

Session 106

Too Commercialised To Synchronize Currencies: Monetary Peasant
Economy in Late Imperial China in Comparison with Contemporary Japan

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I.

Are currencies literally current? No currency can be all the time in circulation. In other words, all currency has a time in stagnancy more or less. Are the rhythms swinging between current or stagnant synchronised among all currencies? No, some currencies have cycles with longer slack seasons, while other have ones with shorter. Are the exchange rates between the currencies firmly fixed, if the demands for them can not be synchronised? No, that is why, in most countries until the 19th century, in spite of official regulations, actual rates among monies had been movable according to conditions of markets. So was in China even in early 20th century. And so was in Japan but until the end of 18th century or earlier. What is the difference between the two?

The economic conditions of Japan and China (especially southern regions) in the early modern period shared many aspects: dependency on rice cultivation,

commercialised agriculture especially prompted by cotton handicraft industries, intensive labour input, dominance of peasant households, etc (Korea also had the same tendency) An assumption that, in the 19th century, the commercialization in peasant economy of Southern China, for example in the Lower Yangtze delta, went slightly ahead of that in Japan, true or untrue, would not always surprise so much the students who have knowledge on both sides. The existence of numerous local private paper currencies in the rural towns of China impresses that their business might not have been less active than those in the contemporary Japan who appeared to want for cash.

However, how much currencies exist is one thing, how frequently they work is another. In addition, even if the velocities of currencies in average would be the same, demand/supply of currencies in a country could have been more synchronised than that in another country. Through the viewpoint of synchronisation among currencies, this paper will probe into the difference of market structures before industrialization covered by peasant dominant economy across East Asia.

II.

Historians should pay their respects to the context peculiar to a society or a country which they study. That is how they keep themselves from neglecting the inherent aspects of its history. However, too much limitation of interests within a country or ignorance of neighbouring regions' experiences makes historians blind to some significant peculiarity which can be easily observed through comparisons with other societies. Below is one of the cases.

Three East Asian countries, China, Korea, and Japan had depended on copper coins more or less. The mono unit of coin was called differently, *wen* in the Mandarin Chinese, *mun* in Korean, and *mon* in Japanese, but was written in the same Chinese character. One coin almost weighed 4 gram weak. Copper cashes were fragment in value even to the size of transaction in traditional markets. Thus, in order to make up for the defect, the authorities often introduced multiple unit coins for larger size transactions, but rarely succeeded. It was in 1835 when the Tokugawa government began to issue the *Tenpo Tsuho* whose face value was 100 times high as mono-unit copper cash. In the context of the Japanese historiography, the introduction of the multiple unit coins was located along the line of a series of monetary debasements due to governmental fiscal deficit and blamed for inviting inflation. It is true that the Tokugawa government could get profits from the issuance (Takizawa p.242). However, an important point has been missed. Japan was not the only country introduced multiple unit coins in the 19th century East Asia. In 1853 the Qing China also began to issue some multiple unit coins including a 100 *wen* coin due to the financial crisis by the Taiping rebellion. The Lee Korea followed it to issue a 100 *mun* coin in 1866. The central governments of the three countries shared the motive in issuing hundred-unit copper coins: a measure making up for fiscal deficits. Their intrinsic values apparently were far lower than the face value. The motive was shared, but neither were the results.

None of a series of multiple unit coins, including 100 *wen*, issued by the Qing in the 1850s could survive until the 1860s. The hundred unit coin ceased to be cast until the end of 1854. People did not accept them with their face value. While old mono unit coin continued to work as the unit of account, the multiple unit coins rapidly depreciated seriously in actual transactions (Peng pp.833-838). In the case of

tangbeakchon, the one-hundred unit coin, in Korea discontinued the issuance within a half year (Lee p.123). However, the *Tenpo Tsuho* with 100 *mon* face value in the Tokugawa Japan continued to be issued and still existed in 1869 after the Meiji Restoration, when the coin was quoted 80 *mon* in the market and its amount in circulation occupied 64 per cent of the total amount of non-precious metals coins. Unlike the counterparts in China and Korean cases, the multiple unit coins took roots in market activities in the late Tokugawa Japan. This dissimilarity between Japan and China (and Korea) hints us a divergence in a deeper level of market activities. Take more look at monetary phenomenon.

Though indiscriminate addition of different currencies appears to give us neutral criteria measuring total liquidity country by country, they sometimes fail to uncover some important differences under the surfaces. An estimate in 1869 reveals that the total amount of copper coins in circulation in Japan was less than one twentieth of that of silver and gold currencies (Takizawa p.260, according to Iwahashi the amount of copper cash in circulation in the late Tokugawa Japan occupied less than 15 percent of all metallic currencies). On the other hand, in the end of 19th century, the amount of copper coins circulated in China was said to be equivalent to a half of the silvers. (Peng pp.888-9, Gold currencies were rarely used except for in some treaty ports.) It is too swift to judge only through the above contrast that Japan had an advantage in development of market economy against contemporary China. The dominance of small denomination currencies and flourishing local paper currencies were in tandem with important presence of rural markets in traditional China. Thus, it is necessary to consider what roles currencies played in each country in order to deduce any result from the different appearances above.

