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Economic Depression and China's Monetary Reform in 1935*

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I

The monetary reform in 1935 is a watershed in the monetary history of China, for she abandoned at long last the age-old metallic standard and moved decisively toward a managed paper currency system.¹ Paper money was used in China as early as the eleventh century, but in the past she always slid back to metallism whenever excessive issue by the government rendered the notes almost valueless. Although the paper currency of the Kuomintang period (1927-49) suffered the same fate in the end, the Communist government that took power in 1949 simply issued new notes of its own to replace the discredited ones. As a medium of exchange paper proves beyond doubt far superior to gold and silver, despite

the danger of over-issuing inherent in a system in which money itself is of little intrinsic value. Moreover, the reform stands out as the most important landmark toward building a centrally controlled banking system since the establishment of the first government bank, Hu-pu yin-hang (Bank of the Board of Revenue) in 1904.

That China's currency and banking needed a thorough reform had long been recognized by the government, financial, and academic circles, and some steps had been taken following the establishment of the Nationalist government in 1927. Yet, it was the unprecedented economic depression in the mid-30's that prompted the government to make a sharp break with the past in order to prevent the collapse of the nation's financial market, industrial enterprises, and

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¹ While there is a general agreement that the currency system brought into being by the 1935 reform was one of paper currency, considerable controversy exists on whether it was a managed currency system. On the one hand, Chang Su-min saw in the reform the adoption of a managed currency for the government was then in a position to stabilize both domestic prices through note issue and foreign exchange by setting up a foreign exchange reserve. So did L. Y. Shen. W. Y. Lin considered the new system at least a managed foreign exchange standard stressing the government priority in maintaining through discretionary management the external stability of the Chinese dollar. Sir Frederick Leith-Ross also called the new system "a more or less managed currency on the Western model". On the other hand, Chao Lan-p'ing insists that the Central Bank then did virtually nothing to manage the nation's money supply through either the discount policy, or the open-market operation, or the adjustment of reserve requirements, hence that the reform did not produce a managed currency system. See Chang Su-min, *Pai-yin wen-ti yu Chung-kuo pi-chih* (The silver problem and the Chinese monetary system), Shanghai, the Commercial Press, 1936, pp. 127-128; L. Y. Shen, *China's Currency Reform*, Shanghai, the Mercury Press, 1941, pp. 90-92; W. Y. Lin, *The New Monetary System of China*, Chicago, the University of Chicago Press, 1936, pp. 86-87; Chao Lan-p'ing, *Hsien-tai Chung-kuo huo-pi chih-tu* (The monetary system of modern China), Taipei, Chung-hua wen-hua ch'u-pan shih-yeh wei-yuan-hui, 1955, pp. 103-110; Sir Frederick Leith-Ross, *Money Talks; Fifty Years of International Finance*, London, Hutchinson and Co., 1968, p. 225.

rural economy. Through the reform and other coordinated measures to follow the government hoped not only to lift China out of depression but also to construct a sound currency and banking system necessary for economic stability and growth.

This paper will cover in sequence the following three major parts in connection with this significant reform, namely: first, an anatomy of China's monetary system prior to the reform; second, an analysis of the economic depression in the early 1930's that propelled the government into action; third, a re-appraisal of the reform as an anti-depression policy and as an attempt for institutional reconstruction. It is hoped that, in addition to giving a more balanced assessment of the historic reform than what has been previously done, this study will contribute to a better understanding of Republican China in the 30's and the world-wide impact of the Great Depression.

To examine a country's monetary system we may focus on three essential elements: (1) constituents of the monetary stock, (2) the issuing authorities, and (3) the mechanism for regulating money supply. Included in the first element are matters of monetary standard, monetary unit, and the structural relationships between different kinds of money. Officially China had been on silver standard from the promulgation of the

Regulations for the National Coinage in 1910 to the monetary reform in 1935. The monetary unit was a silver dollar called yuan with a weight and fineness slightly less than the Mexican dollar.² Besides the standard dollar which circulated as the unlimited legal tender, there were various kinds of subsidiary coins with limited legal tender status.³ Banknotes of unitary, multiple, or fractional denomination were fully convertible. In other words, all kinds of money in circulation were to be kept at a parity with the standard dollar. Five 20-cent silver coins, or a hundred 1-cent copper coins, or a one-dollar paper note had the same value as a silver dollar.

By regulation, all silver dollars and subsidiary coins were to be issued by the central government mint, but anyone with silver bullion on hand could ask the mint to convert the specie into silver dollars by paying a modest amount of fee (seigniorage). Coins struck previously by provincial authorities and those of foreign origin were allowed to circulate at par before they were completely withdrawn. The right to issue paper notes was vested in the government banks and authorized commercial banks; the reserve for the support of note issue consisted of 60% in cash (silver dollars, and specie, and foreign exchange) and 40% in securities.⁴ Therefore, the amount of money

² The weight and fineness of standard China silver dollar and Mexican dollar compared:

	Gross weight	Fineness	Net weight of pure silver
Mexican dollar	27.072 grams	902-7/9	24.4398 grams
1910 standard*	26.8567 "	900	24.1710 "
1914 standard*	26.8567 "	890	23.9025 "
1933 standard	26.6971 "	880	23.4934 "

* Weight converted from the traditional Chinese unit of account, k'uping tael, at 1 tael = 37.301 grams. For sources: See L. Y. Shen, pp. 59, 66-67, 77; *Chung-kuo chin-tai huo-pi-shih tzu liao* (Materials on the monetary history of modern China), comp. by Chung-kuo jen-min yin-hang (The People's Bank of China), Peking, Chung-hua shu-chü, 1964, first collection, Vol. 2, pp. 784-785.

³ Chang Chia-hsiang, *Chung-hua pi-chih-shih* (A history of the Chinese monetary system), Peking, Min-kuo ta-hsüeh, 1926, pp. 54-55.

⁴ The proportion of cash reserve was first fixed at 40%, then increased to 50%, and finally in 1920 to 60%. See T'an Yü-tso, *Chung-kuo chung-yao yin-hang fa-chan-shih* (The development of major banks in China), Taipei, 1961, p. 196.

in circulation depended upon coins and paper notes, issued by the government banks and authorized commercial banks, which were in turn dependent upon the availability of silver. Before the imposition of export tax and equalization charge at the height of financial crisis in 1934 there was no restriction on the import and export of specie. As a consequence, whenever the value of silver was higher abroad than at home, the specie would find its way out of the country resulting in the contraction of money supply. On the other hand, whenever silver became cheaper abroad than at home, it would flow into the country and therefore money supply would be increased. Further discussion on silver and money supply will be presented later.

In reality, the Chinese monetary system was infinitely more complicated than what has just been described on the basis of official regulations. The circulating media of exchange in China were indeed so disorganized and fragmented that she had, as several scholars pointed out, no system worthy of its name.⁵ The most characteristic feature of China's monetary world was what Edwin W. Kemmerer called the multiple standard, i.e., a system consists of different kinds of money, metallic and paper as well, without fixed relationships among themselves and each of them circulating at continually changing prices in the market in terms of all others.⁶ The circulating media then in existence included sycee and silver dollars, subsidiary coins in silver, tin,

and copper, and paper notes and checks against demand deposits. Sycee, a kind of silver ingot assayed and shaped by local silver shops, was a common exchange medium before the introduction of silver dollars from the West, but had by the early 30's practically been removed from circulation.⁷ Silver dollars coined in China and those from foreign countries circulated side by side. The latter were often at premium because of their high silver content, but they too gradually disappeared from market through the working of Gresham's Law.⁸ Owing to the debasement and excessive issue of subsidiary coins by various provincial authorities, the value of these coins had been continually on the decline. By regulation, for instance, one-thousand cash or one-hundred pieces of ten-cash copper coins should exchange for one silver dollar. However, the exchange rate in Tientsin between copper coins and silver dollar stood at 1,324 cash to 1 in 1914, 2,391 in 1924, and 5,215 in 1934.⁹ In Szechwan it increased from 1,200 to 1,300 in 1912 to 28,400 in 1935!¹⁰ Still more chaotic were numerous paper notes issued in various standards — cash, (silver) dollar, tael, franc, yen, pound sterling, etc. — and by numerous banks, government agencies, business establishments, and even individuals. Some were fully convertible into cash while others were not. The exchange value of different kinds of notes depended on the credibility of the issuing authorities. In times of political chaos and economic uncertainty such as

⁵ Frederic E. Lee, *Currency, Banking and Finance in China*, Washington, Government Printing Office, 1926, p. 8; Chao Lan-p'ing, p. 51; Yang Ying-p'u, *Chung-kuo chin-yung yen-chiu* (Studies on the Chinese finance), Shanghai, the Commercial Press, 1937, p. 89.

⁶ Edwin W. Kemmerer, *Money*, New York, Macmillan, 1935, pp. 94-96.

⁷ See *Chung-hang yueh-k'an* (Bank of China Monthly Review), 5.2 (August 1932), p. 79; "Japanese Financial Interests in Manchuria", *Chinese Economic Journal*, 9.5 (Nov. 1931), pp. 1199-1202.

⁸ Lee, pp. 18-20.

⁹ *Yin-hang chou-pao* (Bankers' Weekly), 19.4 (Feb. 5, 1935), p. 12.

