Monetary reform in China

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State University of Iowa

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MONETARY REFORM IN CHINA

BY

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Submitted to the Faculty of the Graduate College of the State University of Iowa, in partial fulfillment of the requirements for the degree of Master of Arts.

June, 1919
PREFACE

In completing my thesis I owe a great debt to my advisor Professor N. R. Whitney. He gave me valuable advice in every possible way and paid special attention to the English as well as to the content of my thesis. I heartily appreciate and write these words for memory.

Y. T. Liang

State University of Iowa

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High School of Kirin: 1908 - 1912
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   6. Foreign Exchange
   7. Domestic and Foreign Commerce of the United States
   8. Commercial Policies
   9. Banking

II. Minor studies - Political Science:
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   2. American Government and Politics
   3. International Public Law

Y. T. Liang
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The History of the silver dollars


The Monetary regulations

The Statistics of silver dollars, copper yuan, and copper cash, and general remarks.

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Chapter I

MONETARY CONDITIONS IN CHINA

China is one of the youngest republics and is at the same time one of the oldest nations in the modern world. She developed a sound oriental civilization many hundred years ago, yet she is to-day economically as well as politically left behind the younger nations in the western world. One of the most significant economic facts in this connection is the monetary chaos which has prevailed from the beginning until very recent times.

"Money was in circulation in China," asserted Ma Tuan Lin in his "Resume of Ancient Currencies", "as early as the reign of Tai-Hao (2953-2839 B.C.), and the money of the dynasties of Hsia (1900-1558 B.C.) and Shung (1558-1050 B.C.) was tri-metallic; namely gold, silver, and copper." He further stated that the Chow dynasty first laid down the monetary rules for the coinage of money (about 1032 B.C.). The gold unit of money was the "Chin" a cubic inch in size, and the copper money was round with a square hole in the center. However, the use of metallic money as the medium of exchange did not gain a permanent place in business transactions, chiefly because barter was the custom. This state of affairs lasted from the Chow dynasty through the dynasties of Chin and Han to the Tang dynasty, when an attempt was made to standardize the coinage. The Tang coinage regulations were promulgated in the fourth year of Wute (620 A.D.). The coin was fixed at one-tenth of a tael in weight and eight tenths of an inch in diameter, one thousand to weigh six catties and four taels.
The result was that the fractional silver coins depreciated in terms of the dollar unit and have since been fluctuated in the local markets and circulated without reference to the standard coin. Thus the silver coins have been in the nature of an "addition" to the copper coins and uncoined silver currency. Since the Act of February 1914, the right to coin and to issue money is exclusively reserved to the central government. Yet the double-standard metallic circulation remains today practically the same as before.
National prosperity is enhanced chiefly by the development of division of labor. Division of labor is encouraged by the proper or effective distribution of production. Thus "exchange" takes a significant place in the distribution of production. If the exchange system is effective, the products are widely distributed, and the division of labor is in turn increased and specialized. This leads to national prosperity. All the modern civilized states have adopted the precious metals as the medium of exchange which is known as money. Money has the character of a medium by which exchanges are effected, and consequently the division of labor is worked out. Money has also the character of a measure by which the relative values of commodities are expressed.

If there had been no such monetary system as in the western states, exchange would have been developed stationarily or only slightly between individuals, different communities and nations; specialization of division of labor and production on a large scale would not have reached its present development. The standard of living would be low. National trade, commerce, and industry would not have been improved rapidly. Consequently, civilization might not progress so fast as it has in the last centuries. As a matter of history and practice, the single standard of money has been demanded and adopted in the modern
economic field in various advanced states because it is a better system of exchange than the double standard.

But in China, the monetary system has had a multiple standard. Roughly speaking, it may be regarded as bimetallism, the copper and silver, with no definite exchange ratio between them, as we have already noticed. Is this practicable in the modern complex society with the population increased enormously, the governmental functions multiplied, and international relations brought closer? The answer would be in every sense a negative one. Thus we come to the analysis of the monetary system in its relation with national development, governmental finance, and international interests.

I. Necessary for national development.

1. Money as a medium of exchange.

The essential services of money are measurement of value and facilitation of exchange. The service rendered is to make it unnecessary for each individual to seek a buyer for his goods in the quantities that he has to sell, who has at the same time the articles he wants in the quantities that he wishes to buy. Therefore, money serves as a medium of exchange and avoids bartering transactions. This service is fundamental, whatever the stage of economic life. The more freely money is accepted, the easier does exchange become, the further developed is the division of labor, and the more facilitated is the wide distribution of its products. In order to enable money to render its service as far as possible, simplicity and uniformity of
money throughout the nation is necessary. This is found to be true in the prosperous states.

Because of the lack of simplicity and uniformity of money in China, money has lost the character of a medium of exchange in the strict sense, if considering the nation as a whole. The question is not only the use of money to exchange commodities, but also the exchange of one form of money for another form of money between the various units and qualities of different localities. Each kind of money has an exchange character only in its local market, beyond which, it is not a medium of exchange until it is exchanged into other forms. Consequently the distribution of production is hampered, the development of division of labor is retarded, national productive ability remains unimproved, the laboring class is thrown out of employment, and the mass of the people continue to be poor and miserable. Under such conditions, the nation can hardly progress economically and exist among the leading industrial countries. If China wants to promote the social welfare and to develop herself as an industrial nation, monetary reform is one of the most important demands.

2. Money as a measure of value.

The essential service of money is that it measures value and determines the general range of prices. As Taussig\(^1\) says, "double the quantity of money and other things being equal, prices will be twice as high as before and the value of money

\(^1\) Taussig: Principles of Economics. Vol I , pp 236.
one half. Halve the quantity of money, and other things being equal, prices will be one half what they were before, and the value of money double." According to this quantity theory of money, the value of money, under the simplest conditions, is exactly inverse to its quantity. It is thus fixed and the price of commodities is thus determined. There would be no fluctuation between the value of money and the price of commodities in general, except in the case of some special goods, of which the price will depend upon the elasticity of demand. But if the standard of money itself is not fixed, can it serve as a measure of goods? Does the double standard money in China have a definite value?

Money in China is not very satisfactory as a standard; therefore there is no definite value for any kind of money - whether tael or dollar, silver or copper. The value of money is not fixed; therefore the money cannot serve satisfactorily as a measure of goods. Whenever the market value of gold, silver, and copper fluctuates, or any one of them fluctuates, the value of money may be affected. The prices of commodities are not only determined by supply and demand, and the quantity of money and the quantity of goods, but they are also affected by the fluctuation of gold, silver or copper. The price of any commodity may be raised while the demand for this commodity is not necessarily greater than before; and the price of commodities may fall when the quantity of commodities produced is not in excess of the quantity of money. Therefore, there is a double
fluctuation between money and goods, and between various kinds of money. The producers and retailers can hardly judge the rising or falling of the prices of the goods which they produce or in which they deal. Every business transaction takes on the nature of speculation and the market is always in disturbance and uncertainty.


Since there is no satisfactory standard of money, a poor quality of money, especially in the minor denominations, is issued without limit. This is especially true of the copper yuan and the paper money, which have been greatly over-issued in the last two decades. On account of the inflation of bad money, the prices of all goods have risen, and Gresham's law, "bad money drives out good money" is found in actual operation. Finally, specie flows out of the country and the purchasing power of money of the nation will be gradually reduced. The nation tends to become poorer and poorer.

4. Money and internal commerce.

Since there are many standards of money circulating in markets, the development of internal commerce is much hindered. A merchant, who trades with distant places, must calculate carefully the quantity and quality of the silver and must exchange the circulating money between the different places. The rate of exchange between the silver tael and the silver dollar is a fluctuating one. Taels are not simple; and dollars are not uniform as we have already noticed. Under these
circumstances, the money-exchanging business has become a useful function so as to convert one currency into another in order that purchases can be made with the money that is "current" in such purchases. Dr. Morrison says, "Germany a century ago was a paradise of money changers, with its countless coinages, each circulating in its own principality; but that was simplicity itself compared with China." The internal exchange is more complex than dealings in international trade.

5. Money and banking.

The growth of national prosperity awaits the development of division of labor with sufficient capital. The more capital comes into existence, the more persons can obtain the use of it. Manufacturing, trade, and agriculture can be conducted on a more extensive scale, changes can be introduced, and production is apt to be profitable. Saving and borrowing are both more practicable. But without the extensive use of credits, can capital be increased effectively? Without the firm establishment of an extensive banking system, can credits be extended widely? In England, the economic interests grew rapidly after the establishment of the Bank of England in 1694, through which the use of credits came to be greatly extended. In the United States nine tenths of the total business is carried on through the use of bank credit.

In modern China, the Bank of China and the Bank of Communication have been established extensively. But they

1. Fisher: The purchasing power of money, 1911 pp 317 - 318
have been of comparatively slight importance in the economic field of the nation. The reasons for this are many: such as the scarcity of capital, difficulty in redemption, and depreciation as the result of over-issue of bank-notes. But the local monetary unit, is the chief obstacle to its use as a national uniform currency. The bank-notes are confined to local circulation. If the monetary system in China does not become unified, the use of bank-notes will never be very extensive. Under these conditions, the per capita wealth of the nation cannot be increased rapidly by the facilitation of the banks, saving and borrowing will not extend largely, and the economic interests will be fostered by other factors but slowly. In order to enable the banks to serve the nation most efficiently, the monetary reform takes a very significant place.

II. Necessary for governmental finance.


The principal sources of revenue in China are the land tax, the tariff on both importation and exportation, the internal customs, the tolls, the tax on salt, tea, and sugar, cigars, spirits, etc., and the tax on houses, trades, mines, etc. All these taxes are collected by the local officials and are paid in the local currency, either in silver bullion or silver coins. The confusion of the currency affects all the taxes. When the money is collected and remitted in different currencies, the rate of exchange causes much fluctuation. In order to allow for any possible depreciation of exchange, the
tax collectors have always demanded a premium amount of tax, no matter whether the exchanging rate is likely to rise or fall. The tax payer is unreasonably over-burdened. The growth of wealth of the nation is thus retarded.

As Adam Smith says "the tax which each individual is bound to pay ought to be certain and not arbitrary. The form of payment, the quantity to be paid ought to be clear and plain to the contributor." But the monetary confusion naturally leads the tax collectors to be arbitrary and the amount of tax to be uncertain. All modern economists demand that the collection of taxes should be inexpensive, but the confusion of the currency compels the tax collectors to spend more time and energy, and it is impossible for them to be economical. The tax thus collected will take more of what is necessary for individual existence than otherwise. If China wants to encourage the growth of the national wealth, she must not tax the people so arbitrarily as shown above. If she wants to avoid over-burdening the people with taxation, she must reform the monetary system as the first step.

7. Money and budget.

Most of the modern constitutional states have adopted the budget system. The relation between the budget regulations and the ideal of personal rights and social relations underlying constitutional government is a very close one. Budgets are one of the most important means through which those ideals are realized in public administration. Because money is the
vital principle of the body politic, he, who controls the finance of the state, controls the nation's policy. Constitutionalism is the idea, budgets are the means by which the idea is realized. But an effective budget should be prepared and studied by a body of experts who have finance experience and political ability, not only because the budget is so important but also because it is so complex that it needs the scrutiny of examination. Therefore, the form of the budget should be clear and the classification should be as simple as possible. Does the monetary confusion in China enable the legislature to scrutinize the budget effectively?

The various units of the currency make the budget very difficult to prepare because each item of revenue or expenditure must be counted first by the current money of the various localities, and then be recomputed into a single standard, the dollar. But the dollar is still liable to great variation. For these reasons, the budget is hard to understand, and it is easy for executive officers to make their purposes. The legislators become greatly puzzled when they investigate the budget. Therefore the representatives of the people cannot control the government through the control of the budget. Of course, in the immediate past the budget has not been effectively controlled by the parliament partly because of the selfishness of the executive department and partly because of the weakness of the legislature. But the monetary confusion makes the study of the budget by the Parliament still more complicated.

