the silver in a Shanghai tael is worth at the day's silver price in N. Y. or London. Since, in general,
the flow of silver is into China instead of out of it; it is better to take as the amount of silver tael the 521.619 grains required by the smelting shops, rather than the theoretical 518.512 grains. Silver in N. Y. is quoted in cents per ounce of 480 grains 0.999 fine or 479.520 grains and 1.000 fine. In London, the quotation is per ounce of 480 grains and 0.925 fine, or 444 grains and 1.000 fine. Thus the corresponding parity ratio may be taken as

$$\frac{521.619}{479.520} = 1.088 \quad \text{and} \quad \frac{521.619}{444.000} = 1.175$$

That is, the N. Y. silver price multiplied by 1.088 and the London silver price multiplied by 1.175 give the equivalent value, or parity, of the Shanghai tael in gold cents and sterling pence respectively.

The silver price, however, is in itself a very unstable variable. In the middle half of the 19th it was about $1.30 an ounce. In general, the trend has been downward since 1873, when the support of its price given silver standard and bimetallism in some countries were removed. During the first World War, owing to decrease in silver production and great increased demand for its coinage all over the world, which was caused by the increased export of raw material from India and China, and also due to the general rise of all commodity prices, the price of silver rose to a level equivalent to that prior to 1870. The high silver price during the war and right after that
war threatened the token silver coins of many countries
because they thus became more valuable as metal than as
coins. Beginning in 1920, the price of silver came down
rapidly with the increase of production. India adopted a
gold bullion standard and began to dispose of surplus rupees.
A large quantity of these rupees were poured into China,
until June, 1930, when the silver price reached an all-
time minimum of 15 7/16 d. in London and 33 1/4 cents in
N. Y.

In addition to the long-time changes in the price of
silver, the fluctuations from day to day, caused by changes
in the flow of payments and by speculation, are very
considerable.

I. Effect of Exchange on Trade

As a result of these rapid and considerable fluctuations, all import and export business in India is highly
speculative. The import trade in China, until recent
years, has been carried on by foreign firms, acting either
as sales agents of a foreign manufacturer, or as
independent middlemen, importing foreign goods, sometimes
in definite order from Chinese merchants.

As a typical example, a Chinese merchant contacts a
foreign importer in Shanghai, for certain quantities of
goods to be ordered and delivered in Shanghai within four
months at a certain gold dollar price, which he must pay on
the arrival of goods. The foreign importer theoretically is perfectly safe as he is buying with gold and selling for gold. The Chinese merchant, on the other, is buying with gold and selling for silver. He might, if he wished, make an exchange contract with a bank by which the bank agrees to sell him four months hence a N. Y. draft for the necessary amount, at a rate which will be approximately that of the present. If he does it, he knows in advance exactly how much the goods are going to cost him in silver. It seems that he is protected. However, if at the end of four months, the rate then would give him the gold draft for fewer taels, he will be sorry that he contracted to pay a larger number of taels. On the other hand, if he does not settle exchange in advance, and the tael cost of gold goes up, he would wish that he had settled.

The foreign importer, while seemly protected by having the whole transaction in gold, may find that exchange losses have made his Chinese customer bankrupt or at any rate unwilling to take the goods at the contract price. Thus he may be forced to compromise on a lower price or be left with the unsold goods on his hands. Similar problems confront those in the export trade.

Theoretically, a high exchange rate, that is high gold value for the tael helps import, for the Chinese merchant can then secure a greater quantity of foreign
goods for the same amount of silver. Nevertheless, a high exchange rate puts up the gold cost of exported Chinese products and tends to reduce the demand and encourage substitute and so reduce the export trade.

Just the opposite effect, one would find from a low rate of exchange. The cost of all imported commodities rises in sympathy, and the imported trade is badly crippled. The export trade theoretically is helped.

II. Speculation

As in the case of internal price level, trade can become adjusted to almost any exchange level, but the process of adjusting to a rapidly changing one is painful and wasteful. The businessman performs speculation in exchange. A great deal of speculation was done by both foreigners and Chinese. The former bought or sold exchange in London or N. Y. markets. Through the banks, Chinese may also do the same thing; but in addition they speculate in actual gold bars on the Chinese gold stock exchange, where the annual turnover is in the neighborhood of one billion dollars in gold. Comparatively, little real gold exchanged hands, but transactions are normally in terms of gold bars of certain weight and fineness, whose price in tael fluctuates through the day. Settlements are made monthly by paying difference rather than by actual delivery.
C. World Currency and China's Economy

At the end of the 19th century most countries had established the gold standard. Down to a few decades ago, the bulk of the world's silver was used as currency. Stocks of the white metal steadily increase. After the silver was dropped from the currency list in some economically advanced countries, the demand for silver greatly decreased. As a result, there was a marked fall in the value and purchasing power of silver from about 1885 down to 1914, and gradually declined again until 1929.

Due to China's foreign trade and financial relations with other countries, the Chinese market was very sensitive to world development. Conditions in Great Britain, who had the most important trade relation with China, had been of greatest influence and the purchasing power of silver in England was greatly related to that of silver in China.

The global economical crisis in 1929 brought about a rapid decline in the price of goods in the world market. For a while, during 1931, the general fall in the price of other commodities was greater than that in the price of silver, so that the decline in purchasing power of silver was checked somewhat. The most important change in 1931, however, was Britain's abandonment of gold standard.
Silver, whose value jumped instantly, began to exchange at a much more favorable rate with the devalued Pound.

With respect to the U. S. Dollars, the Chinese dollar continued to decline at a much lesser rate in 1932 since the former did not devalue its currency until 1933. The commodity price fell rapidly in the United States, who maintained its currency at par until the fourth year of its economic crisis. Silver declined more rapidly than other commodities until 1932.

Early in 1934 the U. S. abandoned its gold standard; as a result of which there was a rapid rise in the price of silver in relation to the devalued dollar. Due to this and other influences, including the abandonment of the gold standard by several countries of minor importance in China's trade, the purchasing power of silver rose further in China in the year of 1933.