Though the circulation of the *Tenpo Tsuho* in the middle of the 19th century makes distinct the Japanese case from Chinese and Korean, the acceptance of such high a face value coins were beyond imagination in the early 18th century Japan. In 1708 the Tokugawa government issued the *Hoei Tsuho* whose face value was 10 *mon*. However, the government could not help but stop the issuance one year later. For few accepted it as its face value and consequently its actual exchange rate continued to fall. Thus, the conditions in the latter half of the Tokugawa period was not only different from contemporary neighbouring countries but also transformed from those in the first half of the period. Put our focus on the 18th century Japan in the next section.

III

In the mid 18th century Japan a combination of changes in its monetary circulation began. Each alteration appears to have happened independently so as to make it difficult to find out the background. The changes include the prevalence of the *Hansatsu* (paper currencies issued by the domains), the disappearance of silver by weight out of actual circulation and the successful introduction of silver by count with fixed ratio to gold (Iwahashi), the acceptance of multiple unit coins made of non-precious metals heralded by the 4-*mon* brass coin in 1767 (Takizawa p.142). I take the series of transformation a formation of convertibility among local currencies, or, from the viewpoint from the rear side, a loss of flexible currency supply to meet local own demand, and interpret them representing the dominance of town merchants, or the disappearance of autonomous rural markets. The most important change happened in the relationship between copper

cashes and silver (or gold).

Local current rates of copper cash to silver used to have been quoted day by day in Osaka, which was the centre of the Japanese market activities. So did in towns not far from Osaka. In some cases the rates were changed even from the morning to the evening in the same day. The fluctuations continued until soon after the Meiji Restoration. The point is that, after the middle of 18th century, the current rates in local towns began to follow that of Osaka with small margins. In other words, the exchange rate reflected demand/supply between silver and copper coins in Osaka rather than demand/supply within a local town.

Another important change is the unification of actual exchange ratio between silver and copper coins domain by domain in western Japan. A custom paying copper coins in terms of silver, they called it the *monmesen*, had been well known over western Japan. For example, 80 *mon* of copper coins were actually handed in stead of one *monme* of silver. Until the mid 18th century plural rates could be written in parallel even in a contract. However, towards the end of the century using the single rate within a domain became dominant (Kusumoto, pp.311-315). After that one rate dominantly became used in a domain, though the rates differed domain by domain.

Those changes above were closely related to the prevalence of the paper currencies issued by the domains in the same period. Silver by weight became scarce while paper currencies in terms of silver became popular in the local markets. Majority of the paper currencies were in small denominations rather than in large ones. In the case of the Ikeda town, not far from Osaka, after the resumption of issuing the *Ginsatsu*, a paper currency in term of silver, in 1753, their acceptability became stable until around 1800. Through the period the head of villager, *Shoya*, performed as a collector of

the currencies to smooth their circulation (Nakagawa pp.352-353). The domainal paper currencies could be available only through the domainal administration including the monopolising businesses by the domains in association with privileged merchants, especially those in a centre city such as Osaka where the domains brought their products including rice.

Thus, fixed like *monmesen* or not fixed, the exchange rate between copper coins and silver did not longer represent the fluctuation of monetary demand/supply within a region after the end of the 18th century. Naturally Japan also had seasonal fluctuations in demand/supply of agricultural products in markets. For example, rice collected to Osaka from the feudal domains across Japan, in part, used to be sold to rural region, such as the Hirano town, in summer when the scarcity of grain stock hiked the price high enough to absorb grains from outside (Honjo pp.222, 237). However, the point is that few cases of appreciating particular currencies against other currencies in harvest could be found in Japan at latest after 1800. Apparently strong demand for money after harvest made the businesses in local markets tight due to insufficient supply of money, but not particular one but general.

In contrast, in China, through the period silver and copper cashes circulated in parallel from the 15th century to early 20th century copper cashes appreciated after harvest while silver did in collecting taxes. In general, copper cashes were in demand to pay peasants for their products, while the payment of main taxes must have been in forms of silver ingots. After the late 18th century silver coins joined the list of appreciated currencies in purchasing peasant products. For example, in the Lower Yangtze region, copper cashes had been used in collecting cocoon for silk from sericulturists in 19th century, but silver dollars replaced copper cashes until the early 20th

century. A large amount of silver dollars were brought from Shanghai to sericultural regions, such as Wuxi, in May when most cocoons were sold in local markets. That is why the exchange rates of silver dollars to the silver unit of account in Shanghai used to surge in the month. The seasonal outlet of silver coins used to raise the interest rates in Shanghai. We shall back to this topic in the next section.