On account of the monetary confusion and the continued issue of paper money, the good money or specie is driven out of circulation. On the one hand, the value of money is falling, and on the other hand, the price of goods is rising because of the increasing quantity of money. The receipts of the public revenue, however, remain the same as before, but they render less service and buy less commodities than if prices were not enhanced. If the government continues to perform the same functions as before, expenditures must be increased, and finally there may arise a financial emergency.

9. Monetary confusion and political corruption.

Because there is no satisfactory standard of money, the apportionment of the quota due from each locality to provincial government from the province to the central government is a center of corruption. Although the amount of the quota is ascertained, still it is subject to different exchanging ratio between the various currencies and to the fluctuation between them. Hence the quota is not clear in the sense that the amount of local currency, that shall be considered equal to the amount of the quota, must be determined. A large portion of the sums collected never reach the government, but disappear in one way or another at different stages of remission. To prevent the depreciation of the local currency, the local or provincial government fixes the exchanging ratio at will. Even while the local currency is high, the amount demanded still remains the
Furthermore, the fall of the value of the currency and the rise of prices cause the officials eagerly to get more money in every possible way. The administrative function is corrupted. The civil affairs are badly managed and the people are greatly injured. To reform the system of public finance and to improve the political conditions, the monetary reform is an effective measure.

III. Necessary for international Interests.

10. Monetary reform pledges in the commercial treaties.

Since the year 1902, a series of international agreements have been made to emphasize the reform of the currency; and this has been pledged in treaties. For instance, article II of the treaty of commerce and navigation entered into with Great Britain, September 5, 1902, provides that "China agrees to take the necessary step to provide for a national uniform coinage which shall be legal tender in payment of all duties, taxes and other obligations throughout the Empire by British as well as Chinese subjects." A commercial treaty of similar character was made between China and the United States on October 8, 1902. If China does not unify the monetary system sooner or later, it will open a way for foreign powers to interfere with Chinese financial interests.

11. Money and international trade.

Since China has not adopted the gold standard of money, or the gold-exchange standard, and since most of the advanced
states have adopted the gold standard, the trade between China and foreign countries has always been subject to fluctuations. While the gold value of silver rises, the Chinese foreign trade is relatively gaining. When its value falls, this trade is comparatively losing. But since the year 1871, the gold value of bar silver has steadily fallen until the latter part of the year 1905. The problem of the international trade of China is not only that of the great excess of importation over exportation and the importation of manufactured goods and exportation of raw materials; but it is also the problem of an additional loss of the labor and products of the nation through the lowering of the gold value of silver.

Furthermore, China has been a debtor nation since 1895. By the two indemnities of 1895 and 1901, the debts have amounted to £120,000,000 in gold money. The gold value of silver has declined rapidly since the latter part of the year 1901. The government pays on the foreign obligations more and more in terms of silver and the gold value of silver gets lower and lower. The uncertainty of the exchange renders the public revenue deficient from year to year and the burden of the people gets heavier and heavier. This means a great drain on the nation. Here rises the question whether China should not only unify the currency as soon as possible, but also adopt either the gold standard or the gold-exchange standard as well.


Because of the monetary confusion and other factors in
China, the foreign banks have been greatly encouraged and extended in the business centers, and their note-issues have gained great popularity and firm confidence. Thus the foreign banks have influence over the quotation of the gold value of silver; and their notes are circulated freely in the important commercial ports. This means a gain to foreigners and a loss to the nation. If China wishes to be free from the foreign financial influence there, she must restrict the foreign bank notes and encourage the national note-issue. In order to carry out this plan, redemption on demand should be made efficient and specie reserve should be kept sufficient. But first of all, monetary system should be unified throughout the the country; then the national bank-notes can get extensive circulation and take the place of foreign issues.

As we have noticed in the above analysis, the monetary confusion is responsible for at least twelve sources of loss. The money is inefficient as a medium of exchange and hampers the distribution of production. It cannot be used as a perfect measure of goods and causes disturbance in markets. The bad money drives out the good money from circulation and reduces the purchasing power of the nation. The fluctuation of exchange between different currencies in different places prevents the development of internal commerce. The confusion of the various units of the currency discourages the issue of national bank-notes. Because of the fluctuation of the money exchange, the tax bearers pay more than necessary. The budget cannot be effectively controlled by the legislature because of the com-
plexity of the money. The public revenue is diminished by reducing its purchasing power. The fall of money value leads to political corruption. The monetary confusion would facilitate the interference of foreign powers. The fluctuation between gold and silver discourages the Chinese international trade and causes a greater amount to be paid to meet foreign obligations. The foreign banks extend powerfully in trading ports and have financial influence over markets. For these reasons, the monetary reform is not only a problem of national development but even of national existence. If the monetary system can be effectively reformed, the nation may be encouraged on the road to development. But if the monetary reform cannot be carried out successfully, it is doubtful if the nation can permanently exist among the foreign powers because of the reduction of its exchange ability. The sooner the reform policy is carried out, the more the nation saves; the more it is delayed, the more the nation loses. Therefore, it is necessary for China to reform the present monetary system; and it is necessary for China to reform the monetary system at the earliest possible moment.
As a result of the war with Japan, a small body of patriotic reforms urged the Emperor Kuang Hsu to modernize the country. One of the many suggestions had to do with the currency problem. It was first proposed by Hu Chu-Fen in 1895. He preferred to unify the national coinage with three metals - gold, silver and copper, and to establish a central bank with branches in the provinces under the control of the Board of Revenue to unify the currency.

Sheng Hsuan-Huai made another proposal in connection with the currency problem in 1896. In his suggestion, the Government should establish a central mint in Peking, and four branches in Canton, Hupei, Shanghai, and Tienstin. The national coins should be based on the Chingping tael, 900 fine. This coin should be receivable for payment of taxation and all other governmental obligations. The use of bullion for business transactions should be prohibited. Sheng further suggested the establishment of a bank for international commerce with a capital of 5,000,000 taels. As the result of his suggestions, Sheng was authorized to establish the bank in Shanghai known recently as the Bank of Communication, but nothing more was yielded than that. There were some other proposals of the same character with but slight importance. Considered as a whole, all these suggestions were lacking in knowledge of monetary principles and were insufficient in detail.
The agitation for modernization of the country was again started after the boxer rebellion of 1900. The two Vice-royls, Liu Hun-Yi and Chung Chih-Tung, jointly petitioned in July, 1901, to the central government for renewing the political and educational systems and bettering the method of government. Among other things, they urged the unification of the national coinage based on the silver dollar as the unit. As a result of this claim, the monetary reform movement was for the first time realized in the country. An edict was issued on the 26th of August, 1901, by which the provincial mints were prohibited except the two of Canton and Wuchung. In order to enable the silver coins to be uniform in weight and fineness throughout the country, the same edict ordered each province to contribute fine silvers to these two mints, and in turn the province was to receive the silver dollar from them. But on account of the extensive territory and difficulty of transportation of this country, the edict was not effectively enforced, and the provincial mints continued in action.

However, monetary reform was again agitated because of the fall of the gold value of silver. Up to 1901, the debt of this country had risen to £120,000,000 in gold money. With the decline of the gold value of silver, the Board of Revenue found a great deficit in the payment of foreign indemnities with the same amount of revenue as before. The decline of exchange between gold and silver began in the later months of 1901. In 1902, the rate started at about 35 pense to the
Haikuan tael, and in November of the same year reached its minimum at less than 30 pence per tael. In the early months of 1903, the exchange decline was still greater. This is shown in the following tables:

Gold price of silver in the London market
(Collected from the reports of the U. S. mint)

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1902

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The decline in the gold value of silver was caused by a number of events in several western countries. The adoption of the gold standard and the sale of silver by Germany in 1870 and 1871, the limitation of the coinage of silver by the Latin Union in 1873, the demonetization of silver in Holland and the Scandinavian peninsula in 1875, together with a great increase in silver production from newly discovered mines, brought a fall in the price of silver. But with the slight importance of Chinese foreign trade, the Government scarcely perceived the effect of the decline of the price of silver. It was only in 1903, with the heavy indemnity and rapid fall of gold value of silver threatening the Government with bankruptcy that attention was given by the Government to a discussion of the currency problem.

In the meantime, Mexico was another silver-using country that met with the same experience of silver depreciation in gold value. China at once took concerted action with the Mexican Government to request the friendly co-operation and support of the United States in the effort to bring about a fixed ratio between the money of the gold-standard countries and the silver-using states. The memorandum was handed by the Charge d' Affairs, Mr. Shen-Tung to the Secretary of State of the U.S., Mr. John Hay, on January 22, 1903. Some features of the memorandum were as follows:

The serious results which are threatened by the recent fluctuations in the value of silver bullion to the commerce both of gold and silver standard countries have induced the Chinese Imperial Government, acting in concert with the Mexican Government, to ask the cooperation of the U. S. in seeking a remedy for these conditions for the mutual benefit of all concerned. Safe and profitable trade between any two countries is dependent to a considerable degree upon relative stability in the value of their currencies. This stability is destroyed in the trade between a gold-standard country like the U. S., and a silver country like China, when the variations in the gold value of silver, as was the case during the year 1902, reached nearly 10 cents an ounce in gold in a single year, or nearly 20 per cent upon the price of silver bullion.

The problem of securing relative stability of exchange between the gold and silver countries is one whose importance is not limited to silver countries, but comes home with force to all those gold-standard countries which are seeking markets for their products in silver countries and are seeking the extension of their trade in the Orient.

The attitude of the Chinese Government on this subject was outlined in other paragraphs of the same memorandum as follows:

The Government of China does not seek the restoration of the free coinage of silver by either the gold or silver-using nations. It is recognized by this Government
that bimetallism in the sense of free coinage of both metals is a policy which has been definitely discarded by the leading powers of Europe, and by the U. S., and that it would be futile to propose its restoration.

It is, therefore, not the expectation nor wish of this Government that the gold-standard countries should take any action tending to impair their monetary systems. It is desired that the Governments of gold countries having dependencies where silver is used, and the Governments of silver using countries shall cooperate in formulating some plan for establishing a definite relationship between their gold and silver moneys, and shall take proper measures to maintain such relationship. One such plan, it is reported, has already been proposed in both Houses of Congress of the U. S. with reference to the Philippine Islands. It is this and other plans designed to accomplish the same end which the Government of China would be glad to have considered by the United States and other Governments, with the view to the adoption of the best attainable monetary arrangement by those countries which are not prepared under existing conditions to adopt a currency system involving the general use of gold coins.

The Government of the United States responded to the Governments of China and Mexico by creating a Commission on International Exchange which was authorized by the Act of Congress on March 3, 1903. The Commissioners appointed were Messrs Hugh H. Hanna, Charles H. Conant, and Jeremiah W. Jenks. They were instructed by the Secretary of State, on April 21, 1903, to
confer with the executive departments of China and Mexico, and also with England, France, Germany, Russia, etc. for the purpose of formulating some wise and feasible policy. In the meantime, China created a Financial Commission by an edict issued on April 22, 1903. The edict was as follows:

It has been a recognized principle that the capability of a nation to exist as such depends entirely upon two things, the proper adjustment of its finances and the employment of competent persons. As the present situation is very critical, and the national finance is in a great strait, the Government and the people are both suffering from this state of things. There would be no prospect of any improvement to be made in our fiscal policy unless this question were taken up and thoroughly studied in all its bearings, and such measures as are dictated by the necessity of the day were taken. We hereby command, Prince Ching and Chu Hung Chi, in conjunction with the Board of Finance, to consider carefully all necessary steps to make improvements in that direction and carry them out with diligence.