With the sensitiveness of the Chinese market to world conditions, the influence of the silver purchasing policy of the U. S. Government in 1934 was immediate and serious. Owing to the devaluation of other currencies in relation to silver, the white metal had been rising in value falling since 1931. The artificial raising of silver price by the U. S. Government greatly accentuated these developments. Silver, rising in value, began to leave the country in enormous quantity. Price, especially
on agricultural products fell rapidly. These conditions had the most serious effect upon national economy.

From 1925 on, the declining value of silver in world market created a situation on which was very favorable to the Chinese exporters. While prices of goods in China (reckoned in silver) were increasing, the price of Chinese goods in the world market were declining due to the depreciated silver exchange. Many exporters reached their maximum sales in 1931 when most of the world was deep in the economic slump.

The depreciation of silver value resulted in two main changes in China's trade: At first, there was a steady increase in export total; and at the same time, the quantity of Chinese imports declined.

During the year when the silver value was falling, there was a change in the nature of China's exports. The favorable exchange condition stimulated manufacturing for export. China achieved at times a favorable trade balance. The general trade balance for the five years from 1927 to 1931 was the first time since 1826 in the Chinese history. During this period of depreciating silver and increasing exports, the amount of silver pouring into China from abroad was in large quantities. For instance, the net import announced by the Chinese maritime custom in 1928 amounted to $1,000,000,000.
The abandonment of the gold standard in Great Britain and other countries, however, ushered in a new era. Modern Governments elsewhere already possessed the power of control and regulating of monetary and banking system. The British Government established direct state control of its monetary system and foreign exchange in September, 1931.

One result of this managed devaluation of the currency was that silver immediately rose its prices in terms of new Pounds. By the end of 1932, most countries had abandoned the old metal standard and established a state-managed paper currency. The U. S. finally followed this action in April, 1933. In the new currencies, silver stood much higher in value than it had done in relation to gold; its purchasing power in China was thereby increased and prices showing a steady decline.

The trend of China's trade for the year following 1931 was complicated by many factors: First in importance was the Japanese occupation of China's Manchuria which was the leading sections in Chinese exports. The separation of these provinces from China meant the elimination of one-fifth of the total value of export in China's international balance.
The conflict between China and Japan at Shanghai in 1932 completely paralyzed shipping, commerce and industry in this China's greatest port. Consequently, Shanghai's trade for the year greatly declined.

From 1932 to 1933, there was a further decrease in the total value of foreign trade, though this decrease in value was greater than the decrease in volume.

World trade as a whole declined by more than 60% between 1929 and 1932. In the same period, however, China's foreign trade actually increased, so that her proportion of world trade almost doubled. In general, the foreign trade of China in 1933 (exclusive of Manchuria) was comparable with that for 1929, whereas her export declined 40%. The main decline in China's exports in 1933/4 was in shipments to Japan and the U. S., a fall which was connected with the decline in the "yen" and the American dollar relative to the silver dollar.

By March 1934, wholesale price in Shanghai had fallen to 96.6 per cent, and by April to 94.6. The same results spread throughout the country and severed the national economy. Price of agricultural products had already declined, and the value of land greatly depreciated, beside which the continued decline of silk exports and silk price deprived large numbers of farmers of their income from sericulture. The fall in exports of
raw material also affected many farmers. The slump in industry and production caused mass unemployment. Farmers could not pay their rent and tax with declining price of their crops.

Because of the overwhelmingly agricultural nature of China's population, the disparity of agriculture and industrial price has been an very important factor in her economic crisis.

The effect of the slump upon industry in 1932/3 was registered by a great increase in unemployment. Factories in commercial centers, such as Shanghai, were seriously affected by the loss of overseas markets, associated with unfavorable foreign exchange as well as the decline in domestic purchasing power.

In 1934, conditions became still worse. The fall in prices had first affected manufacturers and landowning farmers, while farm laborers and such other workers who maintained in employment were aided by lower living cost. But as the economic condition got worse, wages both for farmers and factory workers sank inevitable.

In the meantime, silver stock accumulated in Shanghai. Down to 1933 a net import of silver into China continued and totaled 439,340,000 fine ounces, which was almost 3% of the world's entire stock.
D. China and The Rising Price of Silver

Prior to the establishment of the National Government, China could hardly be said to have any national monetary policy. As already mentioned, imperial officials or their military and civil successors at times issued fiat currency, and engaged in banking operations for their own purposes, not guided by any consideration of national economy or public welfare.

The activity of the National Government in setting up the Central Bank of China, in establishing the custom gold unit to protect itself in connection with foreign obligations, in abolishing the archaic tael, in establishing a new national dollar at a rate tending to raise Chinese price nearly 2%, in extending its control over banking both in the way of regulation and direction, have already traced at length. These steps toward the organization, coordination, centralization and unification of China's currency and banking, and the development of a national system, were of vital importance and made possible the establishment of control over foreign exchange, the nationalization of silver, and the setting up of a managed currency in China in 1934 and 1935.

Conditions caused by external pressure finally forced China to take this latter action (Managed currency). Sir Arthur Salter, in his "Study of China and Depression" in
1934, noted that "the depression in China began not in 1929 as it did elsewhere, but only in the Winter of 1931. During the first two years of the world depression, China was less affected by it than any other country. The important causes of the depression in China were the appreciation of silver in terms of the foreign currencies and the conflict with Japan over Manchuria as well as in Shanghai in 1932 and in Jehol in 1933, which cost China the loss of trade and revenue. Of course, the silver policy of the United States Government was another factor which further severed the currency disturbance in China.

The world economic conference called at London for July, 1933, was intended to deal with various effects of the world crisis. With regard to monetary policy, the disagreement of the American Government to link her currency with any other monetary system caused the failure of standardization of currencies at the existing level. The agreement reached in silver, however, aimed to increase the value of the price of white metal. This proposal, mainly to the advantage of silver mining interests, was brought forward by the American delegation. The U. S. is one of the greatest producers of silver, while China is the greatest consumer, so a divergence of interest is understandable. The American desire for an open silver market and partial remonetization, was in direct
conflict with the Chinese desire for a stabilization on the price of white metal, and preferably with no increase in its value.