¹⁰ Lü P'ing-teng, comp., *Ssu-chuan nung-ts'un ching-chi* (The rural economy of Szechwan), Shanghai, the Commercial Press, 1936, pp. 40-41.

1920's and 30's enormous amounts of provincial notes and private notes supported by little cash reserves often depreciated rapidly in value, e.g., in 1930 it took twenty dollars of the notes issued by the provincial bank of Shansi and 600 dollars of Feng-piao issued by the Manchurian warlord in exchange for one silver dollar.¹¹ Sometimes huge sums of notes suddenly turned into waste paper as a result of the collapse of local warlords or the bankruptcy of private businesses.

So much has been said about the chaotic world of currency in China. Still the picture is not complete without adding another element which made the situation all the more complicated. That is the continued existence (until 1933) of tael as a monetary unit of account in parallel to the official unit, yuan. Not only did dollar notes and tael notes circulate side by side, but banks had to keep two separate accounts: one in dollar and the other in tael. Since the weight and fineness of tael varied from one place to another and even from one trade to another in the same locality and since the demand for dollar had seasonal variation, the exchange rates between dollar and tael also became numerous and flexible in addition to various rates between different kinds of tael themselves.¹²

To a great extent the chaos in circulating media was produced by the multiplicity of issuing authorities. They can be classified into four groups: (1) Chinese modern banks including the three central

government controlled banks—the Central Banks, Bank of China, and Bank of Communications—and sixteen commercial banks (1934) which were granted the right of note issue by the Ministry of Finance,¹³ (2) foreign banks in treaty ports which issued notes with a charter granted by their home governments and thus were outside the control of the Chinese government, (3) provincial and municipal banks or agencies printing notes generally for meeting military and administrative expenditures of local warlords or for their personal enrichment, and (4) numerous private issuing bodies ranging from native banks, merchant guilds to business firms, petty shops, and landlords who might have some sort of permission for note-issuing granted by local officials or simply issued notes in their own right.¹⁴ While the Chinese modern banks and foreign banks were generally able to maintain their credibility, notes issued by other groups, as noted above, frequently became irredeemable.

The multitude of issuing authorities without control from the center inevitably resulted in the regional and local fragmentation of circulating media. Except silver dollars which were universally accepted as a means of payment, most paper notes and subsidiary coins could circulate only in a limited area. In general, notes issued by provincial banks could not reach out of the provincial boundary. Even within a province, moreover, one would find division of circulating spheres by various kinds of

¹¹ "Paper Currency in China". *Chinese Economic Journal*, 18.4 (April 1936), pp. 545-558; *Tung-pei nien-chien* (The Yearbook of the Northeastern Provinces, 1931), Tung-pei wen-hua she, 1931, p. 909.

¹² Before the abolition of tael as a unit of account in 1933 there existed more than 200 kinds of tael throughout the country. Chang Chia-hsiang, pp. 78-93; Chao Lan-p'ing, p. 61.

¹³ Commercial banks include all modern banks not controlled by the government—central, provincial or municipal. For note-issuing banks, see *Chuan-kuo yin-hang nien-chien* (1936) (Chinese Bankers' Yearbook, 1936), Shanghai, Chung-kuo yin-hang, 1936, S.85-90.

¹⁴ Cf. Yang Ying-p'u, *Chung-kuo chin-yung yen-chiu* (Studies on the Chinese finance), Shanghai, the Commercial Press, 1937, pp. 40-42; "Trade capital and paper money in Chinese villages", *Agrarian China*, comp. by the Institute of Pacific Relations, London, George Allen and Unwin, 1939, pp. 157-160.

notes and coins.¹⁵ In Manchuria, for example, before its occupation by the Japanese, there were nine banks and public issuing agencies not counting foreign banks and private issuing bodies. Feng-piao circulated mainly in Liaoning, Harbin dollar notes in Harbin area, Yung-heng notes in Kirin, Kiang-dollar notes in Heilungkiang, notes issued by Hsing-yeh Bank in Jehol, and those by the three Japanese banks—Yokohama Specie Bank, Bank of Chosen, and Bank of Japan—along the South Manchurian Railway.¹⁶ The situation in Szechwan was even worse.¹⁷ Notes issued by foreign banks also had their spheres of circulation, e.g., the notes of the Hongkong and Shanghai Banking Corporation mainly in Kwangtung, those of the Banque de L'Indo-Chine in Yunnan, Kweichow and Kwangsi, and those of Japanese banks just mentioned in Manchuria.¹⁸

From what we have discussed above, it is easy to see some structural defects in China's monetary system if we may call it a system at all: the lack of uniformity in relationships between different kinds of money, the multiplicity of the issuing authorities, and the fragmentation of circulating areas. Inherent in such a system is the disharmony between the demand for and supply of money in the economy. Today it is well known that the central bank must assume the role of controlling money supply to cope with the demand for money in a country through the concentration of note issue, the policy of discount, the adjustment

of reserve requirements for deposits, and the open market operation. Yet the three government banks in China did not have the capability to do so. In the first place, they did not, as noted before, have the exclusive power of note issue and the reserve against note issue was kept by individual banks. Secondly, the weakness of their capital resources and the absence of a sound financial market rendered impossible the application of discount policy and the open-market operation. Finally, even the Banking Law of 1931 did not contain provisions for legal reserves to be kept at the central bank against deposits.¹⁹ Under such circumstances, commercial banks and other credit agencies tended to extend credit excessively at times of prosperity, not to mention the over-issuing of provincial banks with little regard to the state of economy. On the other hand, in time of recession and crisis almost all lending institutions tended to curtail sharply their credit in order to protect themselves and the central banking group could not be of much help.

In short, the monetary system or the lack of a system in early 20th-century China not only hindered trade and commerce throughout the country but also contributed to instability of the entire economy. It was badly in need of reform. After the Kuo-mintang came to power in 1927 the government at Nanking made some efforts to deal with the problem, e.g., the establishment of the Central Bank in 1927 with the objective to make it the bankers' bank, the

¹⁵ Cf. "Chung-kuo chih-pi fa-hsing chi ch'i liu-t'ung chuang-k'uang chih chieh-p'ou (A survey of Chinese banknotes issued and their circulation)", *Chung-hang yueh-k'an*, 11.2 (August 1935), pp. 32-37; "Paper Currency in China".

¹⁶ Wang Hui-min "Chin-tai tung-pei t'ung-huo chih yen-pien (The development of currency in Manchuria in modern times)", *Tung-pei chi-k'an* (Journal of Manchuria), No. 3 (May 1942), pp. 1-42.

¹⁷ Lü P'ing-teng, pp. 35-43.

¹⁸ Hsien Ko, *Chin-pai-nien-lai ti-kuo chu-i tsai Hua yin-hang fa-hsing chih-pi kai-k'uang* (The issue of notes in China by imperialist banks in the last century), Shanghai, Jen-min ch'u-pan-she, 1958, p. 49.

¹⁹ "Chinese Banking Law", *Chinese Economic Journal*, 8.5 (May 1931), pp. 533-542; Frank M. Tamagna, *Banking and Finance in China*, New York, Institute of Pacific Relations, 1942, p. 158.

opening of the Central Mint for the purpose of standardizing the coinage in 1933, and the abolition of tael as a unit of account in the same year. However, all defects noted above remained up to the 1935 reform and to a certain degree even afterwards.

II

In 1929 and the subsequent several years the world witnessed the worst economic depression in modern history. In one country after another there were precipitous falls in prices, widespread bankruptcies in financial and business establishments, mass unemployment, and a marked decline in the standard of living. In the international community economic conflicts intensified; tariff walls, currency devaluation, and other restrictive measures for the protection of home market became the order of the day. Nonetheless, China did not feel the impact of the worldwide economic catastrophe until 1931. In the first two years following the collapse of the New York stock market the general price level in China continued to rise and her economy appeared still buoyant. In the four years after 1931, however, prices fell with extraordinary speed. So did other economic indicators: bank failures, idling factories and machines, swelling army of unemployed workers, etc. It was at the height of national economic crisis that the government took action for the monetary reform in order to avert the collapse of the entire economy.

Then, why was China able to insulate herself from the Great Depression for the

first two years? The answer lies in her adherence to the silver standard. Silver had long been used as money not only in China but even more so in the Western world. From the 1870's on, however, the world's major nations adopted one after another the gold standard and demonetized silver while its production still kept increasing.²⁰ The price of silver in the world market thus went down almost persistently until 1931 except for the half decade from 1915 to 1920.²¹ Since China continued to use silver as money, the decline of the silver price means the devaluation of her foreign exchange vis-a-vis currencies of other countries on the gold standard. The devaluation produced among other things the following results in her favor: First, it promoted her export trade and made imports more costly. Second, it encouraged capital inflow and remittance from overseas Chinese which were then two major sources for compensating her chronic trade deficit.²² And third, it led to silver inflow through the operation of foreign exchange. That is, in the short run the depreciation of the Chinese dollar (yuan) in terms of other currencies frequently fell behind that of the silver price in the world market. Thus the Chinese dollar became overvalued. Under such conditions, merchants who wanted to buy foreign exchange would purchase silver abroad and ship it to China for the required payment. This operation and hence silver inflow would continue until the yuan was no longer overvalued. On the other hand, in times of rising silver price, the opposite would be true.