At present the silver coins used in different provinces are of different designs and quality, and their weight is also not uniform. This state of things entails a great inconvenience to the mercantile class, and it is therefore very imperative that a uniform device for silver coin should be designed, and a mint should be established. As soon as a sufficient amount of such coin shall have been
turned out for circulation, all national revenues, custom duties, etc., shall be collected and all public expense shall be defrayed in that coin and that coin alone, with the view that the abuses of exacting money for making up alleged insufficiency in weight of silver ingots which are now used may be put to an end altogether. At any rate, uniformity must be preserved with regard to all the money received or sent out by the Board of Finance or by various provincial treasuries, and no new names shall be invented for that purpose to create thereby divergencies.

We also demand you to make exhaustive investigations as to how to frame satisfactory regulations, and submit them to us in regular order for enforcement. In short this question is of great importance to our Empire, and will be great benefit to the high and the low. You, a Prince and a Minister of the State, are required to carry this out with undaunted courage, unflinching energy, and strong determination, in order that our currency may be improved, and the benefit therefrom will be so widespread as to gratify our earnest desire to benefit our people by adopting necessary reforms.

However, the Financial Commission produced very little result on this question, for the two officers in charge of the Commission were lacking in knowledge of the currency problem. Furthermore, they did not devote their time and energy to investigate the actual conditions and to bring about the reform.
Before the American plan had been presented by Professor Jenks, the noteworthy proposal for monetary reform was the memorial of Mr. Hu Wei-te, the Chinese Minister at St. Petersburg. His memorial was as follows:

The question of coinage is in itself a nation's own affair: but nowadays there is not anything in business, commerce, or government that does not mutually involve the people of different nations, which does not involve foreign exchange. If the monetary systems of the countries do not agree, it is impossible to prevent loss. To have a good monetary system, a country must have a definitely fixed coinage, using gold, silver and copper at a definite fixed ratio. The coins must be of the same pattern, value, and fineness throughout the country, if the best interest of the people is to be considered and it is desired to secure the faith of foreign nations. Those who have a good standard do not, for that reason, suffer any loss in exchange, and international intercourse is easily arranged.

Financial experts have estimated the year's yearly output of gold, and there is no cause for concern lest it be not enough for the supply of the people of every country. As to the output of silver, there is no end to it. The greater the supply of silver, the cheaper it gets, so that the present high price of gold is not in reality that gold is dear but rather that

silver is cheap. China has made a practice of using silver, and consequently, using this as a standard, the Chinese consider that gold has daily gotten dearer. Other countries have made a practice of using gold, they consider that silver has daily gotten cheaper. A gold-standard country is like a man who has accumulated riches to buy grain - if the grain is cheap, he reaps the benefit. A silver standard country is like a farmer who has accumulated his grain and holds it for a rise in price - if the price goes down, he suffers. So silver-using countries and gold-using countries are in the same case as two people making a barter, in which one man's daily increase of loss (on account of his waiting each day for a higher price) is only the other man's daily increase of gain. Therefore, if we use uncoined silver for money, we are in just such a case of barterers with those countries which have a gold coinage and it is needless to say which country is the loser.

It is already hard to meet our demands, and hereafter it will be all the harder to put the country on a firm footing. At the present time gold is used in all nations throughout the world. Even among their dependent countries, there is not one which does not use gold. Russia in Bokhara uses gold. England in India uses gold. The United States in the Philippines uses gold. England is now planning to use gold in Hongkong, why do they
hasten so? Because when a country plans and marks out a frontier she must reckon upon its expenses, - for it is not the profit of her dependency the nation's own benefit as well? It is equally evident that as the power of gold increases the power of silver decreases, consequently a country will spare no efforts or endeavors to regulate the expenditures so that her dependency will not be a burden to her. Where is there another nation as rich as China in land and subjects which would not speedily change her policy?

It is very evident, then, that nations which have not a gold standard, but keep on with silver at a debased value, will suffer. The system of coinage as adopted by other nations has a fixed value in relation to each other, and although there are exchange charges, the market value is approximately the same, so that banks have no change to impose upon people, nor have foreign merchants any opportunity for swindling. If China has a uniform national coinage, then she will be on the same footing with other nations, and there will be no cause for anxiety in the matter of exchange. The three metals, gold, silver, and copper, will have a fixed relative value; one silver piece being worth so many copper ones, and one gold piece being worth so many silver ones. Once fix the relative value, and it must follow that all financial affairs, large and small, will have such definiteness. Coins can then be used everywhere, far and
near, at the same value. Officials and people can then use them without having them discounted for short weight. With everything uniform, business affairs will be easily managed. Rapacious underlings and dishonest traders will have no opportunity to squeeze.

Mr. Hu's proposal in this memorial for unifying the monetary system and adopting the gold standard was very sound in reason at that time, and, as a result of it, the Board of Revenue planned to accumulate a gold reserve as the first step toward the adoption of the gold standard. The gold was to be obtained by the payment for ranks, titles, and offices in which one-half should be paid in gold at the ratio of thirty-two silver taels to one gold tael. As to how much gold reserve should be accumulated there was no detail. However, this memorial resulted only in a dead letter, because the economic conditions in China did not permit the use of gold and China had not sufficient gold for monetary use.

The arguments for the monetary system stood at this stage when the American Commissioner, Professor Jeremiah W. Jenks, arrived in China. He stayed there from January 1904, to August of that year, and submitted the American plan to the Central government in Peking in a pamphlet entitled, "Memorandum on a New Monetary System for China," containing the main points of the currency reform plan. This pamphlet met some serious objections among the Chinese officials, then a second pamphlet was issued by Professor Jenks, entitled "Consideration
on a Monetary System for China." The main points of the American plan were summarized by Professor Jenks in seventeen suggestions as follows:

1. The Chinese Imperial Government promptly to take effective steps, satisfactory to a 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 of this system China to invite and employ acceptable foreign assistance.

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

4. The controller to make monthly reports in detail of the condition of the currency, including amounts in circulation, loans, drafts on 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. Such representatives, as also the associate controllers, to have the right of suggestion and recommendation.

5. The Chinese Government to adopt a standard unit 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. This to be maintained
at par with the standard gold 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 to par in
payment of all obligations due to the Chinese Imperial Govern-
ment 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 a 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 leading commercial centers against which it may draw
gold bills at a fixed rate, somewhat above the usual banking
rates. For example, if the usual banking rate on London,
under the system were about one of the new coins for 2 S.,
Such drafts to be made only under the direction of the controller of the currency, but to be made on demand for all depositors of the new silver coins in sums of not less than, say, 10,000 taels.

10. Should it be necessary to make a 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 the sinking fund, such revenues to be managed in a way satisfactory to the parties interested.

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

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

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 controller.
14. As rapidly as is practicable the new currency to be introduced into the various provinces, the controller making use of the local government, 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 custom duties to be collected in terms of the new currency. Local taxes to be collected in 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 - - - - - - of the new coins are ready for circulation.

17. The controller and the representatives of the powers to be authorized to recommend economic reforms to the imperial government.

This currency system, a system consisting of circulation within the country of a token silver currency of unlimited legal-tender quality and banknotes, both maintained at par with gold not by a gold currency but by a gold reserve kept abroad, is known as the gold-exchange standard system. It differs from a pure silver system in that the silver circulation is fixed and kept at par with gold. It differs from bimetallism in that it does not aim at establishing a fixity of value of silver bullion in its relation to gold, but only at securing such fixity as regards silver legal tender
and the subsidiary coins.

The American commissioner proposed to fix the exchange ratio between gold and silver at 1 to 32, which was 20 per cent higher than the market ratio, because there was danger of adopting the ratio either too high or too low. The conditions were stated as follows:

1. Danger of giving too high a coinage value to silver.

"There are certain risks in adopting a silver coin of a weight very much less than its bullion value, and there are risks of an opposite character in adopting a coin of a weight conforming too closely to the market value of the bullion which it contains. The dangers in the first case are much less serious than in the second. If too high a value is put upon the silver bullion in the coin - that is, if the coin contains very much less silver than it purports to present in face value - then there will be a wide margin of difference between the gold value of the coin as coin and as bullion. This is the case at the present with the coins of the United States issued at the ratio of 16 to 1, with those of the countries of the Latin Union, issued at the ratio of 15 ½ to 1, and with those of Russia and British India, issued at the ratio of about 24 to 1.

"The two chief dangers in such a system are the private coinage of pieces of full weight and the strain upon national credit required to maintain the legal coins at their full value, since business confidence is an important factor.

The first danger is not one which the advanced civilized countries have thus far found a serious menace to their monetary systems. The second danger has sometimes threatened them when as in the case of the United States, the coinage was permitted to become too large. This danger would be much graver in the case of a country whose currency consisted chiefly of silver coins, without a gold circulation, and especially in one whose financial standing was not high. It seems to be desirable, therefore, in countries, whose police system is not thoroughly organized to prevent and detect counterfeiting and whose credit is not of the highest order, to depart from the ratio of European countries and the United States and to choose a ratio more clearly approximating the bullion value of coins."

2. Danger of fixing too low a coinage value for silver

"It remains to deal with the opposite type of risk involved in the choice of a ratio giving too low a value to silver. This risk consists in the fact that under such a system a slight rise in the price of silver might derange entirely the monetary circulation by making it more profitable to export the standard coins as bullion than to employ them as coins. If, for example the Government of Great Britain, when the subject of giving stability to the currency of the Straits Settlement was first discussed last December, had seen fit to adopt a ratio corresponding to the price of silver at that time it would have adopted a ratio of about 40 to 1. This ratio would have given to the British dollar a value of about
forty cents in the gold currency of the United States. The rise in the price of silver which occurred in April last would have raised the market ratio between the metals to about 36 to 1, and would have raised the value of silver bullion contained in the British dollar to about 45 cents. It is clear that the holders of one of these coins, if he had found its gold value in the Straits Settlement to be only 40 cents and its value as silver bullion at Hongkong or in London to be 45 cents, would have gathered up every such piece within his reach and sent it to the market where it would be sold as bullion at the higher price. The result, if such conditions had continued for any appreciable time, would have been to deprive the Straits Settlement of their currency and to bring great derangement into business transactions."

While the American Commissioner, Professor Jenks' scheme was the most scientific that had up to that time been presented to the Chinese Government, it was not entirely devoid of objections. For it must be remembered that while silver dollars were then in wide circulation in the coast provinces, only silver bullion in terms of weight were used to any extent in the interior; and in both cases, the bullion value of silver alone counts. Thus should silver coins, with an artificial gold value much higher than its bullion value be at once adopted, the result might be that the people at the coast would still find it cheaper to keep the old dollar in circulation, while the people in the interior, not having been educated to
the use of coins, would merely cling to their old method of handling silver bullions and look upon these new coins containing less bullion value with distrust. And again, with the vastness of China's territory and many open parts and foreign settlements, the prevention of counterfeiting was extremely difficult. However, these objects were not seriously considered. The chief objection to Professor Jenks' scheme was in employing foreign controllers, which led finally to the rejection of his scheme by the Chinese Government. The important opposition was the Viceroy Chung Chih-Tung's memorial which covered chiefly the following three points.

1. The inadvisability of employing a foreign controller.

On this point, Chung argued in his memorial that the finances of a nation constitute its life, and no government, be it weak or strong, provided that it is independent, ever permits its finances to be controlled by foreigners or allows foreign meddling. This argument is, of course, justified from the standpoint of national interest.