The silver agreement limited the Indian Government's yearly sales of silver to the maximum already reached (35 million ounces annually), while the great silver producers (The U. S. and Mexico) agreed not to sell silver outside of their borders, and to purchase from the market 35 million fine ounces of their own silver production yearly. The fourth article of the agreement provided that "the Government of China shall not sell silver resulting from demonetized coins for a period of four years commencing January 1, 1934.

In June, 1934, a bill was passed in the Congress of the United States to nationalize silver stocks, and permitting the Secretary of the Treasury to purchase silver not only at home but also abroad at such times, rates and terms as he thinks advisable. In August, 1934, the same Government actually began the nationalization of silver at home, and the purchase of additional silver from abroad whose price being much higher than the current market quotation. World silver price rose and China was faced with a new crisis.

The immediate threat was of a sudden and catastrophic drop in prices of commodities in China. The decline which had been going on since 1931 was already having grave
effects upon the national economy. The purchase of silver by the United States in the world market at a rate considerably higher than that already existing meant that silver would be drawn from China in such huge quantities that its price would be sky-rocketing and that the prices of other commodities would further decline.

It was evident that for the protections of her price and currency level, China would have to depend upon herself, and take her own measures. Following the line of economic nationalism adopted by other states, China had finally been forced to the same policy. On October 14, 1934, the National Government announced a tax on export of silver from China, and official control of the foreign exchange rate.

The outflow of silver reached an enormous proportion, but the government postponed action, wishing to maintain the silver standard. Finally on September 9, the Ministry of Finance issued a mandate prohibiting, until further notice, purchase and sale of foreign exchange, except for the purpose of financing:

1. Legitimate and normal business requirements;
2. Contracts entered into on or before September 8, 1934; and
3. Reasonable traveling or personal requirements.
This decree was called out by the sudden and enormous drain of silver out of China. Recorded imports and exports of silver to and from China from 1931 to the end of 1934 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Excess of Import</th>
<th>Excess of Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>1931</td>
<td>$118,233,016</td>
<td>$47,429,618</td>
<td>$70,803,335</td>
<td></td>
</tr>
<tr>
<td>1932</td>
<td>96,538,889</td>
<td>109,933,854</td>
<td>10,395,065</td>
<td>10,395,065</td>
</tr>
<tr>
<td>1933</td>
<td>80,432,470</td>
<td>94,854,914</td>
<td>14,422,440</td>
<td>14,422,440</td>
</tr>
<tr>
<td>1934</td>
<td>7,414,009</td>
<td>267,355,432</td>
<td>259,941,433</td>
<td>259,941,433</td>
</tr>
</tbody>
</table>

From July to October of 1934 net export of silver amounted to over $200,000,000, reaching $79,000,000 in August, when the United States Government actually began the purchase of silver abroad.

The National Government assumed official control of foreign exchange, aiming to divorce China's currency from world silver price by imposing duty on silver export. Though there was considerable smuggling of silver out of the country, the official control over foreign exchange was successful and the price level was relatively stable during that period of time.

In 1934, silver in foreign hands and foreign banks left the country in large quantity, operating under extra-territoriality and claiming exemption from Chinese law. From May to December of that year, there was a decrease

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1 Chinese Maritime Custom Reports
of $203,000,000 in the silver stock of foreign banks as compared with a decrease of $57,000,000 in the silver stock of Chinese banks. Credit became very tight with the foreign banks. The total net outflow of the metal from China in 1934 was estimated by the Bank of China at no less than $370,000,000 worth.

While China still being on the silver standard internally, up to 1935, Chinese banks paid out silver against banknotes on demand, but little of the white metal returned to the banks. As a result, banking institutions elsewhere found it necessary to apply repeatedly to Shanghai for silver to replenish their stocks.

In 1935, the Bank of China and Bank of Communication were nationalized, and brought together with the Central Bank of China as a group of three great state banks able to carry out a centralized and unified currency and banking policy for the nation as a whole. National currency replaced provincial currencies in one locality after another.

At the same time, the position of the extraterritorial bank in China was weakened greatly. Their export of silver in 1934 and 1935, though highly profitable for the time being, left them with such limited silver reserve that they were not only in a position to extend
new loans, but also were unable to renew existing mortgages and loans. Their note issue, which at one time was of much importance, dropped with their loss of reserves. The total silver holding of foreign banks was less than 1/5 of those of the Chinese banks in Shanghai alone, where the great bulk of the silver holdings of foreign banks in China was centered.

In spite of the successful Government control of foreign exchange, the continued circulation of silver within China inevitably led to a steady drain of the white metal out of the country. Silver smuggled out of the country regularly by foreign subjects under the extra-territorial jurisdiction, whose authorities refused to check their unlawful activities.

On February 15, 1935, a monetary Advisory Committee organized by the Ministry of Finance, was inaugurated "to study and devise measures for the improvement of the currency situation". Resolutions adopted by the Committee were submitted to Ministry for considerations.

Under this serious situation, Dr. H. H. Kung, then Minister of Finance, analyzed the current conditions as follows:1

"The continuous rise in silver price is owing to (1) the rising value of silver abroad tends to increase its value

1 The Central Daily Newspaper, Oct. 15, 1935.
at home; (2) heavy exports on silver have seriously con-
tracted currency and credit in China, which makes higher
exchange and lower prices."

The continued rise of the silver price, however, had
caused a considerable disparity between the value of a
dollar in China and abroad. The silver content of the
Chinese dollar had accordingly placed a premium when it
was exported from China. It is obvious, therefore, that
there was a strong temptation to smuggle as long as there
was a premium on evading the export restrictions. And it
is always difficult to combat smuggling.

Accompanying the drain of silver and contraction of
currency, money became extremely tight and financing was
very difficult. The unusually high rate of interest
charges had made it practically impossible to borrow
regardless of security. The tightness of money had checked
reconstruction activities and interfered with normal
financing of the Government's needs.