²⁰ Cf. *Silver and Prices in China*, Shanghai, the Commercial Press, 1935, pp. 100-104.

²¹ In London the price of silver decreased from 60.56 to 14.46 pence per ounce between 1870 and 1931 and in the United States from 1.15 dollars to 0.29 dollar per ounce between 1880 and 1931. See *Silver and Prices in China*, pp. 2-7.

²² According to an estimate, overseas Chinese remittance contributed to reducing China's trade deficit by around 40% in 1932, 1933, and 1934, 64% in 1931 and 92% in 1935. See Ma Yin-ch'u, *Chung-kuo chih hsin chin-yung cheng-t's'e* (The new financial policy of China), Shanghai, the Commercial Press, 1937, p. 474.

It is true that the physical volume of China's foreign trade turned downward from 1929 to 1931, but the degree of decline was small. During these three years the quantity of her imports dropped about 7% while that of her exports by nearly 9%.²³ On the other hand, remittance from overseas Chinese continued to increase (281 million yuan in 1927, 316 million in 1930, and 348 million in 1931).²⁴ Even more significant is the fact that silver still kept flowing into Chinese ports although the net import of specie decreased substantially from 165 million yuan in 1929 to 71 million in 1931.²⁵ A larger portion of the increased silver from abroad would most probably be used either as the medium of exchange or as bank reserves against note issue or deposits. In either case there would be an expansion of money supply. Hence, in contrast to other countries China continued to see her domestic market unabated and wholesale prices rising up to 1931.²⁶

The depression hit China belatedly in 1931. The most obvious sign of its arrival is the movement of the general prices. Wholesale prices in both Shanghai and north China started to fall in September that year; from that point on the downward trend was set until they reached the nadir in the third

quarter of 1935.²⁷ Roughly speaking, the level of the wholesale prices in 1934-35 in both north and south China was about one quarter below that in 1931. Along with prices other economic indicators all point to the worsening of China's economy during these four years. As manifest in the table below, in this short period the physical volume of her import declined by 36% while the decrease in that of her export varied from 7% (1935) to 26% (1932). Overseas Chinese remittance also shrank by a substantial margin. In 1931, as noted before, there was a net inflow of silver for 70 million yuan, but the direction changed in 1932 until the exodus of the white metal reached the alarming rate of nearly 280 million yuan in 1934 and more than 289 million yuan in 1935. The number of failures of the country's modern banks increased from three in 1931 to eight in 1934 and jumped to twenty in 1935! The native banks which had much less capital resources and poorer organization than modern banks fared even worse; their number had, it was generally estimated, been reduced by a half in the decade between 1926-1935. In Shanghai, the financial center of the country, there were only eighty native banks left in 1935 as compared with 112 in 1926; in

²³ Cf. Hsiao Liang-lin, *China's Foreign Trade Statistics, 1864-1949*, Cambridge, East Asian Research Center of Harvard University, 1974, p. 275.

²⁴ *Ibid.*, p. 279. Figures originally expressed in Haikwan taels are converted into those in yuan at the ratio of one Haikwan tael to 1.5 yuan.

²⁵ L. Y. Shen, p. 179.

²⁶ Index numbers of wholesale prices (1926=100)

	1929	1930	1931
Shanghai	104.5	114.8	126.7
North China	111.1	115.8	122.5
Canton	96.7	101.4	112.6

See *Shanghai chieh-fang ch'ien-hou wu-chia tzu-liao hui-pien* (Collected materials on prices in Shanghai before and after the liberation), Shanghai, Shang-hai jen-min ch'u-pan-she, 1958, pp. 126, 175, 186.

²⁷ *Shang-hai chieh-fang ch'ien-hou wu-chia*, pp. 131-132, 176-178.

TABLE I. ECONOMIC INDICATORS IN CHINA DURING THE DEPRESSION

	1931	1932	1933	1934	1935
Wholesale Prices (1931=100)					
Shanghai	100	88.7	81.9	76.6	76.1
North China	100	92.2	82.4	75.3	77.9
Volume of Foreign Trade (1931=100)					
Imports	100	82	75	66	64
Exports	100	74	91	87	93
Overseas Chinese Remittance	348	—	200	250	260
(in million yuan)					
Net Silver Outflow	—	10	14	280	289
(in million yuan)					
No. of Bank Failures	3	5	6	8	20
No. of Silk Factories in Shanghai	112	65	—	10+	—
No. of Workers in Cotton Spinning Factories in Wuhan	26,084 (1930)	—	—	10,598	—

Sources: *Shang-hai chieh-fang ch'ien-hou wu chia* . . . , pp. 126, 175; L. Y. Shen, p. 181; W. Y. Lin, p. 26; *Chung-hang yueh-k'an*, 13.4 (Oct. 1936), pp. 40-41; Ch'en Chen, comp., *Chung-kuo chin-tai kung-yeh-shih tzu-liao* (Source materials on the industrial history of modern China), fourth collection, Peking, San-lien shu-tien, 1957, Vol. I, pp. 135-136; *Shih-yeh t'ung-chi* (Industrial Statistics), 3.3 (June 1935), p. 210; Hsiao Liang-lin, pp. 275, 279-280.

many other places they disappeared all together from the scene at the height of the financial crisis in 1934-35.²⁸

The depressed state also prevailed in other sectors of the economy. In addition to the decrease in silk factories in Shanghai and in factory workers in Wuhan shown in Table 1, we may cite a few more examples. Due to the shrinking of market many factories that even survived were not operated at full capacity. The rate of work stoppage in the nation's major industries in 1934 were as follows: 25% in spinning and rubber, 40% in oil pressing, 50% in

electrical, printing, and pharmaceutical, and 80% in silk filatures.²⁹ In Shanghai the volume of business declined, according to the estimate of the Bank of China, by one third from 1931 to 1932 and probably a half from 1932 to 1933.³⁰ In 1934 about one third of factories and four tenths of stores closed down, and 1.2 million workers were out of jobs in that city.³¹ Elsewhere, in Kwangtung the number of silk factories went down from 111 in 1931 to less than 40 in 1933.³² In Peking 1,805 stores were liquidated in 1935.³³

²⁸ Yang Yin-p'u, "Wu-shih-nien lai chih Chung-kuo yin-hang-yeh (The banking business in China in the last fifty years)", in *Wu-shih nien-lai chih Chung-kuo ching-chi* (The economy of China in the last fifty years), Shanghai, Chung-kuo t'ung-shang yin-hang, 1947, pp. 39-68.

²⁹ Chang Yu-i, comp., *Chung-kuo chin-tai nung yeh-shih tzu-liao* (Source materials on the agricultural history of modern China), third collection (1927-1937), Peking, San-lien shu-tien, 1957, p. 474.

³⁰ Wu Cheng-hsi, *Chung-kuo ti yin-hang* (Banking in China), Shanghai, the Commercial Press, 1934, p. 25.

³¹ *Tung-fang tsa-chih*, 33.1 (Jan. 1, 1936), p. 86.

³² Ch'en Chen, *Chung-kuo chin-tai kung-yeh-shih tzu-liao*, 4th collection, Vol. I, pp. 135, 192.

³³ *Chung-hang yueh-k'an*, 13.6 (Dec. 1936), pp. 33-34.

TABLE 2. TERMS OF TRADE BETWEEN PRICES OF FARM PRODUCTS SOLD AND PRICES OF COMMODITIES PURCHASED BY PEASANTS, EARLY 1930'S

Localities (1)	Year (2)	Index Numbers of Prices Received by Peasants (3)	Index Numbers of Prices Paid by Peasants (4)	Terms of Trade (5) = (3) ÷ (4)
Shanghai and Tientsin	1931	100.00	100.00	100.00
	1932	89.76	93.20	96.31
	1933	75.47	85.07	88.72
	1934	70.30	84.08	83.61
Wu-chin, Kiangsu	1931	100	100	100
	1932	93	101	92
	1933	70	96	73
	1934	79	92	86
Fei-hsiang and Wu-chi, Hopei	1932	100	100	100
	1933	78	84	93
	1934	73	84	87
21 districts, Shantung ^a	1932	100	100	100
	1933	63	95	66

Note: ^a Index numbers of prices received are derived from the arithmetic means of the prices of wheat, peanuts, soybean, raw cotton, and kaoliang, while those of prices paid from the arithmetic means of those of kerosene, factory-produced cotton yarn, coal, sugar, salt, and factory-produced cloth.

Sources: Chang Yu-i, 3rd collection, pp. 665, 670, 672-673; Lu-i-shih (Ardon B. Lewis), tr. by Chang Lu-luan, "Chung-kuo chih ching-chi kung-huang (The economic crisis of China)", *Yin-hang chou-pao* (The Bankers' Weekly), 1941 (Oct. 22, 1935), p. 12; *Shan-tung chiu Chi-nan-tao shu nung-ts'un ching-chi tiao-ch'a* (Economic survey of villages in the former Chi-nan circuit of Shantung), comp. by Huang Hsiao-fang, Chi-nan (?), Shan-tung Chou-p'ing yen-chiu-yüan, 1934, Tables 1 & 2.