2. The impracticability of the gold-standard system.

On this point Chung proposed the following:

If the gold price of 32 to 1 as fixed could be made to prevail both in and outside China, and if likewise China could reckon at that rate in remitting foreign indemnities (payable in silver), then it would surely be a proportion that is fair to all parties. But according to what the said Commissioner
has decided, the regulations concerning these silver coins minted at the ratio of 32 to 1 could apply only in places within the confines of the Chinese Empire; and in buying drafts or purchasing gold from abroad the value of the coins must depend upon the decision of the controller, who would accept the rate current on the day when the actual purchases were made.

In the submitted memoranda it was expressly stated that these silver coins are to pass at the ratio of 32 to 1 in China, but if payments abroad are made with these coins, they must be valued according to their bullion contents; that is, at the ratio of about 40 to 1. This regulation would, therefore, compel the Chinese people to pay over to the Government a tael gold, worth 40 taels silver, as the equivalent of 32 taels silver, while foreigners upon entering Chinese territory could with 32 taels silver get the equivalent purchasing power of one tael gold. Even with Chinese silver to buy drafts or to pay for foreign gold, it would be necessary to give 40 taels in order to secure one tael gold.

In this statement, Chung Chih-tung thought that what was actually proposed was to give fixity of value to the silver coins as compared with gold, and not to fix the gold price of
silver bullion, or the silver price of gold. This was partly the fault of the Chinese version of Professor Jenks' pamphlets and partly due to Chung's imperfect knowledge of the whole plan of the gold-exchange standard system.

3. The benefits of adopting the silver standard for the new uniform coinage.

On this point, Chung proposed the following:-

For the present we must begin the reform by establishing uniformity in the silver and copper currencies. The value of a tael in the cash should be made fixed and definite. The values of the silver and copper currencies must stand in a fixed relation to each other. If this is accomplished the benefit to the country and people would be immense. This is in fact what ought to be done according to the law of orderly progress.

When the currency has been made uniform, when silver and copper in the coinage have come to standard in a definite ratio, when the use of bullion as currency has been given up, when the order to prohibit the use of gold for ornamental purposes has been enforced, when products of gold mining have gradually increased, when within twenty years railroads have spread over the whole country, when silver coins have become universally acceptable, when consumption of native products has increased, when manufacture by means of modern machinery has pushed into the interior, and when the circulation
of silver has reached even the remotest regions of the Empire - then investigate the situation and if it is indeed necessary to have a partial circulation of gold it may not be too late to consider attempting to introduce the gold standard.

Theoretically, the gold-exchange standard would be best suited to China's purpose, for because of the heavy loss on the payment of indemnity and on international trade on account of the falling of the gold-value of silver, the only remedy is to adopt the gold-exchange standard. Practically, Chung's proposal for adopting a uniform silver coinage is a necessary step on account of the wide difference in economic conditions in China. We may understand the conditions better by quoting Chung's statement as follows:-

The people are poor, the products of labor cheap, labor and personal service unremunerative, the common people economical in their way of living. Therefore, the daily expenditures are usually reckoned in terms of the cash. A poor man limits his daily expenses to not over 20 cash, those of the well-to-do classes to not more than 60 - 70 cash. In the trade centers along the coast and the River Yangtze, gold and silver, coins or bullions, circulate side by side with the cash; but goods from the interior, whether wholesale or retail, are always valued in terms of the cash. Although in the wholesale transactions silver bullion is also used, the cash is always taken as the standard coin. Generally
speaking, in the cities of the Provinces of Kuangtung, Kuangsi, Yunan, Kiangsi, Chekiang, and Kiangsu, 70-80 per cent of the business is done in silver currency, the remaining 20-30 per cent in the copper cash: In the trade centers along the banks of the Upper Yangtze business is done partly in silver and partly in cash; in the interior towns on both sides of the Yuangtze the proportions are 10 per cent in silver and 90 per cent in cash; and in the Provinces along the Yellow River, 99 per cent is cash, and only one or two per cent is silver. Considering the country as a whole, China is still partly silver-using and partly copper-using; but the copper-using area exceeds ten times the silver-using area. As a rule, transactions of the Government are reckoned in silver, those of the people yet mostly in the copper cash. For these reasons, although China is considered a silver-using country by foreigners, she is still in fact a copper-using country. She is therefore different from the foreign countries where it is suitable to use gold on account of a high level of prices.

Chung's memorial was so influential that the rejection of the American Commissioner's plan may be said to be due chiefly to his opposition. On account of the low standard of living of the mass of the people in China, what Chung proposed, - that it is not beneficial for China to adopt a gold standard at once -

is true. But the introduction of a gold standard is only a question of time. Although China cannot adopt the gold standard immediately, yet she should prepare the way for its introduction. Therefore, Chung's memorial is not entirely sound.

The American Commissioner's plan was further prevented from being carried out by another memorial of Chung which was in favor of the adoption of the tael unit as the standard. His reason for this is that, should the dollar unit be adopted, it would be extremely difficult to deal with the taxes, especially in the case of the land tax and grain commutation, where the fractions are carried to the millionth part of the tael. This reason is of slight importance in the monetary system, and the tael unit should not be adopted as the standard of money only for such a reason. At the same time, another party proposed the dollar unit, the weight for which is at 72/100 of the tael.

The choice of the Government was for the tael according to the treasury scale, the Kuping tael. Accordingly, an edict was issued on the Nineteenth of November, 1905. Some of the regulations were as follows:

The unit of the monetary standard is the tael: 9 maces and 6 candareens of pure Kuping silver and 1 mace of pure copper. The subsidiary coins were half a tael, 4 maces and 8 candareens of pure Kuping silver and 5 candareens of pure copper; 1/5 tael piece, 1 mace and 7 candareens of pure Kuping silver and 3 candareens of pure copper; and 1/10 tael piece, 85 candareens of pure copper.

Kuping silver and 15 candareens of pure copper. The tael unit was divided into 2 of half tael piece, 5 of 1/5 tael piece and 10 of 1/10 tael piece.

A certain percentage of all payments, public and private, should be made in the new national coins. The subsidiary coins should be legal tender to the amount of 10 taels.

After the proclamation of these regulations, and experiment for coining the tael pieces was carried out by Chung Chih-tung at Wuchung, the capital of Hupie Province, of which he was the Viceroy, with the expectation that, if successful, the system would be adopted for the whole country. However, this experimentation was not successful and the regulations were abolished tacitly.

Considered as a whole, the monetary regulations of November, 1905, based upon Chung Chih-tung's proposal were only a barrier to proper monetary development. For this system has no relation to the gold or gold-exchange standard for which the monetary reform agitation has arisen. This system has no fixed ratio with the copper yuan either. This fallacious reform was partly due to Chung's ignorance of monetary knowledge and partly because of the lack of responsibility and experts of the central Government.
Chapter IV

MONETARY REFORM - FROM 1905 TO THE REVOLUTION

The suggestion for Monetary reform for China by Professor Jenks was the most scientific one up to that time, yet it was rejected by the Chinese Government. The rejection originated from the Viceroy Chung Chih-Tung's opposition to the gold-exchange standard; and it was followed by the Silver Tael Coinage Act of November, 1905, proposed by Chung also, as we have already noticed in the last chapter. The November Act had many defects, for it left the copper yuan question open and had no connection with the gold-exchange standard for which monetary reform was proposed by the Government. First of all, the unit of the silver coinage in this Act based upon the tael was inconvenient on economic grounds. Thus the Act prevented a proper course of monetary reform and resulted in a waste of time and energy which had been spent in the reform agitation from 1895 to date.

The November Act of 1905 was never put into effect. The whole problem of monetary reform was later on reconsidered; such as the standard of the national currency, the size of the silver unit, and the treatment of the copper yuan. The question of the unit and fineness of the silver coinage caused a long controversy of the two parties - the tael favorers and the dollar favorers. The former party based its argument on the ground that the tael was more familiar to the people than the dollar, but the latter party claimed that the dollar
(72/100 of Kuping tael) was more convenient for the daily economic transactions than the tael, which was too heavy for ordinary use. In fact neither the tael nor the dollar had a nationwide recognition. For economic reasons, the dollar was finally decided to be the unit.

On the question of the fineness of silver, the November Act which fixed the fineness of the tael at 960, was considered defective as compared with the Kuping silver which was 985 - 987 fine. For people would lose confidence in the tael coinage and depreciation would result. Otherwise, if the tael coinage should be accepted at par value, the high seigniorage would encourage counterfeiting. The copper yuan which was left untouched in the November Act, was prohibited from being issued by the edict of December 7, 1905. But very soon the mints were reopened and the issues were enormous. The details have been given in the first chapter; it is not necessary to repeat here.

The November Act, indeed, discouraged those who favored the gold standard. On account of the fact that the gold value of silver had risen from 1905 to 1907, the Chinese Government could meet the foreign obligations by silver at a premium as compared with those years from 1901 to 1905. This was a good opportunity for the transformation from a silver standard to a gold or gold-exchange standard. But, instead of encouraging monetary reform, the Government was satisfied with the present condition and took the laissez-faire attitude.
However, some other nations which had adopted the gold-exchange standard, seized this opportunity for immediate monetary reform.

As the gold value of the silver peso in the Philippine Islands reached and exceeded its face value, the Government prohibited the exportation of the Philippine currency by an act passed on November 17, 1905\(^1\). With the steady rise in the gold value of the silver peso, which reached its highest point in the latter part of 1906, the coins continued to flow out of the Islands in some way. To prevent the further exportation of silver currency, the Congress of the United States decided to decrease the silver content of the coins by the Act passed on June 23, 1906; the main figures were as follows:— the peso shall be 20 grams of silver, 800 fine, the subsidiary coins proportional in weight but only 750 parts fine.

Siam took another policy on the rise in the gold value of silver. She raised the value of the tical from one shilling and four pence to one shilling and six pence, instead of decreasing the fineness and weight of the coin as in the Phillipine Islands. Mexico also took advantage of this occasion. The article VII of the Project of Monetary Reform of Mexico provided that if the gold value of silver should rise so that the silver dollars should come to possess a metallic value equal to or greater than that ascribed to

\(^{1}\) House Document 59 C. 1 S. Vol II, Act No.1411
them by the legal ratio adopted, steps should be taken to
demonetize the silver coins and to introduce the gold standard
with the free coinage and use of gold as a medium of exchange.
During the years of 1906 and 1907, Mexico sold the silver
coins at a premium and thereby coined into gold money which
was chiefly for the bank reserves. Thus Mexico passed to
the "limping standard."

However, the rise in the gold value of silver in
China only encouraged the delay of monetary reform by saving
trouble on the payments of foreign obligations. The reform
action was not only delayed on the question of the gold or
gold-exchange standard, but also on the unification of the
national silver coinage, which was debated for a long time
and yet was not put on the way to realization. The contin­
ued postponement of monetary reform made the reform agit­
or's impatient, especially those who favored the gold standard.
The Chinese Minister at London, Mr. Wang Ta-hsieh, therefore
memorialized the throne in early 1907 to adopt the gold stan­
dard. To this memorial, the Board of Finance added its own
opinion and re-memorialized on March 28. The main points
are as follows:­

To reform the currency, we should study care­fully monetary principles and investigate advisedly the
monetary conditions in China and in other nations. The
pure gold standard system, such as is found in countries
where the gold standard coin is the only legal tender coin

   pp 422.
among all the coins in circulation, the silver and copper coins being subsidiary and limited in legal tender quality, is impossible. Nor is the limping gold standard, such as was found in the United States, France, etc., where silver coins minted at fixed ratio with gold enjoy unlimited legal tender privileges, practicable in China, because China has not such a stock of gold as the adoption of the former system would require, and because the latter is not suitable as it is the result of historical circumstances not found in China. The gold exchange standard is the only feasible system for China. It must therefore be the aim of the reform. To attain this aim there are four different plans:

I. To establish uniformity in silver dollars and to increase gradually to 20 per cent the value of the silver dollar; and then to fix the ratio of the silver currency with gold— as British India did.