Deterioration was further reflected in the decline
of stock and bond prices. Moreover, the shrinkage in
real estate value had caused the failure of both Chinese
and foreign concerns, and seriously impairs the strength
of others. Business failures and unemployment were acute
and wide-spread.
For the purpose of strengthening the Government control over the banking structure of the nation, so that it will be in a better position to cope with the impending financial crisis, the centralization of banking systems was vitally necessary.
Chapter IV

CHINA'S NEW CURRENCY SYSTEM

A. The Currency and Banking Situation in 1935

The adoption of a state-managed currency in November, 1935, was a revolution in China's monetary system, even though the Chinese Government was only following the footsteps of other nations. Various special conditions existed in China: there was the presence of three principal kinds of metal and a wide range of paper notes; there was the administrative and financial decentralization; there was the fact that the principal standard (silver) of currency had been one which was no longer used in most parts of the world. Above all, there was the existence of those currency-issuing financial institutions enjoying the privileges of extra-territoriality. It was necessary and exigence for the Chinese Government to establish a modern unified currency, state-controlled, with the definite aim of serving and improving the nation's economy.

By October, 1935, silver currency in China was estimated at about $1,500 million dollars, of which 1/3 was held by the banks in Shanghai. Another sum of about $450 million dollars was in circulation throughout the country in the form of subsidiary coins. At the time when nationalization of silver was enforced, almost 2/3 of
China's supply of metal was either held by Chinese banks as reserve against paper currency or circulating as subsidiary coins which continued to be legal tender. Less than $600 million actually was in circulation. The total quantity of banknotes in circulation throughout China in October 1935 right prior to the nationalization of silver amounted to $600 million, of which $430 million were notes of the three government controlled banks. Banknotes thus already circulated widely than silver dollar. The number of subsidiary silver coins circulating at that time was estimated at 3,000 million, at the value of 450 million national dollars. The total value of copper coin alone was about 220 million national dollars.

In January 1936, the Central Mint started production of new subsidiary token coinage of nickel and copper, to be strictly representative in value. The nickel coins were in the denominations of 20, 10 and 5 cents, weighing respectively 6, 4.5 and 3 grams, and containing nickel of 100% fineness. They were the legal tender up to $20. The copper coins were in the denominations of 1 and 1/2 cents, weighing 6.5 and 3.5 grams, of 95% copper and 5% tin-zinc alloy for both. And their legal tender was $5.00.

A gold unit was used as the standard in the payment of import duties. The Custom Gold unit, which circulated
Only in paper form, represents 60.1866 centigrams of pure gold. The paper notes were issued only by the Central Bank of China, against 100% gold reserve, and the issue was small.

The Chinese Government exercised its control of national currency through a Currency Reserve Board, which in turn through three main government banks—the Central Bank of China, the Bank of China, and the Bank of Communication. These banks, then, exercised their control through their agencies and a number of semi-government banks. The Currency Reserve Board, created by the Ministry of Finance in 1935 in order to centralize control over note-issue and consolidate the credit of national currency, consisted of a special representative of the Ministry of Finance, two representatives from each of the three main government banks, two representatives from each of the other banks; and the governor of the Central Bank of China was concurrently Chairman of the Board. It had the custody of reserves against outstanding legal tender banknotes, the control of their issue and retirement, and the right to determine the amount of the reserve to be deposited in the three government banks.

The three big government banks, even before the establishment of the managed currency, were the issuers of most of the banknotes circulating in China. The notes
issued by the Central Bank of China, at the end of 1935, amounted to $131,246,000 that by the Bank of China amounted to $119,456,000 and that by the Bank of Communication summed $54,263,000.

The note issue of the other Chinese banks whose notes still in circulation might not be increased, though the notes would be allowed to continue in use until they could be replaced by those of the government banks. The unofficial note-issuing banks must hand over the metal and other securities they held against their own note-issues to the three government banks, who were responsible for all banknotes redeemable in Shanghai.

Prior to the establishment of the National Government, there was no state control even on note issued by banks. Now such control was accepted as a matter of course as in other parts of the world.

The Imperial Government official, after the foreign silver dollar had come into almost general use in China, started the minting of silver (both dollars and subsidiary currency), as well as of copper coins. This minting was not centralized, but was in the hands of provincial officials, who found the production of new coins a highly profitable enterprise and carried it on to the point of debasement. The Imperial Government carried an official tael currency until the end of its life. Provincial banks,
in the same way, were frequently used by provincial officials for the issue of fiat currency for their currency.

B. China Revolutionized Its Currency

Had the National Government in October, 1934, attempted to abandon silver both as an internal and external standard, it might have encountered serious difficulties. During the year which followed, however, the currency was brought more and more under Government control. A state banking system was established, including the three greatest banks in China. Stocks of silver in these banks were maintained at a high level, while the stocks in private hands—particularly in the hands of foreign banks—were much reduced. The note circulation of the banks, though much less than was warranted by their reserves of treasure, grew steadily throughout the year. The total issue of bank notes by Shanghai banks had risen from 350 million dollars at the end of 1933 to 410 million at the end of 1934, and 416 million (in spite of a great reduction in the number of foreign banknotes) by the end of October 1935. Of the last-named figures, over 305 million dollars' worth of notes were issued by the three great Government banks.

Banknote issues commanded the complete trust and confidence of the public. The National Government, in its
Banking Laws promulgated in 1931, had laid it down that issuing banks must hold specie reserves for not less than 60 per cent of their issue, besides 40 per cent in rapidly negotiable bonds, and this provision was fully enforced. In spite of the difficult position in 1934, there was not a single failure on the part of issuing banks, and notes were redeemable for silver.

Because of their reliability and convenience, the notes issued in Shanghai rapidly passed into circulation in the interior, where they were in great demand. Both the modern and "Native" banks furthered this process, the latter class financing most of China's internal trade, and being connected with the modern banks at Shanghai through accounts with the Great State Banks. At the same time, the issue of notes by various commercial and mercantile establishments, as well as the conducting of banking activities by them, was eliminated in the interior. Not only the more complete authority of the National Government, but also the high degree of confidence reposed in Government controlled banknotes and banking, were effective in achieving this end.

It was already becoming evident that lower exchange rates would have to be established in order to improve the economic situation. The various devaluated currencies
of other countries had by no means achieved a new stability in relation to gold and silver, but showed either periodic or steady decline. The pound "sterling", within four years, of going off gold, had reached a depreciation of over 40 per cent. The Japanese yen had also fallen— from about $1.25 in 1932, after abandoning gold, to 70 cents by the latter part of 1935. The U. S. dollar dropped from about $3.0 at the end of 1933 to $2.50 by the latter part of 1935.