Nor did the peasants fare any better. In times of deflation prices of farm products fall more rapidly than non-farm products because both the demand for and the supply of farm products are less elastic than that of non-farm products. In other words, the terms of trade between the two turned against the peasants. As indicated in Table 2, the terms of trade deteriorated in both the north and south in the early 30's; so did their economic conditions. Moreover, their income from non-farm activities also dwindled sharply in these years. Take the peasants in Kwangtung, for instance. We have just noted a decrease of more than 70 silk factories from 1931 to 1933 in that province. It was estimated that a silk

factory in operation could support 3,000 peasant families raising cocoons. The closing down of more than 70 factories means therefore the loss of income for no less than 210,000 families. Moreover, the shutdown put 50,000-60,000 women operators and 3,000-4,000 men operators out of work, most of them undoubtedly coming from rural areas.³⁴ Consequently, many peasants suffered great hardships because of the depressed state of farm-product prices and loss of side-employment.

In short, China in the early 30's saw all sections of her economy experienced deepening crisis. The difficulties of each aggravated that of all others. Financial crisis resulted in a drastic contraction of

³⁴ Ch'en Chen, 4th collection, Vol. I, p. 192.

credit which forced many businesses totally or partly out of operation and many peasants to sell their land and other assets. Industrial crisis caused the collapse of banks (esp. native banks) owing to the inability of many firms to pay back the loans extended previously; on the other hand, it also brought hardship to the peasants because the cutback in the purchase of raw materials and lay-off of workers. And the material deterioration of the peasants, who constituted four fifths of the Chinese population, led to the shrinkage of domestic market for industrial products which produced in turn serious consequence on the country's financial market.

Let us now ask what gave rise to the depression in China in the early 30's. In this regard four major factors should be noted: devaluation by the world's major nations, the U.S. Silver Purchase Act in 1934, the Japanese Occupation of Manchuria, and the severe floods of the Yangtze valley in 1931. At the height of the worldwide economic depression Britain abandoned the gold standard and devalued her pound sterling in September 1931. By the last quarter of 1933 the exchange value of pound had depreciated by 40%. Following Britain's step came the members of the British Commonwealth. In December of the same year Japan left the gold standard and the exchange value of yen had by the end of 1932 dropped by as much as 60%. In June 1933 the United States did essentially the same. Although she restored the gold standard in early 1934, the exchange value of dollar depreciated in fact by a little more than 40%. The devaluation of these currencies resulted in a dramatic rise of the exchange value of the yuan: an appreciation of 150% in terms of yen and about 67% in terms of pound or dollar. Since the

imports from and exports to these countries combined accounted for about 70% of China's total trade, the appreciation of her exchange created serious problems for her economy.³⁵ On the one hand, goods imported from these countries could be sold at much cheaper prices than before, foreign trade thus produced a depressing effect on domestic prices and posed a distinct threat to the survival of many domestic industries. On the other hand, all sectors related directly or indirectly to export trade were adversely affected because exporters had to sell Chinese products abroad at much higher prices than before. The economic disease known as the Great Depression thus soon spread to China through the operation of currency devaluation.

The silver Purchase Act, passed by the U.S. Congress in June 1934, further accelerated the deflationary process in China. This Act authorized the Treasury to buy as much as 1.3 billion ounces of silver in order to fulfill the provision of 25% of the monetary stock in silver creating an enormous demand for the white metal in the world market. Its price therefore skyrocketed. In New York an ounce of silver which was worth \$0.4625 in July 1934 cost \$0.7437 on the average in May 1935. In London the quotation moved up from 20s $\frac{1}{2}$ pence to 33s $\frac{3}{4}$ pence in the same period.³⁶ As China was then still on the silver standard, the exchange value of yuan advanced likewise but fell behind the silver price abroad. The yuan was, in other words, undervalued. The difference between the two made it profitable for merchants to sell foreign exchange in Shanghai and to ship silver abroad for sale, say, at London. Hence, huge amounts of silver flowed out of China. In the three and a half months commencing July 1934 the export of the

³⁵ Chao Lan-p'ing, pp. 81-83.

³⁶ L. Y. Shen, p. 171.

specie reached the staggering sum of more than 200 million yuan.³⁷

In the early 1930's the silver stock in China was estimated at something between two to three billion yuan.³⁸ Apparently the flight of the white metal of such proportion could not last long. To fight against the massive outflow of silver the government imposed in October 1934 an export duty of 10% and an equalization charge equal to the difference between the silver price in London and the official exchange rate of yuan. However, this measure proved to be ineffective. In the first place, the imposition of the export duty and equalization charge cut off the link between the exchange rate of yuan and silver price in the world market, giving rise to a booming business of smuggling. The greater was the disparity between the exchange rate and the silver price, the more profitable was the business of smuggling. In the second place, the government controlled less than 5% of the total silver stock in the country with the rest in the vaults of foreign and Chinese banks as well as in the hands of individuals. In addition, the existence of foreign concessions, long coastal lines, and an inefficient police force made it impossible to prevent smuggling.

In the third place, the action of levying export duty and the ineffectiveness of preventing illicit silver outflow shook the confidence of many in the government's ability to maintain the silver standard for long and thus brought about the flight of capital abroad.³⁹ Accordingly, silver continued to find its way out of the country. While its export through the maritime Customs totalled only 59 million yuan in 1935, the sum smuggled out amounted to 230 million.⁴⁰

The enormous drain of silver created critical financial crisis in Shanghai and throughout the country. Of the total amount exported in 1934-35 about 200 million yuan came out of the reserves of foreign banks; most of the rest was by all probability taken out of the circulating process.⁴¹ Amid the atmosphere of rapidly decreasing supply of circulating media banks, foreign and Chinese, modern and native alike, all tried to curtail credit or even withdraw it from their customers while the public flocked to their banks for the redemption of notes. Factories, stores, and banks with inadequate resources thus collapsed in disarray. Indeed, a financial collapse was averted in 1935 only by the government decision to set aside 25 million

³⁷ *The New Monetary Policy in China*, Shanghai, Currency Reserve Board, 1936, p. 1.

³⁸ Cf. Ma Yin-ch'u, p. 63; Yang Ying-p'u, *Chung-kuo chin-yung yen-chiu*, p. 7; Yang Tuan-liu, "Ts'ai-cheng-pu ti huo-pi hsin-fa-ling (The new monetary laws of the Ministry of Finance)", *Tung-fang tsa-chih*, 33.1 (Jan. 1, 1936), pp. 45-48; Wang Wang-lieh, "T'ung-huo kuan-li-chih wen-ti (The problem of the managed currency system)", *Yin-hang chou-pao*, 19.43 (Nov. 5, 1935), p. 9.

³⁹ Cheng Tieh-ju, "Cheng-shou pai-yin ch'u-kou shui chih wo-chien (My views on the imposition of the export duty on silver)", *Chung-hang yueh-k'an*, 9.6 (Dec. 1934), pp. 1-2.

⁴⁰ Hsiao Liang-lin, p. 280.

⁴¹ The silver stock in foreign banks in Shanghai decreased from 245 million yuan in June 1934 to 40 million in January 1935. After then it fluctuated generally between 40 and 50 million throughout the year. On the other hand, the silver stock in Chinese banks dropped by only 10% from July 1934 to October 1935. Apparently foreign banks shipped 200 million yuan of silver out of China in 1934, most of the rest exported in 1934-35 were therefore probably taken out of circulation. For silver stock in foreign and Chinese banks, see Yu Chieh-ch'ung, *Chung-kuo ti hsin huo-pi cheng-ts'e* (The new monetary policy of China), Shanghai, the Commercial Press, 1937, pp. 213-214.

yuan of Treasury Notes for extending loans to various business, industrial, and banking institutions in trouble.⁴²

While currency devaluation by the world's major countries and the U.S. Silver Purchase Act played havoc with the Chinese economy in the early 30's, the devastating effects of the loss of Manchuria and the severe floods in the Yangtze Valley seem to have attracted much less attention among the contemporary economists in China.⁴³ Since the beginning of the 20th century Manchuria has rapidly been emerging as an area of strategic importance in the Chinese economy because of its rich mineral and agricultural resources and better transportation network. In respect to foreign trade, its imports accounted for 14.7% of the total for the whole country in 1929-31, while its exports constituted 33.3%.⁴⁴ And it was the only major region with a favorable balance of trade. During the same period (1929-31) the nation incurred an overall trade deficit to the amount of 618 million yuan per year, while Manchuria produced an annual surplus of 222 million on the average.⁴⁵ The Japanese armed occupation of Manchuria hence contributed significantly not only to the decrease of China's foreign trade, but to her problem of the balance of payment. In respect to interregional trade, Manchuria had been an

expanding market for consumer goods industries in other parts of the country. For example, prior to the Japanese occupation this area absorbed 26% of cotton cloth, 13% of cotton yarn, and 15% of flour produced in China Proper. After 1931 the market was quickly lost to China owing to the Japanese discriminatory tariff policy against Chinese goods: textiles, tea, etc.⁴⁶

Moreover, because of its low man-land ratio Manchuria had been increasingly attracting Chinese immigrants from inside the Great Wall, particularly from Hopei and Shantung. Over the six years before 1931 an estimated number of more than 4,700,000 people from these two provinces immigrated to the area. These immigrants played three positive roles in the economy—developing the resources in Manchuria, relieving population pressure in China Proper, and contributing to the economic stability of these provinces by sending remittance home. Before 1931 the remittance from Manchuria to Shantung through banks and post offices alone amounted to 50 million yuan a year, not counting the amount personally carried back home by those temporary immigrants.⁴⁷ After the Manchurian Incident many had to return their homeland because of the Japanese authorities' discrimination against the Chinese. What followed were the lost of income from

⁴² "The Report of the Ministry of Finance" in *Chinese Economic Journal*, 19.5 (November 1936), pp. 533-538.