II. To fix at the very beginning the value of the silver dollar in gold by increasing the value of the silver dollar 20 per cent; and to maintain this value hereafter within the country, but use gold for payments on foreign obligations— as the Philippine Islands did.

III. To adopt a system similar to (II) but to introduce a partial note circulation in order to replace the specie.

IV. To introduce a new system of national silver coinage 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 reserve. When the note circulation becomes universal, to declare for free coinage of gold at the market ratio of a given time and to 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. This procedure originated with Mr. Samuel Ingham, Secretary of the Treasury of the United States under President Jackson. Ingham had recommended that the gold certificates should be issued in exchange for silver which was to be kept in stock. When they were presented for redemption the Government should give silver bullion at the gold value in the market. In this way the gold standard could be established easily without disturbance of the markets.

Each of the first three procedures has its advantages and disadvantages. The first procedure - to begin with the unification of the national silver dollars - was comparatively easy for adoption in China, because in the introductive period of the silver currency, there was no difficulty in connection with gold. But after the unification was completed, there might appear some disadvantages in augmenting the rate of the dollar. The advantage of the second procedure is to save the trouble of frequent fluctuation between gold and silver. But the disadvantages are many: the sinking fund needed would be considerable, and to maintain the gold value
of the silver dollar would be difficult. Furthermore, if the market value of the silver dollar exceeded its face value, it would encourage the exportation or melting of the silver dollar. The third procedure is as defective as the second. It is only saving a part of the sinking fund. The fourth procedure has the advantage of the first and avoids the difficulty of the second. The fund needed and the danger occasioned are comparatively less. Therefore, the fourth procedure is the best plan to adopt.

To adopt the last procedure, a few necessary steps must be taken: (1) to prepare the necessary administrative machinery, (2) to unify the silver dollar and to put dollar notes into circulation, (3) to extend the note circulation and to withdraw the silver dollar, (4) to recoin the standard pieces into subsidiary coins, and (5) to declare the gold coinage at a market ratio of the day and maintain the circulation at that ratio thereafter.

This memorial was the best conceived plan on monetary reform since 1895, yet it resulted in nothing.

There was another memorial petitioned by Tong Shao-yi, the special ambassador to the United States, urging the Government to reform the currency speedily in order to carry out the treaty provision pledges. Mr. Tong made suggestion in detail as to currency reform when he returned from the United States. He concluded that the reform had best begin on the silver standard basis, but with the end in view of
attaining the gold standard. He did not agree upon the gold exchange standard, for it would be difficult to enforce in China the token coins under this system without continued fluctuation in terms of the silver bullion. He feared that the coins might depreciate through over-issue for the seigniorage. On the question of the unit of the standard coin, he favored the weight of the dollar. On the question of the treatment of the copper yuan, he suggested the use of the new coin to retire the old.

In response to Mr. Tong's memorial another tael coinage act was announced. An imperial decree was issued on October 5, 1908, in which was submitted a plan for a uniform national currency, by Prince Ching and other ministers of the Government Council and by Prince Pulun. The main arguments of the memorial were as follows:

"The finances of China are in confusion, and the standardizing of the currency is an urgent necessity. If actual gold coin were to be taken as the standard unit, it would be difficult to raise the necessary amount: while if gold were merely taken nominally as the standard unit, grave dangers would be incurred. It is evident, therefore, that we should first standardize and render uniform the silver currency, and then carefully proceed to take measures for a further advance, with a view to assuring the adoption of

1. Treasury annual report, 1909, pp 248
a gold standard in the future.

"The memorialists have pointed out that the use of the tael and its fractions has been so long established that it would be difficult to substitute any other denomination in its place. The committee on finance in a previous memorial also recommended the determination of the tael as the silver coin to be used.

"We therefore command that a large silver coin should be struck, weighing one Kuping tael, and that large quantities of silver coins weighing 0.5 of a Kuping tael should also be minted for general convenience in use. Also there should be small pieces of one mace and 5 candareens of less pure silver, which will serve as subsidiary currency. The two silver coins already aforesaid should be 0.980 fine, while the two small silver pieces would be 0.880 fine.

"Until the new coinage has been minted in sufficient quantities the dollar and subsidiary silver pieces in use in the Provinces, as well as the sycee, may be used as before for the time being on the market, and the treasury payments may still be made in sycee for the present, but must year by year be diminished by the substitution of the new silver coinage."

This proposal was approved by imperial decree. However, the Act itself proved only a dead-letter. In the meantime, the Board of Finance established a Bureau of Currency Reform for investigating the currency conditions, and conducted
a widespread inquiry. Finally, an Act adopting silver as the standard and the yuan as the unit was drafted and was declared to be the law of the present monetary reform on May 24, 1910. The details of the law\(^1\) are as follows:

Regulations for the National Coinage of May 24, 1910.

Article 1. The monetary unit of the Ta Ching Empire shall be called the dollar (yuan). (The monetary unit means that used in computation above unity. Below unity the reckoning is decimal.)

Article 2. The different coins shall be as follows:
Silver coins: (1) one dollar coins; (2) fifty-cent coins; (3) twenty-five cent coins; (4) ten-cent coins.
Nickel coins: (1) five-cent coins.

The coinage of this nickel coin shall be delayed pending an investigation into mines and methods of mintage.

Copper coins: (1) two-cent coins; (2) one-cent coins; (3) five-mill coins; (4) one-mill coins.

The coinage of the one-cent copper coins will be postponed owing to the danger of their being confounded with the ten-cash coins formerly minted.

Article 3. The dollar (yuan) will be the standard coin, and the coins from fifty-cent and under will be considered subsidiary coinage, and will be in the decimal system. One dollar will be ten dimes. One dime will be ten cents.

\(^1\) U. S. Mint Report, 1911, pp 236-238. Translated by Dr. C. D. Teeney, of the American Legation in Peking.
One cent will be ten mills. All exchanges must be at this rate.

Article 4. The weight and fineness of the silver coins will be as follows: The weight of one dollar will be seventy-two hundredths of a Kuping tael, and the fineness ninety per cent, amounting to six hundred and forty-eight thousandths of a tael of silver.

The weight of the fifty-cent pieces will be thirty-six hundredths of a Kuping tael and eighty per cent fineness, amounting to two hundred and eighty-eight thousandths of a tael of silver.

The weight of the twenty-five cent pieces will be eighteen-hundredths of a Kuping tael, and the fineness eighty per cent, amounting to one hundred and forty-four thousandths of a tael of silver.

The weight of the ten-cent pieces will be \(\frac{864}{10000}\) of a Kuping tael, and the fineness sixty-five per cent, so containing \(\frac{5616}{100000}\) of a tael of silver.

The weight and fineness of the nickel and copper coins will be determined later. (In these regulations the "Kuping tael" refers to the Kuping tael as determined in response to the joint memorial of the Board of Agriculture, Industry and Commerce, and the Board of Finance, in regard to uniform weights and measures. Therein it was specified that the Kuping tael would be reckoned as equivalent to thirty-seven and three hundred and one one-thousandths (37.301) grams by the French metric system. The silver referred to is to be absolutely pure silver.)
Article 5. There will be no limitation in the use of the standard dollar.

The subsidiary silver coins may not be offered in excess of five dollars worth in any one payment. The nickel and copper subsidiary coins may not be offered in excess of half a dollar's worth in any one payment.

Payment of the subsidiary coins in excess of the above amounts may be refused, but this does not apply to the Ta Ching Bank or any of its branches in the exchange of coins. (Therefore, in all financial operations the dollar will be current, whether the transactions are in tens, hundreds, thousands, or tens of thousands. The purpose in minting the subsidiary coins is to provide for small transactions in trade and for reckoning change; so the limit for the use of them must be clearly defined. But exchanging coins and using them are different, and therefore there is no limit in matters of exchange. So the subsidiary coinage is protected and the people's confidence in it will not be impaired. If it be found that the absence of a limitation in the matter of exchanging coins will lead to the banks receiving large amounts of the subsidiary coins so that they cannot avoid offering temptation to counterfeiters, it should be remembered that there is a fixed limit to the number of subsidiary coins that may be minted and those who care to exchange them will naturally be few. Also there is a regular medium of exchange so that the counterfeiting may be easily discovered. So no fear need be entertained on this score.)
Article 6. On one face of the silver dollar will be a dragon and on the other face the characters, "Ta Ching Silver Coin, One Dollar." The subsidiary coins of silver, nickel, and copper will be minted on the same general model. (The exact forms of the silver, nickel, and copper coins will be sent to all the provinces.)

Article 7. No dollar may differ from the legal weight by more than two one-thousandth of a Kuping tael. One thousand coins weighed together must not differ more than three one-thousandths of the tael weight. (In enforcing the first and second parts of this article some liberality may be shown in reckoning and passing single silver dollars, but the reckoning by thousands will be strictly observed.)

Article 8. The fineness of silver coins must not differ from the legal standard more than three one-thousandths. (Difference in weight in numbers of coins will be determined according to the provision of the last article, but difference in fineness according to this article.)

Article 9. When a dollar coin has been so abraded by use that its weight has fallen below seventy-one one-hundredths tael, and when the fractional coins, whether of silver, nickel, or copper, of fifty cents and under, show signs of abrasion, they may be taken to the mint or to the Ta Ching Bank to be exchanged for new coins. (Silver coins used in trade cannot fail to be abraded; therefore the limit of seventy-one
one-hundredths tael will be set for abrasion. When this limit of abrasion is exceeded, the coins must be exchanged to secure confidence.)

**Article 10.** No one can be compelled to accept mutilated coins, when the mutilation can be shown to be intentional. (The last article provides for the exchange of coins abraded by use, and this article forbids the exchange of coins deliberately mutilated, in order to prevent the people from boring holes, affixing stamps or grinding off the coins.)

**Article 11.** The Board of Finance will fix the limit for the amount of coinage of the subsidiary coins. (The coinage of the subsidiary coins must be limited, and they must not be issued in excessive quantities to avoid injuring their currency as subsidiary coins.)

**Supplementary Articles**

**Article 12.** The Ta Ching Bank will appoint a special officer to control carefully all matters connected with the exchanging of coins, both old and new. (The exchanging of the old and new coins is the special business of the bank, but since the business of the bank is complicated, a special bank officer will be deputed to control this department so that it may be properly managed.)

**Article 13.** During the introductory period of issuing the new coins, one dollar and fifty cents will be
reckoned as one tael of the Board of Finance Treasury weight, standard silver. (This article fixes the exchange value of the new and old money and the standard for discounting. By standard silver is meant silver of nine hundred and eighty-five one-thousandths fineness.)

Article 14. In places where the new coins have been issued, the large and small coins previously minted may continue to circulate temporarily at their market value. On the one hand, the Government mints and the Ta Ching Bank will gradually withdraw them at the market rate to be re-minted into the new coinage; and, on the other hand, the Board of Finance will take all the circumstances into consideration and fix a limit of time for this to continue. After the time fixed, all such circulation will cease, and the mints and the Ta Ching Bank will exchange the old coins as silver bullion.

Article 15. The copper coins previously minted in the Provinces will continue to circulate at their market value and the Board of Finance will regulate this matter in accordance with circumstances. (In regard to the method of treating the old coinage as laid down in articles 14 and 15, the Board of Finance will determine a special method of treatment after considering the conditions and will memorialize the throne on the subject.)