In view of this situation, it was evident not only that China would have to take steps similar to other Governments to reduce the exchange value of her currency, but also that a State-managed currency would have to be linked to some other currency in order to achieve stabilization. The pound "sterling" was of great importance not only in China's foreign trade in world trade, and most countries with managed currencies had linked with Britain. Commercial relations with the U. S. and particularly the situation growing out of the Government's silver-purchasing policy, rendered it also important to have a definite link with the American dollar.

Government control of foreign exchange since October, 1934, so far as it went, had been successful. Though announcement of this control had resulted in an immediate drop in exchange, there was rapid recovery, and a year later the enforcement of the measure exchange stood where it had
in October, 1934. Conditions being what they were, however, it was impossible for the National Government to check the drain of silver from China so long as the metal continued to circulate freely within the country. In the meantime, the discrepancy between the "sterling" exchange and the silver price steadily increased.

The exchange value of the Chinese dollar was fixed at the level it had reached at the time of the mandate, and in order to keep it stable the three government banks were authorized to buy and sell foreign exchange in unlimited quantity.

In order to control the issue and retirement of legal tender banknotes, and to keep custody of reserve against outstanding notes, a Currency Reserve Board was provided for the National Government mandate, and began functioning in November. This Board designated the Central Bank of China, the Bank of China, and the Bank of Communication as depositories for the custody of reserves, under control of the Board, against legal tender notes, the amount deposited in each Bank being determined by the Board.

In the process of nationalization of silver throughout the country, silver was required to hand over in exchange for legal tender notes. Variation in exchange rate between silver dollars and legal tender notes was forbidden, and violators of this ruling were facing confiscation of notes and silver.
With regard to subsidiary silver and copper coins, no national decree was issued. This matter, being complicated by the fact that various silver and copper coins of widely varying exchange rates, were circulating in various provinces and districts. Provincial and local governments and bank associates dealt with these matters themselves. In the meantime, the National Government prepared for the issue of a new subsidiary token currency of nickel and copper coins, to bear a fixed relationship to the national dollar. The minting of these nickel coin in denominations of 5, 10 and 20 cents and copper coins in denominations of 1 and 1/2 cents began in June, 1936. And they began to circulate on February 10.

The specie reserve of various banks were handed over to the State banks or to their local branches for custody. Permanent officials were appointed to supervise the reserve of the nine note-issuing banks at Shanghai, as well as others which were members of the Chinese Bankers' Association. This was approved by the Finance Ministry at the end of November, and the supervisors started their duties.

At the same time, local committees were established for the stabilization of commodity price. These committees included local officials and also industrial guilds and
associations. Their work was necessary, in order that the purposes of the new managed currency should be fully effective in the control of prices.

C. The Action of Foreign Countries in Respect to the Chinese Currency Reform

In December, 1935, a modified American policy was inaugurated. The American Government reduced its buying price for silver, with the result that the white metal dropped from 60 3/4 to 51 1/4 per ounce in N. Y. in one week.

The American Government accordingly reduced its purchase from London, whither so much Chinese silver had gone via Japan and Hongkong, and started buying directly from Chinese Market. There were heavy arrivals in London of silver from Hongkong, but American buying was for a time reduced to some 5% of the supplies offered.

The new currency policy made it possible for the Chinese Government to dispose of some of its silver for foreign exchange without disturbance of internal financial and currency conditions. Owing to possible effects upon a sensitive money market, the negotiation leading to this were of course kept strictly secret, and there was no clear announcement made by wither the Chinese or American Government. In December, 1935, however, considerable shipment of silver direct from China to the U. S. began.
Silver was sold in order to provide additional reserve for exchange stabilization. Toward the end of December it was estimated that the Chinese Government held £18,000,000 of foreign exchange. This gave the managed currency a backing of some $300,000,000 in exchange (particularly in sterling and American dollars), in addition to its silver and other reserves.

The timely cooperation of the American authorities in action to support the Chinese currency reform, coming immediately after announcement of the reform of currency in November, 1935. It provided a substantial amount of foreign exchange reserve which was of the greatest value to the Government in maintaining the stability of the new currency and in gaining the confidence of the public in the early period of the reform.

An official Government commission of England arrived at Hongkong in 1931 to investigate the situation and made the conclusion that "Hongkong is not a producing but a transit center, its exports and imports are almost entirely on China's account; the trade which it handles is in reality China's trade;...It is of the utmost importance that the colony's currency should conform as closely as possible with that China, and that unnecessary exchange transactions be eliminated." The location of Hongkong gave it great advantage as a center for smugglers. From
the time of the United States started her silver purchase a great export of the white metal developed from the little colony; shipments going forward both to London and to the U. S. direct. £ 546,000 worth of silver was imported to England to Hongkong during the last five months of 1934, and over £ 13,000,000 worth during the year 1935 in addition to some £6,000,000 worth which went directly to the U. S.

The Chinese Government mandate of November, 1935, was immediately followed by greatly increased shipments of silver from Hongkong. On November 9, the Colonial Government declared an embargo on the export of all form of white metal except by the Colonial treasurer or his agents. All of Hongkong's currency of denominations less than 5 dollars had previously been silver, but the Government began the issue of one dollar notes, and 5 cents and 10 cents tokens to replace the white metal in circulation.

On December 5, 1935, an act was passed by the Colonial Government. By this act, the colony was to follow the action of the Chinese Government and abandon the silver standard and take over full control of the foreign exchange market. Each note-issuing bank was required to surrender to the Colonial Treasurer, on demand, all silver coin and bullion held against note issue; in exchange of which, the bank received a certificate to the face value of the note
covered. The Exchange Fund, established under the control of the Treasurer, regulated the exchange value of the Hongkong currency.

D. The Immediate Effect of Currency Reform

Three months working of China's managed currency showed it to be a great success. Various banks in Shanghai, and elsewhere, turned in ten million dollars worth of silver, in exchange for which legal tender notes went into circulation throughout the country. Over $62,000,000 of new notes were issued in November, 1935, alone, and almost $52,000,000 in December. It commanded complete confidence.