⁴³ Take Chao Lan-p'ing and Ma Yin-ch'u, two of the most eminent economists at the time, for example. While Chao attributed China's economic depression completely to the devaluation of other countries and the U.S. silver purchase policy, Ma mentioned the loss of Manchuria and the country's chronic floods and droughts only by passing in his analysis of the depression. Cf. Chao Lan-p'ing, pp. 81-89; Ma Yin-ch'u, pp. 11-34.

⁴⁴ *Chung-kuo chin-tai ching-chi-shih t'ung-chi tzu-liao hsuian-chi* (Selected statistics on modern economic history of China), comp. by Yen Chung-p'ing et al, Peking, Ko-hsüeh ch'u-pan-she, 1955, pp. 67-68.

⁴⁵ For imports and exports of the whole country, see L. Y. Shen, p. 181; for that of Manchuria, see Alexander Eckstein, Kang Chao, and John Chang, "The Economic Development of Manchuria: The Rise of a Frontier Economy", *Journal of Economic History*, 34.1 (March 1974), p. 262.

⁴⁶ *Chuan-kuo yin-hang nien-chien (1935)* (Chinese Bankers' Yearbook, 1935), Shanghai, the Bank of China, 1935, I.35; Chang Yu-i, 3rd collection, pp. 521-522.

⁴⁷ Chang Yu-i, 3rd collection, p. 680.

remittance and the sale of products and the swelling army of the unemployed in these provinces.⁴⁸

Finally, the flooding in the Yangtze valley in 1931 was one of the worst natural disasters in modern times. It affected the most productive area in the country including Kiangsu, Chekiang, Anhwei, Kiangsi, Hupei and Hunan. According to the official estimate, the damage to the four major crops (rice, cotton, millet and kaoliang) alone amounted to 457 million yuan.⁴⁹ Moreover, the floods created 14 million refugees. It does not need much imagination to see the devastating effect on all sections of the economy as a result of the loss of purchasing power for hundreds of millions yuan by tens of millions of people. In Chekiang, for instance, most of the business establishments with insufficient resources collapsed following the flood in 1931.⁵⁰ In Hankow, the most important city in the inland, the number of cotton merchants dropped from fifty to nine on account of the same calamities.⁵¹

III

The economic depression exposed clearly the fundamental weaknesses of China's monetary system. First, being linked to a stated amount of silver the Chinese dollar, yuan, was subject perennially to the fluctuations of silver prices in the world market over which China could not exert even the slightest degree of control. Whenever the silver price abroad fell, so did the exchange value of yuan resulting in the inflow of the white metal and rising prices at home. On the other hand, when the silver price rose,

say, in London or new York, the exchange value of yuan climbed up likewise. The exchange appreciation created export difficulties. In particular, the adjustment of the exchange value generally lagged behind advances in silver prices abroad, and the yuan became undervalued at home. As a result, huge quantities of silver flowed out of the country leading to tight money, declining prices, increasing business failures and unemployment. Second, as the right of note issue and cash reserve against both note issue and deposits were not centralized, the financial institutions of all kinds made decisions on credit independently. In times of economic buoyancy and rising expectation they tended to extend credit beyond the limit of a sound financial operation. When business went down and the market climate lowered, all tried to keep cash, cut loans, and withdraw credit for self-protection. Their behavior produced an undue reduction of money supply and hastened business contraction.

In 1934-35 China was in the depth of depression. With the failure of the export duty and equalization charge to check the flight of silver and the increasing frequency of bankruptcies the government was forced to take drastic measures to prevent the disintegration of the entire economy. It was obvious to many in and out of the government that under the circumstances China had no better alternative than demonetizing silver and that a paper currency system under prudent management had the best chance of both pulling China out of depression in the short run and providing long term economic stability for the nation. So came the reform decree of November 3,

⁴⁸ Chang Yu-i, 3rd collection, pp. 519-520, 522, 680.

⁴⁹ "Damage by Floods", *Chinese Economic Journal*, 10.3 (March 1932), p. 268.

⁵⁰ *Chung-hang yueh-k'an*, 15.1 (July 1937), p. 46.

⁵¹ "Wuhan Commerce after the 1931 Floods", *Chinese Economic Journal*, 11.3 (Sept. 1932), p. 201.

1935 for the historic shift from the silver standard to the paper standard. The essential points of the reform are as follows:⁵²

- (1) Centralization of note issue: The banknotes issued by the three government banks — the Central Bank, the Bank of China, and the Bank of Communications — shall be full legal tender (early in 1936 notes of the newly established Farmer's Bank of China gained the same status). Reserves against notes issued by the three banks shall be placed under the control of the Currency Reserve Board composed of representatives from the Ministry of Finance, the three government banks, and banking and business communities. The outstanding notes of all other note-issuing banks will continue in circulation, but will gradually be withdrawn and replaced by notes of the Central Bank. All their reserves against the outstanding notes shall be handed over at once to the Currency Reserve Board.
- (2) Nationalization of silver: All individuals and organizations in possession of silver in whatever form are required to turn it over to the government in exchange for legal tender notes.
- (3) Management of foreign exchange: The three government banks shall buy and sell foreign exchange in unlimited quantities for maintaining the stability of the external value of the Chinese dollar.

As mentioned earlier, there were then four groups of issuing authorities in China: Chinese modern banks (including government banks and commercial banks), provincial and municipal banks, foreign banks, and numerous private issuing bodies. The notes of foreign banks were issued in the treaty ports or outside China; the Chinese government could do little to eliminate them. The issuing authorities in the last category were too numerous for the central government to control. While the government intended to achieve eventually the centralization of note issue in the Central Bank, the reform measures in 1935 were directed to eliminating the notes of the nation's commercial banks and various provincial and municipal banks. The task of taking away the issuing right from the commercial banks was easily accomplished and that of withdrawing their notes proceeded smoothly. As indicated in Table 3, of the total amount of notes issued by commercial banks (i.e., 232 million yuan outstanding as of November 3, 1935) only 70 million remained in circulation on the eve of the Sino-Japanese War of 1937-45. However, the central government lacked the power to enforce its decree throughout the country, a number of provincial and local banks, e.g., in Yunnan, Kwangtung and Kwangsi, continued to increase their note issue and kept reserves under their own custody.⁵³ While the legal tender notes issued by the government banks enjoyed increasingly wide circulation in the country, their significance as the media of exchange varied greatly from province to province prior to the War.⁵⁴

During the wartime, nonetheless, the central government was in a much stronger

⁵² *The New Monetary Policy of China*, pp. 1-2, 8-9.

⁵³ Cf. Li Chün-yao, *Chung-kuo chih-pi fa-hsing-shih* (The history of note issue in China), Chungking, the Central Bank, 1944, pp. 36-38; Chou Pai-ti, *Pai-yin wen-ti yu Chung-kuo huo-pi cheng-ts'e* (The silver problem and the monetary policy of China), Shanghai, Chung-hua shu-chü, 1936, pp. 160-163.

⁵⁴ E.g., according to one estimate, the percentage of the legal tender notes to the total currency in circulation ranged by the middle of 1936 from 2% in Kwangsi to 92% in Fukien. See Frank M. Tamagna, p. 144.

TABLE 3. BANKNOTES IN CIRCULATION IN CHINA, 1935-1937
(Unit in 1,000 yuan)

	Government Banks	Provincial and Muni. Banks	Commercial Banks	Total
Nov. 3, 1935	457,000	?	232,000	?
End of 1935	676,841	134,200	190,000 ^a	998,913
June 1936	927,912	?	93,000	?
End of 1936	1,270,221	323,497	89,000 ^a	1,682,718
June 1937	1,407,202	334,576	70,000 ^a	1,811,778

Note: ^a These figures stand for the outstanding issues of 7-8 major commercial banks at the time. The amount issued by all other commercial banks was insignificant.