Article 16. After the regulations have been approved
by imperial rescript, a limit of one year will be granted within which period all regular official receipts and disbursements will be converted into Treasury taels of standard silver and then reckoned in the new monetary unit. (In order to unify the currency system all amounts and public documents will first use the new monetary denominations. This is to hasten the adoption of the new monetary unit, and the resulting advantages in making and auditing the budgets will be many. Therefore, before the new coins have been issued there is no difficulty about fixing a limit of time within which the new terminology shall replace the old. So if the farmer reckoning taels is changed to dollars, it will not be troublesome to use the ratio of exchange laid down in article 13. Therefore, fixing a year as the limit for the change is not too rapid. If it is found that the new coins will not be immediately sufficient for use till after the change of name, the silver bullion and old coins may continue to be used and the actual receipts and disbursements may be reckoned in Treasury taels of standard silver and then reckoned in the national coin. This will cause no inconvenience.)

Article 17. A limit of one year will be fixed after the date of the imperial sanction of these regulations, and within this time all official receipts and disbursements regularly made in copper, cash or silver shall be reckoned in treasury taels and thence converted into national dollars. In cases where silver dollars or other coins have hitherto
been used, the same method shall be followed. (In changing the unit of reckoning according to this article, public accounts and documents shall be first changed and the market rate for the day fixed by the throne, on memorial, shall be used in order to prevent brokers from lowering or raising the exchange and to avoid dispute about exchange. The method of carrying out this provision shall be for the Board of Finance to telegraph to every Province, obtaining the market rates for all sorts of silver money in every fu, ting, chou, and hsien (subdivisions of province) which the Board will publish in every locality.

Article 18. All customs, postal, telegraph, steamer, and railway accounts shall be tendered in the national coinage after being first changed into treasury taels by the heads of the offices concerned according to the weights and purity of the money received or disbursed, within one year of the time when these regulations receive the imperial sanction. (Since the large customs accounts and the communication accounts have an important influence upon currency, they should be first changed so as to promote the use of the new currency.)

Article 19. All debts of the common people which are reckoned in silver shall be reckoned in treasury taels according to the weight and fineness of silver in the locality concerned and then reckoned in the national coinage. When they are reckoned in the old silver dollars, copper-minted coins,
copper cash, or any other kind of money, they shall be reckoned in treasury tael according to the market rate for the place, fixed by decree on memorial as provided in these regulations, and then reckoned in the national coinage. In all cases, in which the documents have not been reckoned in the national coinage, as laid down in this article, if there shall be any litigation, judgement shall be given according to the rate for the day fixed by edict, on memorial, as prescribed in these regulations. (The different kinds of money alluded to in this article and article 17 are the Tienstien "Ching Chien", Hsinchiang "hung chien" and other such coins.)

Article 20. From the date when these regulations receive the imperial sanction, all mintages of large and small silver and copper coins in the Provinces shall cease.

Article 21. The Board of Finance will establish an assay office and engage an expert to take charge of it. Specimen coins will be taken from the coins minted by the mints, which shall be assayed and the analysis will be published. (The coins selected will be either from those already in circulation or from those just minted, and the analysis will be for the purpose of maintaining confidence.)

Article 22. Throughout the Ta Ching Empire when the Ta Ching national coins are offered in payment, no matter who the person may be or what the account may be, the national money may not be refused. (This article defines the legal-
tender quality of the national coins, and is in accordance with the regulations of all countries.)

Article 23. Any one who violates the provision of article 3 or article 22 may be accused in court by the person concerned. After conviction a fine of from $10 to $1,000 will be inflicted. (Violating article 3 means forcing one to discount coins. Violating article 22 means that when the national currency is offered one refuses to accept it.

Article 24. If these regulation require alteration, the Board of Finance will memorialize the throne publicly thereon.

From these regulations, it is evident that the Government was satisfied with the introduction of the national silver dollar as the first step of monetary reform. In planning to carry out this scheme, an agreement was signed on April 15, 1911, between Duke Tsai Tze as President of the Board of Finance as the first party, and Messrs. Willard Straight (representing Messrs. J. P. Morgan and Company, Kuhn, Loeb and Company, the First National Bank, and the National City Bank, all of New York, constituting the American Group), E. G. Hillier, (for the Hongkong and Shanghai Banking Corporation), H. Cordes (for the Deutsche-Asiatische Bank), and Mm. Cazenave and Henry Mazat (representing the Banque de l'Indo Chine), as the second party, floating a sinking fund gold loan of £10,000,000, at 5% interest and 95 of the issue
price. Accordingly, Dr. G. Vissering (President of the Bank of Java) was appointed to be monetary advisor. It looked as if the reform was at last to be launched. Unfortunately, the Revolution broke out on October 10, 1911, and the Manchu dynasty was ruined. Monetary reform was naturally stopped, and the sinking fund loan was not floated. This leads to the monetary reform movement in China detailed in another chapter.
The Revolution of October 10, 1911, in China not only hampered the course of monetary reform, but also made monetary conditions a great deal worse than before on account of the over-issue of paper currency. The paper currency issued was based upon the double standard, the dollar-notes and cash-notes. These notes were heavily discounted as compared with their face value. As a matter of fact, these notes never circulated at par value and at no time have any of them had more than a fifty per cent reserve of specie back of them. The degree of depreciation varied greatly in different Provinces and localities. Subsequently, silver disappeared, but paper currency and copper yuan took its place. The Shanghai Shen Pao (a newspaper) gave the following figures showing the amount of the note issue.

<table>
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<tr>
<th>Province</th>
<th>Amount</th>
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<tbody>
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<td>Aukwei</td>
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<tr>
<td>Province</td>
<td>Amount</td>
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<td>-------------</td>
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<tr>
<td>Yunan</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>

**TOTAL** $129,746,000

On account of the heavily discounted paper currency, prices became very high, many business firms were disorganized, properties were under-valued with relation to the purchasing power of money, and wage earners suffered greatly. Domestic trade was discouraged. Imports and exports were carried on with great difficulty. Public funds rendered less service and purchased less goods than before for the same amount of revenue. As a result of this confusion, many attempts were made in different provinces to regulate and maintain the specie value of the paper currency, but as a matter of fact, since
there was not enough specie for redemption, the attempts were all in vain.

The monetary confusion brought about another reform movement. Late in 1912, Dr. Vissering, the monetary advisor, submitted a currency reform plan which he based upon the results of his investigations. In his opinion, the gold-exchange standard is the only feasible system for China. But he recognizes the complications created by the token money in introducing this system in a country with such an enormous extent of territory and such divergent conditions and interests. He holds that a token coin can be issued only by a government which is powerful enough to prevent a serious degree of counterfeiting even in the remote interior and at the same time defend its frontiers against the importation of counterfeit money from abroad. Should the government fail in either of these respects, the introduction of the gold-exchange standard would be an absolute failure, and the worst consequence would be experienced. To avoid the necessity of introducing the token coins at the very beginning, Dr. Vissering suggests a double standard - not bimetallism, but two independent standards - a gold exchange standard in co-existence with the present practically silver standard, the former gradually to supplant the latter during the period of transition, which the plan provides for. On the progress of the monetary reform, Dr. Vissering outlines his plan in three periods as follows:

I. First Period

The very first step must be the adoption of a future gold
unit as the foundation of the new system, in order to avoid speculation on the announcement of the gold par, and also to avoid at a later stage having to raise the new unit to its future nominal value.

2. The organization of a central bank of issue or else the reorganization of the Ta Ching Bank as a central bank for the whole country.

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

4. Securing the co-operation of the foreign exchange banks and of the private Chinese banks and bankers for the introduction of the new gold unit into their book-keeping.

5. The issue of bank-notes based upon the new gold unit.

6. The accumulation of a gold reserve against the aforesaid bank-notes.

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

8. Eventually declaring the banknotes legal tender.

9. To make a close study of the condition of the balance of trade and of the balance of payment with regard to China.

II. Second Period.

10. The establishment of the weight, fineness and alloy of the token coins and of the new subsidiary coinage, by preference in such a manner that the unit of the new system should be one-third of the Kuping tael at a gold ratio of 21 to 1. The gross weight of the unit should be 8.504.727 grams, 900
fine. The subsidiary coins should have more alloy. Gold coins of 10 and 20 units may ultimately be coined, the former of the weight of 3,644.883 grams fine gold and the latter of 7,289.766 grams.

11. The issue of these token coins and subsidiary coins simultaneously.

12. The accumulation of a gold reserve back of the token coins and the regulation of its management.

13. If desirable, the coinage and issue of gold coins may be free by preference in the manner mentioned in section 10 above. Also if desirable, the temporary admission of some particular foreign gold coins as legal tender, and the temporary issue of certificates.

14. The proclamation as unlimited legal tender of:
   a. The silver token coins of 1 and 2 units.
   b. The above mentioned gold coins and eventually the gold certificates.

III. Third Period.

15. The gradual withdrawal and subsequent demonetization of the old silver dollars, as far as necessary of the old sycee, and of the present copper cash.

   The government, however, did not desire the introduction of the gold standard. In the meantime, another monetary reform draft based on the silver standard\(^1\) was drawn up by Mr. Hau Un-yuan, the director of the audit department who

\(^1\) U. S. Mint report 1913. pp. 209 -211
was one of the three members on the currency reform commission, especially appointed by a presidential order dated February 20, 1913. Mr. Hsu, who is himself a strong advocate of the silver standard, makes it the basis of his scheme for the unification of the national coinage. The general outline of the scheme is as follows:

Article I. The unit of the national coin of the Chinese Republic will be called the huan.

Original note - In old times the currency system in China was called "huan-fa". In the past we have been accustomed to calling the dollar yuan. This word is also used by Japan. In order to make a distinction between the currency units of the two countries, we adopt the ancient name huan as the name for our unit. The various countries which join the Latin coinage Association observe the same standards as regards weight and fineness, but the names by which their standard coins are designated are different from each other.

Article 2. The total weight of the unit shall be 55 candareens Kuping weight, or 20 grammes.

Note - The principal cause for the confusion in our currency system is the lack of fixed relations between the standard and token coins. One necessary step in the reform is to arrange the values of the coins so as to render possible the introduction of decimal progression, which will greatly facilitate the establishment of a uniform currency system.
The 72 - candareen silver dollar now in circulation is approximately equivalent to 1,300 cash or 130 copper yuans which is a very irregular and inconvenient number. It is impossible to introduce decimal progression with this number, and if it is forcibly attempted, there will be ample opportunity for the playing of tricks, and the State will suffer from it.

As the 72 - candareen dollar is now approximately equivalent to 1300 cash, then the 55 - candareen dollar will be approximately equivalent to 1000 cash which is a number at once regular, convenient and possible of decimal progression. The relative value between silver and cash will not be altered. The people will be in possession of a dollar whose value is not too high for daily transactions. It will not tend to force up the cost of living.

The 72 - candareen dollar is of too high a value to be suitable to the people and it invites irregularity. Some persons contend that the 72- candareen dollar is to be preferred because to change it to 55 candareens will occasion a disturbance in the market. But I assure them that this disturbance will be no greater than that which would be occasioned by the enforcing of a fixed type of 72 - candareen dollar. For we all know that the different Provinces are using different kinds of dollars, and the rejection of the dollar from a neighbouring Province by the bankers has become an almost unbreakable custom. The Peking dollar will not be tolerated in Shanghai. The Shangtung bankers profess that they will accept all classes of dollars. But while accepting the Hupie dollar at its normal value, the Shangtung bankers will discount the
Peiyang (northern) dollar. It will be very difficult to compel the bankers to accept all types of the 72-candareens dollar without discrimination.

Dr. Vissering, advisor to the Chinese Government on currency, is also of the view that the change of the unit to a lesser value will be of great benefit and utility to the Chinese people. This proposal is generally endorsed by foreign banks in China. The currency loan will be the means of effecting the currency reform. The views of the foreign bankers should also be considered.