In view of their diversified interests, the foreign banks could not reach a common decision in regard to surrendering their silver. In December, 1935, Dr. H. H. Kung, then Minister of Finance, being unable to meet the request of these banks for special compensation based on the world price of silver, offered to the members of the Foreign Exchange Bankers' Association the privilege of obtaining the Central Bank notes by turning over 60% in silver and 40% in acceptable securities--this privilege being similar to that available to the Chinese banks. Such an arrangement, which was offered for a period of 2 years, would give free use for that time of legal tender notes equivalent to 2/3 of the legal value of the silver
deposited. Subsequently, as an alternative, the banks were offered an arrangement of mutual deposits. (Whereby a bank turning in its silver would at the same time make a deposit with the Central Bank of China for a period of 2 years in an amount equal to 2/3 of the legal value of silver turned over and at the same time the Central Bank would make a deposit of like amount with the bank turning over the silver.) It was further provided that there would be a difference in interest rates on the deposits in favor of the banks turning over its silver.

Beginning the early part of January in 1936, all foreign banks, with the exception of the Japanese group, availed themselves one after the other of this arrangement for mutual deposit. The amount of silver turned in by the foreign banks in Shanghai amounted to approximately $26 million.

By the end of 1936, the National Government held as reserve not only hundreds of million dollars worth of silver, but also similar reserves of foreign exchange as well. With this strong financial foundation, it could handle its stock of metal to the greatest possible advantage in the world market. Furthermore, it could work with full confidence in the adjustment of its new national currency to the requirement of China's economy.
For the first time in history, China had adopted a truly monetary policy. This policy is in accordance with the trend of the economic world today. It brought China closer and more intimate to the modern economic world.

E. The Nationalization of Silver

On November 3, 1935, the decree was issued by the Ministry of Finance--effective on the following day--announcing the new changes in financial and currency policy, aiming at effective stabilization of the National currency. The following was an official summary of the Government's new financial policy:¹

¹ Leang-Li T'ang, China's New Currency System, pp. 79-96
"2). Banknotes of issuing banks other than those three Government banks, which received previous authorization by the Ministry of Finance, shall remain in circulation, but the total outstanding banknotes of such bank shall not exceed the amount in circulation on November 3, 1935. The outstanding banknotes of those banks shall be gradually retired and exchanged for Central Bank of China banknotes within the period to be determined by the Ministry of Finance. All reserve held against the outstanding banknotes together with unissued or retired notes of these banks, shall be handed over at once to the currency reserve board. Notes in process of printing shall also be handed over to the said Board upon taking delivery by the banks.

"3). A Currency Reserve Board created by special ordinance shall be formed to control the issue and retirement of legal tender banknotes, and to keep in custody the reserve against outstanding banknotes.

"4). Commencing November 4, banks, firms, and all private and public institutions and individuals holding standard dollars, either silver dollars, or silver bullion, shall hand over to the Currency Reserve Board or its agents in exchange for legal tender notes, at face value in the case of silver dollars, and in accordance with the net silver content in the case of other silver bullion or non-standard dollar.
"5) All contractual obligations in terms of silver shall be discharged by the payment of tender notes in the nominal amount due.

"6) For the purpose of keeping the exchange value of the Chinese dollar stable at its present level, the three Government banks shall buy and sell foreign exchange in unlimited quantity."

F. Currency Reserve Board

The regulations governing the Currency Reserve Board, which was to be created under the special decree, were announced by the Ministry of Finance as follows:¹

"Article I--The Currency Reserve Board is specially created by the Ministry of Finance with a view to centralizing its control over note-issue and to consolidate the credit of the national currency.

"Article II--The Board shall be composed of the following members:

1. Three representatives from the Ministry of Finance;

2. Two representatives from each of three Government banks, the Central Bank of China, the Bank of China, and the Bank of Communication;

3. Two representatives of the Bankers' Association;

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¹ Leang-Li T'ang, *China's New Currency System*, pp 69
4. Two representatives of the Native Bankers' Guild;

5. Two from the Chamber of Commerce; and

6. Five representatives of the various note-issuing banks specially designated by the Ministry of Finance.

"Article III—The Governor of the Central Bank of China shall be concurrently the Chairman of the Board."

The Government-owned Central Bank was to be reorganized as the Central Reserve Bank of China, and was owned principally by banks and the general public, thus becoming an independent institution, devoting itself chiefly to maintaining the stability of the Nation's currency. The Central Reserve Bank of China held the reserves of the banking system and acted as depository of all public funds; it also provided centralized rediscount facilitations for the other banks. The Bank did not undertake general commercial business and after a period of two years, it was to enjoy the sole right of note-issue.

Measures had also been prepared for strengthening the commercial banking system and giving increased liquidity under sound conditions to the commercial banks so that they might have reserved available to finance the legitimate requirements of trade and industry. These measures would include the creation of a special institution to deal exclusively with mortgage business and steps would be taken to amend the present legal codes so as to improve the security of mortgage deeds.
FINDINGS AND CONCLUSIONS

From the beginning of the 20th Century up to the present China has been undergoing a continuous and revolutionary change in economic, political and social fields.

Since money is the medium of exchange, the standard of value, the store of value, the means of deferred payment, the monetary system is the greatest determinant in the proper development of national economics. This is true especially in China were the use of credit is of little importance.

It was also pointed out that the undesirable and aged silver standard had caused serious disturbances not only in commerce, international trade, but also in foreign debts, internal price, and national income structure.

Since the last quarter of the year 1931, the rate of China's foreign exchange had undergone a period of almost uninterrupted advance, at first reflecting the depreciation of the principal currencies of the world, but later and more alarmingly, in response to the artificial appreciation of silver price caused by the American Silver Purchase Act. Had the exchange risen in consequence of China's favorable balance of international
payments or of her purchase of silver abroad, it would represent merely the adjustment of China's exchange to a higher level. But when the advance occurred in the face of her unfavorable balance, as was the case in 1931, the rising silver exchange rate entitled a renewed downward adjustment of income and price structure. It also resulted in the inability of her exchange to follow closely the upward movement of silver, tending to widen the gap between the theoretical parity and the actual rates of exchange and to encourage the export of silver which added deflationary consequences. The artificial and abrupt appreciation of China's exchange was, therefore, fraught with serious international and domestic disturbances.