Sources: "Report of the Ministry of Finance, 1936," in *Chinese Economic Journal*, 19.5 (November 1936), pp. 537-538; Frank M. Tamagna, pp. 138, 144; *Chuan-kuo yin-hang nien-chien, 1937*, S. 108-109; Keng Ai-teh (Eduard Kann), tr. Ni Hsiao-hsien, "Tsui-chin Chung-kuo chih-pi fa-hsing chih yen-ke (The recent development of note issue in China)", *Chung-hang yueh-k'an*, 16.3 (March 1938), pp. 49-58; "Paper Currency in China", *Chinese Economic Journal*, 18.4 (April 1936), pp. 549-550; Chang Wei-ya, *Chung-kuo huo-pi chin-yung-lun* (Money and finance in China), Taipei, 1952, p. 157; "China's Foreign Trade", *Chinese Economic Journal*, 20.5 (May 1937), p. 495.

position vis-a-vis local warlords in provinces unoccupied by the Japanese except for the communist-controlled area. In 1942 two regulations were promulgated: one stripping the note-issuing privilege from the Bank of China, Bank of Communications, and Farmers' Bank, and the other ending that of provincial and local banks and ordering the withdrawal of their notes outstanding. As the war approached to an end, the system of multiple issuing-authorities practically disappeared and the Central Bank became finally the exclusive bank of note issue in the area under the rule of the Nationalist government.⁵⁵

Besides, the government also started in 1936 issuing 5-cent, 10-cent, and 20-cent nickel coins, 1-cent, and ½-cent copper coins to replace a whole array of subsidiary coins struck previously by the central and local authorities with various denominations and diverse quality. However, on the eve of

the war against Japan the Central Mint turned out less than 30 million yuan of these new coins, an amount too insufficient to meet the daily needs for small change throughout the country.⁵⁶ In the wartime the mint was unable to continue the coinage because of material shortage. Moreover, as inflation accelerated, dollar notes and even multiple-dollar notes performed the same function as did subsidiary coins before.⁵⁷ The latter of both the old and new were soon driven out of circulation. Also, the war eliminated the notes of the Banques de L'Indo-Chine that had enjoyed wide circulation in southwestern China. Ironically, war and inflation helped greatly the government to accomplish the work toward unification of currency and centralization of note issue in the unoccupied area.

The nationalization of silver served three purposes: (1) to remove the white metal from circulation as a medium of

⁵⁵ Cf. *T's'ai-cheng nien-chien* (Yearbook of Public Finance), 3rd edition, Nanking, the Ministry of Finance, 1948, 10.2-3; Chao Lan-p'ing, pp. 116-118.

⁵⁶ L. Y. Shen, p. 162.

⁵⁷ Cf. Note 71.

exchange, (2) to support the new paper currency which was to be secured by cash (silver, gold and foreign exchange) for 60% and securities for 40%, and (3) to maintain the exchange value of the new currency abroad. Hence the implementation of the reform measures depended critically upon the success of executing the policy of nationalizing silver. All organizations (both private and public) and individuals were ordered to surrender in their possession silver in whatever form (with a few exceptions) to the government in exchange for legal tender notes, dollar for dollar. Failure to do so ran the risk of one to seven-year prison sentence in addition to that of confiscation of the silver in possession.⁵⁸ Banks, post offices, tax agencies, and numerous other organs were used as exchange offices for collecting the metal. The total collection, according to one estimate, amounted to 800 million yuan.⁵⁹ As a result, the central government gained control of an amount of silver up to 900 million yuan, or around 40% of the country's total silver stock as compared with less than 5% before the reform.⁶⁰ In view of the age-old Chinese habit of silver hoarding and the inability of the administration to enforce the monetary decree, the silver collection program was

a respectable success. And it was largely this success that enabled the government to carry out the reform plan without much difficulty.

Once China was off the silver standard, the government had to settle immediately two problems with regard to foreign exchange: What value should the new Chinese dollar be in terms of other currencies in the international market and how to maintain the exchange rate, once decided, from erratic fluctuations? The formula for fixing the official exchange rate was based on the average rate in terms of pound sterling between Shanghai and London for the preceding five years (1931-34); as the level of China's exchange in 1935 was considered unduly high resulting from outside influence — the American policy of silver purchase. So the exchange parity of yuan was settled at 2s 2½d and at 29.75 cents and 1.03 yen respectively through calculation from the cross-rates between pound sterling and the other two currencies.⁶¹ Compared with the exchange rate of the Chinese dollar before the reform (Aug.-Oct. 1935) the new rate represents a depreciation of about 17%.⁶² In order to maintain the stability of the new exchange rate the government set up foreign exchange funds in New York

⁵⁸ *The New Monetary Policy of China*, pp. 11-13; *Chuan-kuo yin-hang nien-chien, 1936* (Chinese Bankers' Yearbook, 1936), Shanghai, the Bank of China, 1936, T. 24-25. At the time of the Marco Polo Bridge Incident, the government offered a premium of 15 per cent on silver tendered in exchange for notes. See W. Y. Lin, "China's Wartime Monetary Policy: Objectives and Technique", *Nankai Social and Economic Quarterly*, II, 1-2 (Jan. 1940), p. 145.

⁵⁹ Chang Kia-ngau, "Toward modernization of China's Currency and Banking" in Paul K. T. Sih, ed., *The Strenuous decade: China's Nation-building Efforts, 1927-1937*, St. John's University, 1970, p. 158. But, according to W. Y. Lin, only 500 million had been collected by the end of 1937. See his article "China's Wartime Monetary Policy."

⁶⁰ In 1934 the three government banks had a cash reserve totalled at nearly 90 million yuan as compared with the entire silver stock in the country for two to three billion yuan. In 1935, as noted in Table 1, 289 million flowed out of the country. Accordingly, on the eve of the monetary reform the entire silver stock was probably around 2-2.5 billion yuan. Following the nationalization of silver the central government controlled as much as 900 million yuan of the white metal (nearly 100 million holding prior to the reform plus 800 million collected from the public) while most of the rest was still hoarded in safe or buried underground by the people. For sources, see note 38; *Chuan-kuo yin-hang nien-chien, 1936*, S. 61.

⁶¹ In actual operation there is a spread of 1/4d between the selling price at 1s 2½d and the buying price at 1s 2¾d. See Chang Kia-ngau, "Toward modernization of Currency and Banking".

⁶² Chao Lan-p'ing, p. 99.

and London by selling abroad, mainly to the U.S., a large portion of the silver collected at home. At the outbreak of the war against Japan in July 1937 probably as much as 360 million yuan of the white metal had been sold for the purpose of building a reservoir of foreign currencies abroad.⁶³ Henceforth, fluctuations in silver prices could no longer affect significantly the external value of yuan. Like many other countries, China then entered the stage of active management of her foreign exchange.

Through these measures just discussed the government hoped to achieve three major goals: the revival of the economy, the maintenance of the external and internal stability of the new currency, and eventually the establishment of a sound currency and banking system. Now, let us make a brief assessment of the historic reform against the goals it was designed to achieve. Unfortunately the Marco Polo Bridge Incident in July 7, 1937 that brought China into a life-and-death struggle for eight years, created a utterly different situation: the war against Japan caused a tremendous damage to and interruption of the entire economy. Therefore, a meaningful assessment of the monetary reform can be made only for the twenty months from November 1935 to June 1937. The data in Table 4 almost all point to an economic revival in the period in sharp contrast to what occurred in the previous four years (cf. Table 1). While the physical volume of her trade still showed a slight decrease from 1935 to 1936,

there was a material improvement in trade deficit. Moreover, overseas Chinese remittance moved up in an accelerating pace. Enormous amounts of silver still flowed out of the country, but the outflow in 1936 and 1937, as noted before, came about from the government decision to sell the demonetized metal in exchange for foreign currencies abroad which was necessary for the management of foreign exchange.

Domestically, wholesale prices climbed up continually; on the eve of the Sino-Japanese War they had almost attained the 1931 level in Shanghai and even surpassed that in north China. With prices moving upward, markets for most commodities such as cotton, silk, yarn, cloth, wheat, rice and sugar turned buoyant. A bumper crop in 1936 created a strong demand for consumer goods. In that year the volume of cotton yarn purchased in Shanghai for inland sale increased by more than 22% over that of the preceding few years.⁶⁴ Many closed factories thus reopened. In June 1935 more than 1.3 million spindles, or four tenths of the nation's total, were out of work; by the end of 1936 at least a half of them would be, according to one estimate, brought back to operation.⁶⁵ In Chekiang, the center of silk industry, the number of silk factories in operation jumped from 16 to 25 in a year (see Table 4). In addition to textiles, the chemicals, rubber, sugar, tea processing, and paper making all registered significant expansion. On the other hand, there was a substantial decline in business failures.

⁶³ The silver export (excluding smuggling) between November 3, 1935 and July 7, 1937 are as follows:

Dec. 1935-Jan. 1936	60 million yuan (50 million ounces)
1936	250 million yuan
1937 through June	52 million yuan

Since most of the 50 million ounces was in fact shipped in Dec. 1935, the total amount exported for the 20-month period should be close to 350 million yuan. For sources, see "Report of the Ministry of Finance, 1936", *Chinese Economic Journal*, 19.5 (Nov. 1936), p. 537; *Chung-kuo chin-yung nien-chien, 1938* (China Finance Yearbook, 1938) comp. by Shen Lei-ch'un, Reprinted by Center for Chinese Research Materials, Washington D.C., 1971, p. 4 (preface), and p. 220; L. Y. Shen, p. 32.

⁶⁴ *Chuan-kuo yin-hang nien-chien* (1937), V. 33.

⁶⁵ "Fa-pi shih-hsing-hoc i-nien-lai chih kung-shang-yeh (Industry and commerce during the year since the currency reform)", *Chung-hang yueh-k'an*, 13.6 (December 1936), pp. 29-35.