To introduce by force decimal progression with the 72-candareen dollar will be a source of great danger. This act would encourage speculation. A dollar is now worth as much as 1300 cash. If its value is forced down to 1000, the labouring and other classes will suffer acutely, as the dollar would be depreciated one-fourth of its usual value, and there is no prospect of a corresponding lowering of the price of the necessary commodities. Therefore, the adoption of 55-candareen unit is the most reasonable way of effecting the unification of national coinage.

Article 3. The fineness of the new unit "huan" shall be 90 per cent.

Note - In foreign countries the fineness of the standard coin is usually 90 per cent. The "huan" shall consist of an alloy with 90 per cent silver and the remaining part copper.
Article 4. The "huan" shall be divided into 100 feng or cent: each feng shall be divided into 100 li.

Article 5. The national coinage shall consist of the following classes.

A. The standard coin. There shall be one kind of standard coin, the huan, which is the unit of the national currency.

B. The token coin. There shall be three kinds of token coin; silver, nickel, and copper.
   1. The silver token coin is sub-divided into two kinds: 50 feng and 20 feng.
   2. The nickel token coin is sub-divided into two kinds: 10 feng and 5 feng.
   3. The copper token coin is sub-divided into two kinds: 1 feng and 1 li. One li shall be of the same value as the cash now in current use.

Article 6. The following limit shall be placed on the use of the various kinds of coins:

A. There is no restriction to the use of the standard coin.

B. The amount of the silver token coin involved in one transaction shall not exceed 10 huan.

C. The amount of nickel token coin involved in one transaction shall not exceed 5 huan.
D. The amount of copper token coin involved in one transaction shall not exceed 1 huan.

But the above rules do not apply when respectable banks and firms or trustworthy merchants take the token coins to the Bank of China and change them for standard coins.

Article 7. The designs of the coins shall be as follows:

A. The standard coin. On one face of the huan shall be inscribed the national flag and four words "standard coin, one huan." On the other side shall be engraved the picture of the President, and the date when the dollar is minted.

B. The design of the silver and nickel token coins shall be described by separate regulations.

Article 8. The mint remedy is specified as follows:

A. The difference between the weight of the standard and token coins turned out by the mint and that of the legal tender shall not exceed 3/1000.

B. The difference between the fineness of the standard and token coins turned out by the mint and that of the legal tender shall not exceed 3/1000.

Article 9. The wear and tear of coins shall be regulated as follows:

When on account of wear and tear the standard coin loses one per cent of its legal weight, it may be exchanged at the Bank of China for a new coin.
When on account of wear and tear, the token coin loses 5 per cent of its legal weight, it may be exchanged at the Bank of China for a new coin.

Article 10. The weight and fineness of the token coins shall be specified in another set of regulations.

But the Currency Reform Commissioners had different opinions on the subject of monetary reform. Some of them favored the gold-exchange standard based on Professor Jenks' suggestions. Others favored Dr. Vissering's double standard, the gold-exchange standard in co-existence with the present practically silver standard. But the strongest proposal was Mr. Hsu's silver standard based on the Act of May 1910. In deciding on the adoption of one of these three proposals, the Government finally announced the introduction of the national coinage on the basis of the silver standard, (not Mr. Hsu's original draft) by a Presidential mandate on February 8, 1914. The text of the national currency law is as follows:

1. The power to issue the national currency is exclusively vested in the Government.
2. The weight of pure silver in every dollar piece shall be 6 mace, 4 candareens and 8 li; government treasury scale.
3. The denominations of the national currency shall be as follow:

   Silver: the dollar piece, the half dollar piece, the 20 cent piece, the 10 cent piece.

1. U. S. Mint report 1915 pp 173 - 75
Nickel: The 5 - cent piece.

Copper: the 2 - cent piece, the 1 - cent piece, the 5 - cash piece, the 2 - cash piece, the 1 - cash piece.

4. The national currency shall be based on the decimal system; that is to say, the 10 - cent piece to be the tenth part of a dollar; the 1 - cent piece to be the one-hundredth part of a dollar; and the 1 - cash piece to be the one-thousandth part of a dollar. The system is to be observed both officially and privately in the conduct of exchanges.

5. The standard weight and fineness of the various coins shall be as follows:

   (1) The dollar piece, weighing 7 mace and 2 candareens shall be 90 per cent pure silver and 10 per cent copper.

   (2) The half-dollar piece, weighing 3 mace and 6 candareens shall be 70 per cent pure silver and 30 per cent copper.

   (3) The 20 - cent piece, weighing 1 mace and 4 candareens and 4 li, shall be 70 per cent pure silver and 30 per cent copper.

   (4) The 10-cent piece, weighing 7 candareens and 2 li, shall be 70 per cent pure silver and 30 per cent copper.

   (5) The 5-cent nickel piece, weighing 7 candareens, shall be 25 per cent nickel and 75 per cent copper.

   (6) The 2-cent copper piece, weighing 2 mace, 8 candareens, shall be 95 per cent copper, 4 per cent tin, and 1 per cent lead.
(7) The 1-cent copper piece, weighing 1 mace, 7 candareens shall be as above.

(8) The 5-cash copper piece, weighing 9 candareens, shall be as above.

(9) The 2-cash copper piece, weighing 4 candareens, 5 li, shall be as above.

(10) The 1-cash copper piece, weighing 2 candareens, 5 li, shall be as above.

6. No limit is fixed to the amount of legal tender in $1 pieces, which may be offered at one time; when, however, half-dollar pieces are tendered for payment, the amount is limited to $20 for each tender, and $5 is the maximum amount which may be legally tendered in 10 and 20 cent pieces, and $1 in nickel and copper pieces. This article does not apply to the payment and receipt of rent and exchange transactions by Government banks.

7. The forms of the different kinds of national currency are to be decided by presidential mandates.

8. The weight of every coin shall not vary from the standard fixed by the Government more than the three-thousandth part: and the total weight of every thousand pieces shall not vary from the standard weight by more than the three ten-thousandth part.

9. The fineness of the various coins of silver shall not
vary more than the three-thousandth part from the standard fineness fixed by the Government.

10. Silver dollar pieces, which, on account of ordinary wear and tear, shall have lost 1 per cent of the standard weight, and 50 cent pieces and those of lesser denominations, including nickel and copper coins, which shall have lost 5 per cent of the standard weight, may be exchanged for new ones from the Government.

11. No person shall be compelled to accept any currency which has been purposely defaced or destroyed.

12. Bullion tendered to the Government for coinage into $1 pieces shall be accepted by the Government, for which 6 li per dollar, Government weight, will be charged to defray the expense of coinage.

13. The above law shall be enforced on a day to be proclaimed by presidential mandate.

The following detailed regulations govern the enforcement of the national currency law:

1. All receipts and disbursements of Government funds shall be made exclusively in the national currency, except as hereafter otherwise provided.

2. All dollar pieces formerly issued by the various Government mints and which are in circulation will be redeemed.
by the Government in the national currency for purposes of
recoinage, and until such a time as may be proclaimed by
the President, the Government may recognize the above as
legal tender.

3. The Government will redeem in the national currency old
silver subsidiary coins, copper coins, and copper cash which
are now in circulation for the purpose of recoinage, and un­
til such a time as may be fixed by the Government the same
shall be accepted as legal tender by the business community.
In the event of the above mentioned currency being tendered
in payment of Government fees, etc., the same shall be
accepted according to the rate fixed and published for
gen­eral information by the legal official at the various
ports, such rate to be based on the average rate of the
preceding month.

4. In calculating the value of bullion tendered in payment
of Government fees, etc., or for coinage into national cur­
rency, the weight of 6 mace, 5 candareens, 4 li shall be
taken as the equivalent of $1.

5. Government funds which were formerly collected in accord­
ance with the tael system, shall be received or paid in
accordance with the table for conversions prescribed in
article 5 of the national currency law. The various local
officials shall continue to receive, as formerly, copper
cents and copper cash, but shall report the same to the
national tax bureau for conversion into national currency.

6. All taxes and duties shall be collected according to article 4 and 5 of the national currency law and the smallest denomination acceptable shall be the cash.

7. Private debts previously contracted according to the system of taels, subsidiary coins, copper pieces, or other kinds of currency, shall be expressed in terms of the new currency at the rate prescribed by the national currency law: otherwise the market rate on the day upon which this law shall be proclaimed shall be regarded as the Government rate in the event of litigation.

8. Under no circumstances will any person be permitted to refuse payment in the national currency of China within Chinese territory.

9. Anyone who shall violate article 4 of the national currency law or article 8 of the detailed regulations governing the enforcement of the national currency law shall, on being prosecuted and convicted, be fined in a sum not less than $10 nor exceeding $1,000; and should any official or other person entrusted with the handling of Government funds be found guilty of the same offense he shall be fined in a sum not less than $50 nor exceeding $3000.

10. The date on which this law shall come into force and the places to which it shall apply shall be decided by presidential mandate.
11. These regulations may be altered by separate mandate.

This currency law is the most advanced act in the monetary history of China, and is a settlement of the monetary reform agitation since 1895. The law was, of course, carefully formulated, and the reasons for it may be given under the following seven important heads.

1. Why China Adopted the Silver Standard.

The reasons for the adoption of the silver standard may be again reviewed here. There are only four possible monetary standards in modern times, namely the limping standard, gold standard, gold-exchange standard, and silver standard. The limping standard is evidently unsuitable for economic transactions, as shown by the experience of France and the United States, so there is no ground for its adoption in China. The gold standard is the best one and is widely used. But China cannot adopt it at the present time, because the gold supply in China is not sufficient to meet the demand for currency; and if she should purchase gold abroad it would be too expensive. Furthermore, if gold takes the place of silver in circulation, there may not be much use for the silver and this would cause a disturbance in the markets or a financial crisis. Again, since the Chinese are inclined to save, if the gold coin were used, some of the people would reserve it and finally this would cause a shortage in circulation of the medium of exchange. Therefore, China cannot adopt the gold standard at the present time.
The gold-exchange standard seems to be the only feasible basis for China in dealing with foreign countries which have adopted the gold standard, as Professor Jenks, Dr. Vissering, and others pointed out. But it has been proved a practical success mostly in the colonies, which are supported by the mother countries, such as British India and the Phillipine Islands of the United States. The conditions in China are different from those in the colonies, and, therefore, whether the gold-exchange standard could be made to succeed is very doubtful. Even if China floats a loan and deposits it in commercial centers of foreign nations for the maintenance of the gold value of silver at a fixed ratio, it may not be advantageously practicable; for the loan deposited may be much more in one market and less in another. Therefore, the gold-exchange standard is still difficult for China to adopt.

Since the three standards mentioned above are not practicable, the only feasible basis is the silver standard. Although the silver standard is a poor one, yet it is practicable. If China can unify the silver currency, it is far better than either to have no standard or to adopt a good standard unsuccessfully. Therefore, China has finally adopted the silver standard. But this is a step toward the transformation of the silver standard into a gold standard. The step should be as short as possible, and the preparation for the adoption of the gold standard should be continued as well as possible.

2. The reasons for fixing the weight of the pure silver in the
new dollar at 6 mace, 4 candareens and 8 li.

The controversy upon the weight and fineness of the monetary unit was a more serious one than the question of the standard. Some favored the weight of the unit at five mace and 5 candareens. Others favored the weight of a tael. But the currency law fixes the weight of the dollar piece at 7 mace and 2 candareens, 90 per cent fine; that is 6 mace, 4 candareens and 8 li of pure silver. This provision is not the proper way from the scientific point of view, but it seems to be the most convenient way practically. In the first place, the people in the trade centers and in the Provinces along the sea coast or along the banks of the Yangtze River are accustomed to the use of the dollar weighing 7 mace and 2 candareens as the measure of goods. The dollar circulation tends to expand wider and wider. If the dollar should be changed to another weight, it would produce a great financial disturbance. In the second place, of the provincial dollars, which were coined generally in the gross weight of 7 mace and 2 candareens, there were estimated to be over $200,000,000 in circulation. This large quantity of media of exchange should be utilized during the introduction of the new national currency. Therefore, the dollar weighing 7 mace and 2 candareens containing 6 mace and 4 candareens and 8 li pure silver is adopted.