The enormous exodus of silver that occurred specially heavily since the summer months of 1934, and the resultant continued depletion of the reserves of the banking system, tended on the one hand to accelerate the deflationary movement, and on the other hand to threaten the stability of the financial structure.

China faced depressed agriculture, disconcordant downward price movement, enormous outflow of silver and a depleted currency reserve. Many measures which were taken by the Government to improve the situation, though piece-meal and ineffective at the time when they were
enforced, had the ultimate effect of destroying the fundamental attribute of the silver standard. The imposition of export duty and the equilization charge in October 1934, followed by the embargo of silver export and the suspension of convertibility of notes into silver marked definitely a virtual abandonment of the silver standard.

The Emergency Decree provided regulations making the notes issued by the three Government banks as the full legal tender. It also gave definite rules as to the nationalization of silver, the centralization and control of note-issue and its reserves in the hands of the Currency Reserve Board, and the maintenance of exchange stability. These measures, which in their large aspects were in accordance with monetary developments abroad, have eventually brought China an inconvertibly managed standard designed primarily to maintain the stability of foreign exchange on the basis of her own reserves rather than the stability of her internal prices.

The currency reform was met with public support greater than it was first anticipated. Except in Southern and some Northern provinces where political complication and some temporary speculative advances in prices had added difficulties, the monetary reform was carried through without undue disturbances.
The monetary authority had been quite successful in maintaining the rate of exchange for six months right after the monetary reform was enforced.

Equally significant had been the repercussions of the relatively low level of exchange upon the recovery of prices and the revival of exports.

The recovery of prices and the improvement of the international position were accompanied by a steady return of easier money conditions and a revival of financial activities.

A sound and effective management of currency depends for its success upon the maintenance of certain fundamental conditions which have not yet fully secured. It depends, in the first place, upon the attainment of a reasonable degree of internal and external political stability to uphold the public confidence in the currency. There must be internal peace and order, and free from international conflicts. It requires, furthermore, a perfection of the financial mechanism and a centralization of financial control. The central monetary authority must be strong and independent enough to resist the irresponsible demands of Government borrowings, and, at the same time, powerful and competent enough to exercise the desired control over the money market through the discount policy or the open-market operations. Extensive
long-term foreign borrowings must also be encouraged and planned to minimize the strains on the balance of international payments and to strengthen the resources in foreign currencies.

Unfortunately the war with Japan broke out on July 7, 1937, which brought enormous Government deficit spending and great loss on public revenue.

The presence of budgetary deficits seem to make the resort to inflation at once easy and irresistible.

The prerequisites to a policy of war finance free from the outward effect of inflation are two--a supply of civilian goods considered adequate according to current social standard, and the administrative efficiency in revenue collection and in the control of commodity distribution. It is clear that these two prerequisites have not existed in China. The ever-expanding war demand of the National Government could not be met neither by increasing productivity nor by voluntary or planned reduction in civilian consumption. Inflation represents a method of capital levy and forced saving; it discourages voluntary saving while stimulates speculative activity.

Under the impact of war, the characteristic inflationary circule--currency, price--could never be interrupted and consequently led to the steady depreciation of money in terms of goods.
This catastrophic inflation has been surrounding China ever since 1936. The note-issuing reached an unbelievable level in 1949. People spent the money as soon as they received it. The lack of confidence in money accentuated the circulation speed and aggravated the currency depreciation. The inflationary spiral had been going on for several years until the people refused to accept the legal tender notes; economic transactions then went back to barter system. In order to meet the serious situation, the National Government nullified the prevailing notes in 1948 and issued the "Gold Yuan" notes which soon devalued.

There are three ways to stop inflationary spiral:
(1) Nullification--cancel the old currency and replace it with a new one. Germany had adopted this method after the First War. (2) Devaluation--stop note-issuing immediately in order to keep monetary value at its existing level. France used this means after the First World War. (3) Deflation--contract with Government outlay accompanied by gradual note withdrawing. This method is a rather painful adjustment. It cannot be achieved without hardship. Great Britain set the best example when she adopted this deflation method in 1922.

The prerequisite for these three measures, moreover, must the balance of Government budget. The maladjustment
on the part of the Government, and the successive internal and external conflicts creating devastation further weaken the economic strength of China. The National Government could never restore public confidence in its currency owing to the high officials' corruption and incompetence. Toward the end of 1948, the nation faced ultimate bankruptcy.
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Abstract

Among all the important countries of the world, China unquestionably has the worst currency system. Although reform had been agitated continuously since 1900, and several carefully prepared plans for reform had been worked out, nothing had been put into effect until 1935. By 1935, China was forced to abandon her silver standard and adopt the state-managed paper currency which was a correct step toward improving the national economy if it was well managed.

A brief review of the recent currency history of that country will help one to understand the present situation.

Brass and copper cash were practically the only coins used extensively in China until direct trade with Western countries began in the 16th century. Foreign trade brought in carolus, Mexican dollars, American trade dollars, Japanese Yens, and dollars of several South American countries. These dollars, together with silver bullion in the form of shoes known as "Sycee", were the principal currency in the ports of China.

Up until World War I, petty transactions among majority of the populace continued to be carried in cash.
Although China had been on the silver basis for a long time it was not until 1890 that Chinese silver coins were minted in great quantity. The native silver dollars, varying slightly in weight and fineness at the different mints, had approximately the same fine silver content as foreign silver dollars, and generally circulated on a parity with them.

The fractional silver, known as "small money", were soon depreciated due to excessive mintage by the provincial authorities. Copper coins were issued by both the Central Government and other provincial Governments; and, under the stimulus of the large seigniorage profits realized in their coinage, were issued in excessive amount and likewise went to a discount.

Under the Manchur Empire, and the Republic after 1911, a number of proposals were made for currency reform; some for a uniform silver standard, others, for a gold standard. The only concrete accomplishment was the passage of the coinage law of 1914. This law came nearer to giving China a national currency system than anything that had gone before. The Chinese dollars issued under the law of 1914 had been widely circulated. But floods of paper money and excessive issues of fractional silver coins by the provincial mints had kept the new dollars from extending over all of China. The fractional silver coins soon became as depreciated as the old "small money".
After the revolution of 1911, provincial and military Governments and banks which generally acting under the orders of the provincial Governments, flooded the country with paper money.