TABLE 4. INDICATORS OF ECONOMIC REVIVAL IN CHINA,
NOVEMBER 1935-JUNE 1937

	1935	1936	1937 Jan.-June	1937 (All year)
Wholesale Prices (1931=100)				
Shanghai	81.5 (Nov.)	85.6	97.7	—
North China	82.4 (Nov.)	90.3	105.9 (Jan.-April)	—
Foreign Trade				
Volume (1931=100)				
Imports	64	60	—	—
Exports	93	92	—	—
Value (in million yuan)				
Imports	919	941	—	953
Exports	605	743	—	880
Overseas Chinese Remittance (in million yuan)	260 (280?)	320	—	450
Silver Outflow (in million yuan)	289	290	54	402
Foreign Exchange (pound or dollar per yuan)				
Central Bank Quotation	1s 2.500d 29.750¢ (Nov.)	1s 2.500d 30.000¢ (June)	1s 2.500d 30.000¢ (June)	
Hong Kong and Shanghai Banking Corp.				
Quotation	1s 2.415d 29.573¢ (Nov.)	1s 2.375d 29.750¢ (June)	1s 2.315d 29.315¢ (June)	
No. of Bank Failures	19 (20?)	8	5	
No. of Silk Factories in Chekiang	16 (Sept.)	25 (Sept.)	—	
Domestic Remittance Handled by Bank of China (in million yuan)				
	1,020	1,448	—	
Deposits* (in million yuan)				
Demand deposits	2,042	2,289	—	
Time deposits	1,747	2,262	—	
Loans Extended by Banks* (in million yuan)	3,195	3,466	—	
Native Interest Rate in Shanghai (cents per 1,000 yuan per day)				
	14	8	10	

Note: * Deposits with and loans extended by native banks not included.

Sources: *Shang-hai chieh-fang*—, pp. 126-133, 175-178; *Chung-kuo yin-hang nien-chien (1937)*, A. 22-23, S. 89, S. 101, V. 4, V. 63; *Chung-kuo chin-yung nien-chien (1938)*, p. 4 (preface), p. 84; L. Y. Shen, pp. 29, 181-182, 174-177; W. Y. Lin, p. 26; Chang Kia-ngau, p. 159; Chang Wei-ya, pp. 122, 125; Hsiao Liang-lin, pp. 269-275.

In Shanghai, for example, the number of 87, 60 in the first, second, and third quarter factories and stores liquidated decreased of 1936 respectively.⁶⁶ Cases such as these from 123 in the last quarter of 1935 to 95, abound if one cares to gather.

⁶⁶ *Ibid.*

Revival of commercial and industrial activities inevitably gave rise to growing demand for credit. The financial sector was able to respond with increased loans at stable and relatively low interest for three reasons: (1) a sizable growth of deposits, (2) a considerable expansion of money supply (notes and demand deposits) following the monetary reform, and (3) a quick turnover in business operation from manufacturing to the final sale of products. It should be pointed out that in the area of extending credit to business, native banks still played a greater role than modern banks in the 20's and 30's. One source puts the total amount of loan provided by the former at 70% higher than that by the latter. Moreover, even in Shanghai it was the Native Bankers' Association which decided the daily interest rate prevailing in the market.⁶⁷ Therefore, the increase in loans from 1935-1936 (8%+), as shown in the Table 4, is in my opinion understated. Further research may yield a much greater rate of loan extension. At any rate, like other sectors of the economy, the financial institutions contributed to and shared in the economic expansion at the time.

A glance at the foreign exchange quotations in Table 4 leaves no doubt that the government was able to maintain a remarkable stability of the new currency abroad, for the Central Bank kept unchanged the exchange rate at 1s 2.5d for the period. The rate in terms of U.S. dollar was raised in February 1936 from 29.75 cents to 30

cents because of a minor change in the rate between the dollar and pound sterling; after then it stabilized at 30 cents. Even the quotations of the Hongkong and Shanghai Banking Corporation, the most powerful foreign bank in China, show only marginal variations.

The stability of yuan at home as reflected in the index numbers of wholesale prices is a controversial issue.⁶⁸ The Shanghai index in the Table indicates a 20% rise in prices and the North China index 28% over the twenty-month period: hence inflationary pressure did exist. However, comparing the data of note issue, and the amount of silver surrendered by the public, one cannot see evidence of excessive issue then by the government banks. While the total amount of their notes increased 950 million yuan in the period (see Table 3), the government succeeded in retiring notes for 160 million issued previously by commercial banks and collecting 800 million yuan of silver from the public.

As far as the quantity of currency in circulation is concerned, only the 200-million yuan additional notes issued by the provincial and municipal banks represent a net increase. Additionally, we should note another constituent of money supply, i.e., demand deposits against which checks can be issued in substitution for currency. In time of economic expansion demand deposits tend to increase in consequence of credit expansion by financial institutions. The data in Table 4 show demand deposits

⁶⁷ Pan Tze-hao, *Chung-kuo ch'ien-chuang kai-yao* (Essentials on native banks in China), Shanghai, Hua-t'ung shu-ch'ü, 1931, pp. 4-6.

⁶⁸ E.g., Chang Kia-ngau maintains that there had been excessive issuing of notes by the government banks almost from beginning. On the other hand, Frank M. Tamagna argues that despite a great increase in paper notes they were by and large issued to replace the notes of commercial banks and silver coins withdrawn from circulation, see Chang Kia-ngau, "Toward Modernization of China's Currency and Banking", p. 160; Frank M. Tamagna, 145.

grew by nearly 250 million yuan from 1935 to 1936.⁶⁹ Therefore, on the basis of the evidence we have by now, it can be concluded that, so far as the effect of money supply on prices is concerned, the inflationary pressure came primarily from credit expansion of the financial sector, and note issuing of provincial and municipal banks, not from the printing machine of the government banks.

We have seen by now that during the twenty months following the proclamation of the reform decree in November 1937, China's economy turned active in sharp contrast to the depressed state in the previous several years. She was, moreover, able to maintain an unusual degree the stability of yuan vis-a-vis other currencies in the international community. Prices were rising. While inflationary pressure did exist, the degree of inflation can be considered moderate as compared with what happened later. In all these favorable turns of events the reform certainly played a positive role. It should be pointed out, however, that 1936 was a year of good harvest in China. In an agricultural and poor country the state of crops is so crucial to the economy that an sizable increase or decrease of farm output often means life or death for millions of people, let alone growth or contraction of market. According to the estimate of the National Agricultural Research Bureau, the total value of several major agricultural products (rice, wheat, kaoling, millet, and tobacco) in 1936 amounted to 5.6 billion yuan which was 1.7 billion yuan, or 44%,

higher than that of the previous three years on the average. Should additional yields from secondary crops like silk, tea and peanuts be included, the total increase in agricultural income in that year probably reached two billion yuan.⁷⁰ Consequently, there was a substantial rise in purchasing power in the countryside which produced a fast expanding market for all kinds of consumer goods and producer goods as well. Hence both institutional reform and the bumper crop contributed to the economic revival of 1935-37. While the former prevented the imminent danger of financial and economic collapse and introduced a flexible framework for the management of money supply at home and foreign exchange abroad, the latter provided a powerful stimulant to the nation's commercial and industrial sectors.

The monetary reform succeeded in stimulating the economy and achieving a measure of stability of the new currency in the short-run. Nonetheless, it failed in the task of building a sound monetary system based on the establishment of a strong and independent central bank. In addition to functioning as the bank of issue and the depository of government funds the central bank of a nation should assume the role as the bankers' bank. That is, the central bank has the responsibility of regulating money supply in response to the need of trade and industry through adjustments in the discount rate, changes in the reserve requirements for deposits at commercial banks, and the open market operation. Instead of becoming the bankers' bank,

⁶⁹ It should be pointed out that the concept of demand deposit in China is broader than that in the United States. For example, it includes, among other things, passbook deposits which can be withdrawn anytime during the office hours but against which the depositors cannot do so by drawing checks. Should we count only the demand deposits subject to withdrawal by check, their total amount would be considerably less than what shown in Table 4. Cf. Yang Ying-p'u, pp. 105-108.

⁷⁰ *Chuan-kuo yin-hang nien-chien (1937)*, v. 10.

however, the Central Bank was increasingly turned into an instrument of the Finance Ministry for printing notes to make up huge deficit. The root of this failure lay in the inability of the government to balance its budget and hence its unwillingness to give the Central Bank an independent status.

Throughout the Republican period financial deficit had been a chronic problem of the Chinese government. Before the outbreak of the war against Japan in 1937 most of the deficit was met by the sale of high-interest-bearing bonds and treasury notes. When tax revenues fell further and

further behind expenditures during and after the war, government bonds and treasury notes became increasingly unmarketable. Consequently, the government resorted to the practice of requiring bank advances as the principal way to budget balancing. To comply with the enormous demand for advances the four government banks (after 1941 the Central Bank alone) relied almost entirely on the increase of note issue. The excessive issue of notes produced, as is well recognized, a run-away inflation which culminated in the collapse of the Nationalist government in 1949.⁷¹

⁷¹ Given January through June 1937 as base (100), the price index in Chungking rose to 156,195 in 1945 and 132,500,000 in July 1948! See Chang kia-ngau, *The Inflationary Spiral: The Experience in China, 1939-1950*, Cambridge, The M. I. T. Press, 1958, pp. 371-373.

