

# PROBLEMS OF MONETARY REFORM IN CHINA

By Walter Zander

When half a century ago China began to think of reforming her ancient monetary system, the West was at the peak of its power. The penetration of the world by Western ideas seemed to be certain, and many believed the age-long experiences of the East to be out of date. Today we are no longer so sure about Western predominance. It might therefore be useful to consider now if the steps which have been taken to organise the Chinese currency according to the Western pattern have all been in the right direction, or if the re-incorporation of certain traditional Chinese elements is advisable.

The main complaint against the old system was its lack of uniformity and its variety of means of payment and standards of value. This, combined with the fact that Chinese currency was still based on silver, was felt to be a great obstacle to modern trade and administration; and already in a treaty with Great Britain on 5th September, 1902, China agreed "to take the necessary steps to provide for a uniform national coinage which shall be legal tender... throughout the Empire." Undoubtedly a certain unification of a monetary system is essential, particularly regarding standards of value. But there are other principles as well which have to be taken into consideration. Thus China with deep insight into the laws of human exchange has developed in the monetary sphere the principle of freedom from official interference, and her achievements have been great. Freedom on one side and unification on the other, are to my mind the poles which have to be coordinated, since only combined they can establish an equilibrium.

Having this aim in mind, it may be advisable to reconsider two fundamental principles which up to a few years ago have been most characteristic of the Chinese system.

The first of them is the Tael, which is a certain weight of fine silver, used as a standard of value. Coins and notes in the Tael system are accepted, not at their nominal value, but at their rate of exchange. The Chinese distrust coins, and generally regard them just as commodities. The Tael is not a coin, but a reckoning unit; and this distinction between standard of value and means of payment is the basis of the system. This distinction for many centuries has protected Chinese economic life against all attempts to clip the coinage, and has made inflation by the issue of paper money impossible. It is therefore deeply rooted in the Chinese mind. It has moreover exerted great influence on the West. When in the 18th century the monetary systems of many European countries were disorganised by repeated deteriorations of the silver coinage, the Hamburger Giro Bank followed the Chinese example by reckoning its accounts in MARC

BANCO a theoretical silver unit which was never coined; and in 1790 Chinese influence in monetary affairs of the North was so great that in Sweden notes were even printed on silk in imitation of the Chinese method. It is noteworthy also that Hamburg in 1923 was first to stop the German inflation after the first world war by the introduction of a theoretical reckoning unit in gold-called a Goldmark, thus reviving the old traditions of the Hamburger Giro Bank.

The Tael system in modern China, however, suffered under two limitations. One was its connection with silver, which metal has fluctuated wildly in value in recent years. But this connection is not essential to the system. The Tael can be based likewise on gold, and when China in 1930 converted her export duties to a gold basis, she actually replaced a silver Tael by an equivalent system in gold, maintaining the basic distinction between standard of value and means of payment. But the Tael is not even bound to metal at all, and can also be applied to a commodity, or index system, as was in fact known in China 2,500 years ago.

The other limitation of the Tael system was its variety in weight and fineness in different regions. But this variety only reflects the fact that in China as in mediaeval Europe, business was done mainly in comparatively small districts. Already in 1903-06 the Emperor Kwang Hsu prepared a scheme for the unification of the Taels; and a strong administration, combined with a sound system of taxes, based on an appropriate reckoning unit, is bound to establish a generally accepted standard of values.

The second principle worthy of reconsideration is Chinese freedom of banking. Free banking has been indeed one of the fundamental elements of Chinese currency, and when the Commission of American Financial Experts under E. W. Kemmerer in 1929 surveyed the situation in China, it reported on the notes of the Chinese private banks as follows:

"Notes of this type make up a very large part of the paper money in circulation. In almost all instances these notes are redeemable upon demand in silver, and they circulate at par or very close to par." Besides these notes issued by banks there were, however, and probably still are in the interior of the country, notes issued by factories, public utility companies, chambers of commerce, many other organisations, and even by barber shops and individuals. "Although," says the Kemmerer report, "the total amount of such notes in circulation is large, the amount issued by any one institution or individual is in most cases comparatively small. These notes seldom circulate beyond the district

within which the issuer is known. Some of the notes are secured and some are unsecured. A large proportion of them circulate at par.”

None of the Chinese notes was legal tender. Freedom of issue was balanced by freedom of refusal on the part of the public, and The Times, in a famous report of 29th Dec., 1905, could say: “The very idea of legal tender is repugnant to the Chinese mind.”

In November, 1935, freedom of bank note issue was abolished and the notes of the Government banks were declared legal tender. But apart from the question as to what extent the government notes have been able in fact to replace the private notes in the interior of the country, the problem remains whether it is possible to organise satisfactorily a

system of exchange for a nation of 400 millions by one Central Bank, even assuming that its branch offices are legion. It is most doubtful whether the village barber who up till now issued his own notes and probably redeemed them by giving his professional services to “the bearer,” can find the same accommodation with a Central Bank, the nearest branch of which may be many journeys away. The small exchange of services and goods inside a country, however, is an essential factor, particularly during war, and perhaps it is even more important than the export trade.

The Tael system and freedom of banking have not yet, in my opinion, outlived their time ; and a way must be found after the financial catastrophes which the war is bound to create, to utilise their basic principles for the rebuilding of China and many other countries.