Autonomous adjustment of monetary demand/supply in Chinese rural towns encouraged the emergence of enormous sorts of private notes, *qianpiao*, which were issued by local shops. No statistics is available to measure the quantity of the private currencies issued in China. An investigation on the private notes in late 1920s Manchuria by a bureau of the Southern Manchuria Railroad estimated that, while 4,856,000 *yuan* of provincial bank notes circulated in eight districts including Niuzhuang, private notes equivalent to 5,713,161 *yuan* were in circulation in the same area (Toa Keizai Chosakyoku pp.31-32). Actual quantity of the latter might not be less than this estimate. It might be safe to say that, as far as rural area in early 20th century China was concerned, unofficial currencies outweighed official ones.

Private notes in local use in China appeared to be similar with the paper currencies by the domains in the Tokugawa Japan. However, there was a big gap between the two. The *hansatsu* in the Tokugawa Japan was, more or less, circulated in security for some commodity such as tribute grains and special products encouraged by the domains, and good or evil, closely connected with public finances of the domains. On the other hand, the paper notes, *qianpiao*, in China were actually regulated by no official institution and almost certified by nothing. Japan also had the circulations of local private notes, *shisatsu*, in early 17th century and mid 19th century, but they discontinued.

The prosperity of local private notes was surely in tandem with the development of rural markets in China. The contrast in the early 19 century between rural-market ruling Qing China and local castle-town ruling Tokugawa Japan was already made clear (Rozman p.102). The more important is the divergence after the period. The estimated number of rural periodic market in Japan decreased to almost nil through the 19th century, whereas that of China increased to about 50 thousand in early twentieth century, twice as many as in the 18th century (Skinner). County level investigation in Shandong and Hebei provinces also support the doubling during a century after mid 19th century (Qiao p.351).

The demand for money in rural markets was to be fragmentary in amount of each transaction and biased strongly by seasonality coherent to agricultural society. Vigorous business activities by numerous Chinese peasants, who could be also petty traders, needed a large amount of currencies in the season after harvest and most of them were not current in the rest of the year. Chinese peasant economy created huge exogenous money to meet the disproportionate demand.

In contrast, it was not village traders but the merchants from the castle towns who dominated market activities in rural Japan. Peasants tended to take prices offered from the merchants. In addition, Japanese village communities and townships offered the framework of mutual aids which would turn out to be institutions for credit supply. Some of them were metamorphosed into local banks after the Meiji Restoration. Putting simply, Japanese peasant societies created endogenous money to deal with scarcity of currencies. Without the background we could not expect the formation of the network connecting local financial institutions in the second half of the 19th century of Japan.

IV.

In 1891, in front of audiences including bankers and entrepreneurs from a silk producing region, TAJIRI Inajiro, the former vice minister of the Japanese Treasury, stressed the importance of the introduction of bills discounted by local banks into the payment to the sericulturists (Tsurumi pp.283-284). Then Japanese economy became much dependant on the export of silk, but financing its production and trade had not been an easy business. One of the difficulties for the silk manufacturers to manage was the big seasonality of demand for money. Purchase of a large quantity of cocoon made it necessary to supply a large sum of money in a short period, while in the rest of year such a huge currency was never required in the region. The money must have always been supplied from outside. The most substantial supplier was the Bank of Japan then. Using the silks in the warehouses as collateral, the BOJ discounted the bills issued by exporting firms in Yokohama and consequently cashes were brought to cocoon raising regions in order to pay to sericulturists. This strong seasonal bias in money demand made the reserve of BOJ difficult to keep stable. According to Tajiri 10 million *yen* in cash was necessary to meet extra demand for the silk season (Tajiri pp.160-161). The amount was not less than one tenth of annual revenue of the Japanese government.

The situation was almost the same as in China, though the main season is different: Spring in China while autumn in Japan. The export of silk played an important role in balancing the foreign trade, and significant amount of cash was necessary to seasonally move to the sericultural regions, even in the 1920s.

For five years from 1922 to 1926 Shanghai annually exported 63,332 thousand

dollars in average. Its export in May during the period counted 13,850 thousand dollars in average which accounted for nearly 22 per cent of a year. April and June counted only 3,326 and 2,458 thousand dollars. This surge resulted from collection of silk cocoon in sericultural areas of the Jiansu and Zhejiang provinces. Another annual surge appeared in winter when grains and raw cotton were collected, this fluctuation was not so drastic as in spring: 4,813 thousand dollars in October, 9,962 in November, 8,798 in December (Shanghai Yinhang Diachabu pp.22-25).