There are arguments against the adoption of the dollar at the gross weight of 7 mace and 2 candareens. One is that business in China is largely done on the basis of silver bullion or copper cash. The dollar transaction is customary in the
trade centers which are a much smaller part of the country than the silver tael using area. Therefore, the tael, which has a wide acceptance, should be adopted as the weight of the silver unit. The other point of opposition is based on the economic ground that if the 7 mace and 2 candareen dollar should be introduced by force at a decimal progression, the value of the dollar would be brought down from 130 to 100 copper yuan pieces, and the labouring and other classes would suffer acutely. Therefore, the adoption of the 5 mace and 5 candareen dollar, which approximates 100 copper yuan in value, is the most economical way.

The first negative reason is not sound because there are various standards of tael in different Provinces or localities. To unify the different taels is just as difficult as to introduce the 7 mace and 2 candareens dollar. The second point of opposition is not entirely sound either. For the 55-candareen dollar is not low enough for small transactions. If the lowest subsidiary coin is fixed at one-thousandth of the 72-candareen dollar, the 72-candareen dollar would not be too large. But if it is regulated at one-hundredth of the 55-candareen dollar, the 55-candareen dollar would be still too large. That is the reason why article 3 of the national currency law provided the 5-cash piece, 2-cash piece, and 1-cash piece as the lowest subsidiary coins. However, if the value of the new dollar is forced down from 130 to 100 copper yuan pieces, the labouring and other classes will surely suffer acutely. But the decimal system would be introduced gradually, and thus
it would not cause a sudden disturbance.

3. The reasons for the reduction of the weight and fineness of the subsidiary coins.

First, subsidiary coins are in general token coins in most of the western countries; the weight and fineness of them are not necessarily in the same proportion as in the standard piece. Second, China is preparing the way for adopting a gold standard, although she is introducing the silver national currency at the present. When the gold standard is adopted, the new subsidiary coins should be utilized in order to avoid re-coinage. Furthermore, if the fineness and weight of the subsidiary coins coincide with or approach their face value, the coins would be melted when the gold value of silver rises. Therefore, the weight and fineness of the subsidiary coins are reduced in the national currency law.

4. The reasons for providing for free coinage of the standard pieces, subject to a charge of 6/1000 of a Kuping tael.

There are three reasons for this provision. First, the old dollars are allowed to be circulated side by side with the new national currency in the markets for a limited period. The value of the two currencies should coincide as far as possible. But the mint price of one old dollar piece is about 692/1000 of the Kuping tael, and that of the new dollar piece is about 684/1000 of the Kuping tael. If 6 li fee (i.e. 6/1000 of the Kuping tael) is charged, the mint prices of the two currencies will be very near. Second, this charge will
2. lessen the expense of the reform; and third, it will prevent melting down the coins.

5. The reasons for recognition of the old dollars as legal tender for a limited period.

Article 2 of the detailed regulations provides that all dollar pieces formerly issued by the various government mints and which are in circulation will be redeemed by the Government in the national currency for the purpose of recoinage, and until such a time as may be proclaimed by the President, the Government may recognize the above as legal tender. There are four reasons for this provision. (1) The provincial dollars are estimated at about 200,000,000, besides the foreign dollars. Their market value is above the cost of the metal contents. It is evident that the demand for media of exchange is greater than the supply. If the new currency takes the place of the old in circulation, the new dollar should be coined to a minimum amount of over 200,000,000. This would require one year of time and a large amount of capital for the new coinage. To remedy this, the recognition of the old dollar as legal tender is the only way. (2) The bank-notes have an important place in circulation, especially during the currency reform period. If there is no legal tender coin, what would be the basis for redemption? The recognition of the old dollars is sound, therefore, so far as redemption is concerned. Because of the wide circulation of the redeemable bank-notes, the old dollars then can be with-
drawn for re-coinage. (3) The adoption of the silver standard is only for the present stage, and a gold standard will no doubt be introduced in the future. If a large quantity of silver should be stored up for the new coinage, it would be difficult to displace when the gold standard is adopted. The abolition of the monetary use of silver would lead to fluctuation in the financial world. (4) If the new dollars adopted should differ from the old ones in gross weight, and if the odd dollars would not be recognized as legal tender, the introduction of the new currency would be a very difficult task. For when a small amount of the new currency would be put into circulation, the old dollars would, of course, circulate side by side with the new currency, and, therefore, an additional monetary confusion would be produced by the new system. If the new currency should be coined in sufficient quantity for circulation and should be put on the market at one time, the monetary fluctuations would be serious. For these four reasons, the old dollars are recognized as legal tender during a limited period.

6. The reasons for the redemption of the old subsidiary coins at their market value.

The dollar unit having the nature of a measure of goods, it is necessary to unify the value of the old and the new as nearly as possible and to recognize the old as legal tender. But the old subsidiary coins are circulated without reference to the dollar pieces and cannot be fixed decimally with the dollar units by force. If they were, the
value of the dollar would be reduced from 130 copper yuan to 100, and the laboring and other classes would suffer severely. Therefore, the redemption of the old subsidiary coins is fixed at their market value. But the Government will issue the new subsidiary coins decimally and withdraw at the same time, the old ones gradually for recoinage.

7. The reasons why the law takes effect in different places at various dates.

There are three reasons for this. First, the territory of China is so extensive that the money using habits of the people differ greatly. The ports and commercial centers demand the national currency more eagerly than the interior. Second, the coinage of the new currency and the extension of bank-notes cannot be inaugurated readily at one step. Third, and last, the present paper currency, which is an obstacle to the new system can only be withdrawn gradually. Therefore, the application of the new currency law will be proclaimed on different dates in different places.

For carrying out the law effectively, the Ministry of Finance is following the policy of gradually making the banking system more centralized. With this end in view, regulations were issued by presidential mandate on October 20, 1915, regulating the issue of notes by banks other than the Bank of China. They provide that no notes are to be issued by banks established after the date mentioned or banks which had not issued notes prior to that date. Certain other banks
can continue issuing notes until the expiration of the life of the bank, while still others can continue note issue within a period to be fixed by the ministry. Banks permitted to issue notes are required to keep 50 per cent of the amount of the note issue in cash and the remaining 50 per cent in public bonds and reliable commercial securities. With the centralized and extended Bank of China, it is believed that the unification of the national currency will receive great stimulus. However, the new coins are not circulated exclusively except in Peking and Tientsin.

Considered historically, the monetary reform agitation in China commenced in 1895 and lasted twenty-three years, yet it has settled only on this one point - a silver standard for the national currency. Since the national currency law was proclaimed in February 1914, four years have elapsed, yet the silver currency has not been unified throughout the nation. Here we cannot stand coldly without any blame to the Government and the people of China. The delay of the monetary reform is, of course, chiefly due to the unsettled political and difficult economic conditions; but it is also partly due to the fact that the Government has not taken responsibility and the people have been careless on this problem.

To aim to carry out the national currency law practically and immediately, I should venture to suggest that a loan of at least $100,600,000 either in silver or in gold should be floated solely for the purpose of the currency reform.
As long as the gold price of silver is high, an internal loan in silver should be made, for it is advantageous to sell the silver for gold. With the said loan, a large amount of the national currency both the dollar pieces and minor pieces should be coined as soon as possible, but it should be put into circulation by series. At the same time, the bank notes based on the new currency should be issued according to the amount of the new currency coined. This, with the new currency and the bank-notes approaching altogether $200,000,000, which is about equal to the amount of the provincial currency in circulation, the old currency is expected to be withdrawn in a limited period. With the old currency thus withdrawn, a gold reserve should be prepared by selling the silver of the old currency in its bullion value for gold. Meanwhile, the Government should prohibit the use of gold for ornament, gold bullion should be receivable for payments on public dues according to the market value, and gold mines should be opened at once. By such preparatory moves and with the expectation of the more centralized Bank of China, which can issue notes exclusively, it is expected that when the national currency is unified throughout the country, the gold reserve may be sufficient for the adoption of the gold standard.

If the gold price of silver is low, an international loan of $100,000,000 in gold should be made and on that basis a gold certificate should be issued amounting to the sum borrowed. With the gold currency in exchange for the old silver dollars, the latter are withdrawn as the former is
extended. Within the interval, a greater amount of the old dollars can be recoined into the new. When the national silver currency is unified, then a fixed ratio between gold and silver can be declared. But before the unification of the national currency is accomplished, the old silver dollars should be exchanged for gold at the market value.

What should be done to realize my suggestion stated above? I again venture to suggest that monetary reform should be adopted as one of the principles of one or more of the political parties; articles on the subject should be published in magazines and daily papers; and a monetary course should be opened in every liberal college and university in order to call public attention to the matter, and therefore to force the Government to carry out the reform immediately. The shortest way to secure the reform is to propose the measure in the Parliament and in the Provincial Assemblies. If the Chinese people should take the responsibility in monetary reform, the policy would be carried out sooner, whatever the political, financial and economic conditions may be. Therefore, the great problem here is not only to find the method of reforming the monetary system, but also to realize this reform.
APPENDIX I

Regulations for the Issue of Gold Certificate of August 10, 1918.

Article I. The Government, for the purposes of convenience for carrying on international trade and for the preparation of introducing a gold standard of money, shall authorize the Banks appointed by the Currency Bureau to issue gold certificate.

Article II. The unit of the gold certificate shall be the dollar. Each dollar shall contain 0.201688 pure gold (Kuping tael). One dollar will be ten dimes, one hundred cents, and one thousand mills. All exchanges must be made on this decimal basis.

Article III. The different denominations of the gold certificate shall be as follows:

1. One dollar
2. five dollars
3. ten dollars
4. twenty dollars
5. fifty dollars
6. One hundred dollars

The Government may also authorize the Banks appointed by the Currency Bureau to issue fifty-cent, twenty-cent, and ten-cent certificate; and authorize the general mint to coin one cent copper piece.

Article IV. Preceding the issue of gold coin, the bearer of the gold certificate may hereby demand the ap-

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1. Translated by the Author from the "Eastern Miscellany." September, 1918
pointed Banks to issue drafts or bills of exchange. After the issue of gold coin, the certificate may be redeemable in gold on demand and also may be used for buying drafts or bills of exchange.

Foreign gold coins or gold bullion may be exchanged according to the weight of pure gold for the gold certificate at the appointed banks.

Article V. There is no fixed ratio between the gold certificate and the national silver currency. The market ratio between them shall be announced by the appointed Banks at various localities, at that ratio the gold certificate may be exchanged for the national silver currency, and the national silver currency or silver bullion may be exchanged for gold certificate.

Article VI. The appointed Banks shall keep a sufficient reserve either in gold coin, gold bullion, or in foreign gold coin, to be deposited in various domestic and foreign commercial centers. The Banks shall publish the places and amounts of the reserve once in every ten days.

Members of the Currency Bureau may examine the said reserve at any time.

Article VII. The gold certificate may be used for official and private receipts and disbursements according to the market value announced by the appointed Banks.
The gold certificate is unlimited legal tender.

Article VIII. The appointed Banks may receive the gold certificate as deposit and extend it to borrowers, and may also use it for other commercial transactions.

Article IX. The Regulations shall be effective from the date announced.