The "tael" had already disappeared from most parts of the country. By the end of the 19th century, survival of this archaic standard of value was dependent upon official and other artificial support. The foreign dominated Imperial Maritime Customs continued to use the Haikwan tael which it had created. Manchur Regime carried on with the Ku-Ping tael which was the official currency of the Imperial Board of Revenue. All monetary dues to the Government except custom collections had to be paid in this official currency. Foreign and other banks at Shanghai were responsible for maintaining the Shanghai tael, the conversion of which into dollars yielded regular profits to bankers. These three principal taels differed considerably in value among themselves.

The fall of the Manchur Empire brought an end to the Ku-Ping tael. The Republic Government established the dollar as its official currency. By 1930, taels survived only as the fictitious currency of the Maritime Customs, except in Shanghai. It was only in Shanghai that the influence of private bankers was sufficient to maintain the tael as a widespread standard.
The first step toward final elimination of this archaic tael unit by the National Government was the official abolition of the Haikwan tael. In February, 1930, this step was announced, and was first carried out with regard to Chinese imports. The custom tael was being replaced by the newly established Custom Gold Unit.

In April, 1933, the complete abolition of all forms of tael was decreed by the Government.

Minting of the new standard national dollar began on March 1, 1933, at Shanghai Mint. This standard dollar was 88/100 fine, weighed 26.697 grammes gross.

Early banknotes represented copper. The fiat money issued by the Manchur Regime in the 19th included some notes representing silver and other representing copper. By 1920, however, banknotes had been issued more and more against silver.

Beside the currency issued by Chinese banking and mercantile institutions, a number of foreign banks in China also issued banknotes, all based upon the silver dollar.

Gold, though scarce in China, has occasionally been used as currency in the country. Under the Republic, some attempts were made to establish a gold coinage; but the coins minted in Tientsin and elsewhere disappeared when the
metal value increased right after the First War. The National Government in the 1930's definitely established a gold unit for payment of import duties; but there is no gold coin in circulation, and the unit was being represented by paper notes. The gold was supposed to contain 60.1866 centigrammes of fine gold, equal to 40 U. S. gold cents.

The establishment of the Central Bank of China in 1928 was the beginning of real Government control over banking and currency in the country. In 1928, the Bank of China was made a semi-governmental concern, so did the Bank of Communications.

Since 1931, China had been gone through a period of deflation crisis, brought partly by the inherent difficulties of the silver standard and partly by the impact of the force of world economic depression. The position of silver had undergone a fundamental change in 1935. The inelasticity of its production coupled with the instability of its demand resulted in the frequent and irregular fluctuation of its price. Under such condition, the unique adherence to the silver standard in a world of gold and paper standard has very serious consequences. It is characterized in particular by the frequency and the magnitude of exchange fluctuation, leading to constant readjustment of internal price and income structure. When the pressure is exerted from without, the process of
adjustment is made especially difficult owing to the absence of reciprocal effects of the special forms on the price movement and the price movement on trade trend. Moreover, the violent fluctuation in the rate of exchange and the accompanying exchange risk tend to make impossible the inflow of short-term credit to meet a temporary deficit in the international balance. The silver standard, therefore, falls far short of the basic requirement of a sound monetary standard.

The deflationary crisis of the years 1931 to 1935 represented a painful adjustment of China's domestic economy to the artificial appreciation of silver exchange. The serious consequences of the fall of agricultural price, which started in 1830 and which was intensified by the artificial appreciation of silver exchange, led to an outflow of funds from interior to the coastal cities.

Since the end of 1931, the rate of foreign exchange had undergone a period of advance, at first reflecting the depreciation of the principal currency of the world but later effected by American silver purchasing policy. The advance occurred in the face of unfavorable balance; it entitled a renewed downward adjustment of income and price structure. On the other hand, it resulted in an instability of Chinese exchange to follow closely the upward movement of silver, tending to widen the gap between the theoretical
parity and the actual rate of exchange and to encourage the export of silver with added deflationary consequences. It is indisputable that the American silver purchasing, coming at a time when the force of deflation had already been well under way, tend to make the situation particularly panicky and serious, thereby intensifying the forces of depression. The external drain of silver, the decline of the internal price which would have occurred under the influence of world depression was accelerated.

In dealing with the outflow of silver, some measures were taken by the Government: the imposition of export duty and the equalization change in October of 1934, the restriction of silver free movement coastwise and within China, the embargo of silver export. Despite the prolonged and painful effect to remain on it, the currency reform of 1935 was merely an official legal acknowledgement of the actual situation.

Currency reform brought the exchange instability to an end. The centralization of reserve, the control of note-issue, all helped to unify the currency system. Since the new currency was linked to pound Sterling and American dollars, it can be called foreign exchange standard.

The stability of the exchange had been well maintained from 1935 to 1937. The stability of exchange, when
contracted with the violent fluctuations in the months preceding the reform, helped toward restoring the confidence of the public and the maintenance of financial stability were accompanied by a steady return of easier money conditions. Funds which had previously used in exchange speculation were diverted into the financing of business recovery.

A sound and effective management of currency depend its success upon the maintenance of certain fundamental conditions: First, the attainment of a reasonable degree of internal and external political stability to uphold the public confidence in the currency. Second, the perfection of the financial mechanism and the centralization of financial control. The central monetary authority must be strong and independent enough to resist the irresponsible demand of Government borrowing and at the same time, it must be powerful and competent enough to exercise the desired control over the monetary market through the discount policy or the open market operation. Extensive long-term foreign borrowing must also be encouraged and planned to minimize the strains in the international payments and to strengthen the resources in foreign currencies.

Unfortunately the war with Japan broke out in the summer of 1937. The financial policy of the National Government under war conditions had been worked by
unprecedented outlay in excess of revenue from taxation and saving with the result of expansion in note-issue and inflationary pressure upon prices. The inflationary circle of price and currency led to the steady depreciation of money in terms of goods. It caused hardship to the fixed income group; it encouraged speculation, commodity hoarding; and it disrupted the entire economic system.