The big difference was that, while Japanese side financed the businesses in terms of single currency, Chinese side did with plural monies. The BOJ notes were used as unit of accounts by all traders in Japan and actually paid for cocoons to sericulturists. In contrast, while silver dollars were brought to silk producing regions to pay, a unit of silver account by weight, *tael*, was used among traders in Shanghai. As mentioned above, the exchange rate between the two monies incessantly fluctuate according to demand/supply.

Another apparent difference was that, while local banks were engaging in the silk trade in Japan, exchangers were dominant in China. Banks receiving deposits could more flexibly supply credit through overdraft than exchangers, though the latter could do it to less extent. But more important was that local banks in Japan had correspondent accounts among them to facilitate the remittance between distant regions. On the other hand, even after WWI the bills drawn by exchangers in local cities could rarely be discounted in Shanghai.

The role of the central bank must not be neglected, but the historical background also must be overlooked. The issuance of the BOJ notes was, to some extent, secured with governmental bonds and the stocks of large firms such as railroad

companies of which capital consisted of large portion of bonds. The origins of bonds could not be separable from the domain system in the Tokugawa period.

In the case of the Obama domain which was located northern to Kyoto, around 1871 when all the domain were abolished by the Meiji government, its debt amounted to 519,300 *ryo*, while the annual revenue of the domain was estimated 381,600 *ryo*. Among the debt the borrowing from merchants in Tokyo accounted for 173,700 *ryo*, Osaka 59,000 *ryo*, Kyoto 39,000 *ryo*. The Meiji government admitted the creditors to receive the bonds equivalent to almost half of the debt (Kagawa pp.199, 206).

In contrast with the Tokugawa Japan in which public finances and private remittances were closely related to form a network of exchange bills, the Qing government favoured transporting silver ingots. An account book of a financier, *piaohao*, shows that the amount of exchange bills drawn by bureaucrats in 1853 accounted for less than one per cent of the total amounts (Zhang p.36). Though China had a long history of bill of exchange, well-centred network could not be expected without some coordination between private and official monetary flows.

On the base of the peculiar feudal system with well- centred markets hierarchy, the Meiji Japan united local banks with correspondent accounts and established the network of documentary bills, and subdued seasonal fluctuations of interest rates soon after the establishment of the Bank of Japan, where the conflicts between monetary supply for local demand and for inter-regional one did not appear seriously.

Multiplicity of markets and concurrent currencies in China did not represent the backwardness of the commercialization among peasants, but resulted from too independent business activities by small holders to be organised enough to synchronise markets. The dynasty, traditionally favouring a small government, who rarely borrowed

monies from merchants had been beneficial to its subjects, but was not suitable to establish a bridge between the public finance and financiers' business.

V.

The average tells less, while the biases do more. The concept of the velocity in the quantity theory of money is prone to make us overlook the importance of fluctuation between current and stagnant. As far as monetary circulation is concerned, its stagnancy rather than its frequency gives us a clue to probe into the nature of market, especially of traditional one. Stagnancy of currency means that currencies are not always current, and suggests that currencies issued once can not assemble to the issuer when they are necessary. The differences of propensity to assemble among currencies give us an answer to why the actual monetary circulation in history was in multiple, or why it did not easily converge into single currency. Once recognising the multiple nature of monetary circulation, how to synchronise them must be a crucial question.

This paper aimed at answering the question through the comparison between China and Japan who are believed to share many aspects in the early modern period. The contrast of the monetary circulation between the two countries eloquently states that to merely measure the extent of commercialisation of the households can bring us little about how the market actually works.

The prosperity of rural markets in China which apparently encouraged pro-market propensity of the peasant households meant that large quantity of liquid assets was stagnant in most of a year and they were too scattered among small holders

to assemble. Comparing with Japanese peasants, Chinese small householders appeared to have the higher degree of freedom in producing what and in selling whom. The presence of so many petty peasant traders required autonomous adjustment of demand/supply of currencies within each local market in rural area. The autonomy of local markets was in tandem with the multiplicity of monetary circulation.

Although no one designed it, the peculiar socio-political system of the Tokugawa Japan did not encourage the usage of cash among peasants, consequently rather prompted them to save currencies and to establish some local credit institutions based on village or town unit. The mandatory services in the capital, Edo, by domain lords, collecting large proportion of tribute grains to the commercial centre, Osaka, and the sales of special products monopolised by the domains in association with the privileged merchants, though each did not appear to be reasonable, happened together to result in establishing a network of exchange bills. The combination of the presence of local financial institutes across the country and well-centred clearing system of distant transactions made easier to synchronise the flows of currencies.

Historical reality teaches us that, while to appear to be negative in former period turns out to be positive, to sound to be positive formerly may bring something negative in the next period. Only through gazing at the combination of factors, or through keeping from dependence on any measure, such as commercialisation, we can free ourselves from any linear model.

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