Glossary

- Chang Chia-hsiang 張家驥 *Chung-hua pi-chih-shih* 中華幣制史
 Chang Lu-luan 張履鸞
- Chang Su-min 張素民, *Pai-yin wen-ti yu Chung-kuo pi-chih* 白銀問題與中國幣制
 Chang Wei-ya 張維亞, *Chung-kuo huo-pi chin-yung lun* 中國貨幣金融論
- Chang Yu-i 章有義, *Chung-kuo chin-tai nung-yeh-shih tzu-liao* 中國近代農業史資料
 Chao Lan-p'ing 趙蘭坪, *Hsien-tai Chung-kuo huo-pi chih-tu* 現代中國貨幣制度
 Ch'en Chen 陳真, *Chung-kuo chin-tai kung-yeh-shih tzu-liao* 中國近代工業史資料
 Cheng Tieh-ju 鄭鐵如, "Cheng-shou pai-yin ch'u-kou shui chih wo-chien" 征收白銀出口稅之我見
 Chi-nan 濟南
- Chou Pai-ti 周百棣, *Pai-yin wen-ti yu Chung-kuo huo-pi cheng-ts'e* 白銀問題與中國貨幣政策
Chuan-kuo yin-hang nien-chien 全國銀行年鑑
Chung-hang yueh-k'an 中行月刊
 Chung-hua shu-chü 中華書局
 Chung-hua wen-hua ch'u-pan shih-yeh wei-yuan-hui 中華文化出版事業委員會
 "Chung-kuo chih-pi fa-hsing chi ch'i liu-t'ung chuang-k'uang chih chieh-p'ou" 中國紙幣發行及其流通狀況之解剖
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Chung-kuo chin-tai huo-pi-shih tzu-liao 中國近代貨幣史資料
 Chung-kuo jen-min yin-hang 中國人民銀行
Chung-kuo chin-tai ching-chi-shih t'ung-chi tzu-liao hsu-an-chi 中國近代經濟史統計資料選輯
 by Yen Chung-p'ing 嚴中平編
 Chung-kuo t'ung-shang yin-hang 中國通商銀行
 Chung-kuo yin hang 中國銀行
 "Fa-pi shih-hsing-hou i-nien-lai chih kung-shang-yeh" 法幣施行後一年來之工商業
 Fei-hsiang 肥鄉
 Feng-piao 奉票
 Hsien Ko 獻可 *Chin-pai-nien-lai ti-kuo chu'i tsai Hua yin-hang fa-hsing chih-pi kai-kuang* 近百年來
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- Shih-yeh t'ung chi* 實業統計
- T'an Yü-tso 譚玉佐, *Chung-kuo chung-yao yin-hang fa-chan-shih* 中國重要銀行發展史
- Ts'ai-cheng nien-chien* 財政年鑑
- Tung-fang tsa-chih* 東方雜誌
- Tung-pei chi-k'an* 東北季刊
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- Yuan 元
- Yung-heng 永衡

經濟恐慌與一九三五年中國的貨幣改革

(中文摘要)

王業健

一九三五年貨幣改革是中國幣制史上一件劃時代的大事——紙幣代替金屬為交換媒介。雖然中國是最早使用紙幣的國家，但是在過去每當政府發行過多紙幣信用墮落，金屬貨幣又重新流行。這次改革之後，金屬貨幣將永為歷史陳跡。其次，在建立中央銀行制度方面，這次改革也可算一個顯著的里程碑。本文擬對這一重要改革的背景及得失重加檢討。

中國幣制之需要改革，遠在十九世紀末以來便有不少專家學者一再提出。其缺點之最為明顯者有三：第一、白銀為當時通用貨幣，中外公私銀行發行紙幣也多以白銀為準備。在一九三四年以前，我國對白銀輸出入並無限制。結果，只要銀價在國際市場高於國內市場，白銀便大量外流。如果銀價在國外低於國內，白銀便不斷內流。這樣一來，國內貨幣供給量的伸縮，受國際市場銀價波動的影響極大。第二、貨幣單位複雜。雖然元為官定貨幣單位，實際上各地兩元並用。而各地各業的銀兩，其重量和成色又參差不齊。加以銀元的需求狀況隨季節而變遷，所以，銀元與銀兩兌換率因時因地而異。此外，又有各地發行大小單位的銅元。它和銀元、銀兩的兌換率又是因時因地而異，錯雜萬分，阻礙交易發展，至深且鉅。第三、紙幣發行不集中。除了中國、中央、交通三個國家銀行而外，若干商業銀行也取得發行權。更不健全的是外國銀行、省市立銀行、甚至錢莊、商會、零售舖、地主等也各自發行鈔票。發行數量既不受國家銀行控制，準備金又多少不一。因此市面流行各種紙幣，隨發行機構信用的差異，而價值懸殊。省市銀行及私人錢號，更往往成為軍閥、奸商聚斂手段，倒閉頻頻，嚴重擾亂各地金融及工商業。國民政府奠都南京後，曾作若干改善，例如設立中央銀行、中央造幣廠，廢兩改元等，但是第一和第三兩個嚴重缺點，依然存在。

一九二九年發生世界經濟大恐慌。我國因受銀本位之賜，在最初二年未受多大影響。因為國際市場銀價大跌，而銀價水準在國內較國外高出甚多，白銀紛紛內流。結果物價持續上升，工商向榮。但是，從一九三一年第三季開始，情勢逆轉。此後四年內物價下降，工商行號，倒閉頻仍，工人大量失業，農村蕭條，全國各地均為不景氣所籠罩。造成這種不景氣的主要原因有四：一為英、日、美等國爭相貶低幣值，一為一九三四年美國國會通過白銀購買法案，促成銀價急劇上漲，白銀巨額外流。一為日本佔我東

北，我國頓時失去了一個資源豐富，而且為唯一維持對外貿易出超的區域。東北失陷之後，中國本部的消費工業如棉布、麵粉等，也失去了一個很大的市場。一為一九三一年的長江大水，災情之重，為六十年來僅見。據官方報告，僅僅農產損失即達四億五千萬元。農民購買力大減，工業產品滯銷，因而工商業紛紛破產。

為阻止白銀外洩，挽救經濟崩潰，國民政府當局乃於一九三五年十一月三日宣布貨幣改革，廢除銀本位制。其改革要點有三：一為集中發行。中央、中國、交通三行發行紙幣定為法幣。其他銀行已發行流通市上紙幣暫准繼續通行，但當陸續收回。二為白銀收歸國有。凡私人或機關持有白銀，應即送交政府指定機關兌換法幣。三為中、中、交三行無限制買賣外匯，以維持法幣對外價值。

這些改革措施的實行，政府當局希望達成三大目的：（一）恢復經濟景氣，（二）穩定法幣的內外價值，（三）最後建立一健全的貨幣制度。那末，這一改革究竟成效為何？「七、七」事變的爆發，使我國陷入生死存亡的鬥爭達八年之久，整個經濟遭遇嚴重破壞。因此對於這一改革的得失，我們只能就改革開始到抗戰前夕的廿個月期間內經濟動向作一觀察與估評。大致來說，在這個廿個月期間內，物價回漲，對外貿易逆差減少，華僑匯款、國內匯款、銀行存、放款等均有顯著增加，工商業復工者日增，關閉者遞減。所有這些現象，都顯示國內經濟的復甦。同時，法幣對外價值，也異常穩定。無疑地，貨幣改革的實施，對於經濟好轉，有其積極的貢獻。但是我們必須指出，一九三六年國內農產豐收。據官方估計，這一年農產價值比以往三年平均增加百分之四十四。農村購買力升騰，工業產品銷路大增。所以，一九三五年到一九三七年間的經濟復甦，並非純屬貨幣改革的成果，一九三六年的豐收也有其莫大的貢獻。

這個廿個月期間內，法幣的對內價值遠不如對外價值平穩。上海批發物價指數增加百分之二十，華北物價指數的上升達百分之廿八。通貨膨脹的壓力，的確存在。但是，中、中、交三行增加發行的數量（九億五千萬元），與政府收集白銀（八億元）和收回商業銀行紙幣額（一億六千萬元）相比，幾乎相等。因此，當時國家銀行尚無發行過多的跡象。當時通貨膨脹的壓力，可說是省市銀行（尚多不受中央約束）增加發行和商業銀行活期存款增加的結果。

最後，在建立健全幣制的目的方面，這次改革沒有賦予中央銀行獨立地位，是極大失策。一個國家的健全幣制必須建基於一個強大而獨立的中央銀行之上。中央銀行的職能，不僅是獨佔發行和保管公款，更重要的是擔負起「銀行的銀行」之任務。這就是說，中央銀行必須通過再貼現率、存款準備率、和公開市場的運用而發揮調節貨幣供給的功能。要負擔這個重任，中央銀行必須資力雄厚，超然獨立。但是，政府當局未能整頓稅源，財政收支始終不平衡，所以不願給予央行獨立地位。等到抗戰及戰後，稅收不繼，軍費大增，財政赤字越來越大。財政部除不斷要求央行墊巨款彌補外，別無長策。終於造成惡性通貨膨脹，幣信掃地，政權也隨之失敗。