

## **'FAMINES of CASH'**

### **Locality of Money Ubiquitous through Human History**

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#### **'Free Banking System' with No Bank**

Not always but very often currency had been in shortage. Difficulties caused by short supply of currency had been not frequently recognised from the governmental viewpoint. However, observations in the ground level had revealed that insufficient supply of currency caused transactions in the market place to be stagnant. It was the situation that Chinese traditionally called *qianhuang*, famine of cash. Varying the forms, this famine had appeared through history and across the world.

Unable to wait for an authority to down to save, people had no hesitation to locally generate devices by themselves. The devices endogenously made often looked mysterious to who get accustomed to believe that money should be backed by authority otherwise by material contents.

In 1929 a town in mid Yangzi China seriously suffered from shortage of currency. Then, the town had the circulation of notes issued by 36 shops in spite that the town had only around 300 households. The issuers in the town, the Xianrendu, Laohekou county, Hubei, consisted of 13 groceries, 9 grain dealers, 2 seed oil mills, 2 medicine dealers, 3 liquor shops, 2 tea houses, 1 wholesale trader, 1 tofu shop, 1 rice cake shop, 1 silver dealer and 1 butcher (Chen Xiaorong, 2012, p.116). It sounds that almost all categories of shop in the town issued their notes. The issuers included no proper financier. In other words, all shops could work like an issuing bank.

The case of the Xianrendu town was not isolated at all. In 1936 a rural town of Julu county, Hebei, which had only around 300 households had circulation of local notes issued by 13 shops including inn, grocery, grain dealer, wheat cake shop. It meant that the half of entire shops, 26, had their notes circulated. Unlike the case of Xianrendu in 1929 we could know more about the background of the situation as follows.

On 4 November 1935 the National Government declared that *Fabi* (legal paper money) would substitute precious metals to work as unified currency. The policy caused silvers to be hoarded to cease their circulation, meanwhile the official paper money hardly reached the bottom of market layers in which most people made transactions.

Banknotes previously issued remained to circulate, but they consisted of as much as 50 % of circulating currencies. The rest was occupied with native notes, in spite that it was difficult to tell forged notes from genuine ones. Previously there had been one jiao (one tenth yuan) notes and two jiao. However, then a number of five jiao local notes appeared due to shortage of currency (Chen Tisi,1937).

Contemporary journal wrote that even these native notes could not sufficiently meet the demand for money. In the case of unidentified town of the Julu county mentioned above the reporter estimated total amount of local notes 8000 through 9000 yuan (Chen Tisi, 1936). If 400 households used 100 yuan in cash annually, the local notes of totally 8000 yuan must have run five times. Formal currencies like banknotes could have remained to mediate some part of transactions in the town. However, considering the relatively large denominations of banknotes, there was a high probability that currencies for wage goods level transactions were supplied so shortly that people accepted local notes in spite of forgery risks. Though nobody designed or adjusted, the amount of notes appeared to almost fit the size of transaction in the town.

Important is that no authority backed those native notes. Any material was expected to convert for the papers, neither. Nevertheless, those notes issued competitively by shops worked to mediate the transactions in the town. Notes were issued independently by shops, but they appeared to be organized by themselves to supply what a local town demanded for.

### **Local Currency Various and Ubiquitous**

Self-organization of currency supply did not occur only with the form of local note. In Quanzhou, 1606, when the largest port city in Southern China faced a famine due to poor harvest and increasing circulation of illegal coinages, the magistrate tried to set the maximum prices of grains to make locals easier to buy them and also declared the prohibition of using unofficial coins to stabilise the local market. However his acts seemed to be in right way from the viewpoint of modern sense, he appeared contemporary locals to be blind against reality. Protesting against the control of prices and the prohibition of private coinages, the traders of the port made a strike to close the market.

The oppositions insisted to the magistrate that the control of prices discouraged maritime traders to hesitate importing grains and no sooner private coins with poor appearances would disappear than they would become unnecessary. The magistrate changed his policy to lift the regulations. The story continued that the withdrawal of the price control and the admission of private coinage encouraged traders

to import grains in a large amount enough to lower the market price to normal level and, then, private coins disappeared (Chen Mao-ren, *Quannan Zazhi*). The procedure suggested that it was increasing amount of privately-made coins that made prices high enough to absorb grains from other regions. When facing famine, besides securing foods themselves, the most important is to avoid any disturbance of food distribution. The case above mentioned showed that local market created by itself the liquidity to sufficiently absorb grains from outside. The magistrate failed to notice the system self-working locally or to distinguish stability from formality.

Obviously China did not monopoly the history of currencies locally organised which could occur even in the society which had already depended on modern banking system.

On 7<sup>th</sup> December 1931 the Tenino Citizen Bank closed its teller. The closure of the only bank paralyzed the entire business of the town. It was not rare case at all then, since just within the last quarter of the year 1,055 banks across USA had suspended their business under the Great Depression. However, it was not a common way that the Chamber of Commerce in the town took as an emergent remedy. They issued certificates whose amount was equivalent to 25 per cent of total deposit of the bank. Part of certificates was printed with face values of 25 cent etc. on wood tablets. The wooden money of Tenino was actually in circulation, though only within the town. Needless to say, it ended its function as currency when a formal system revived (Preston, 1933).

Though the Chamber of Commerce took an initiative in the case of Tenino, the acceptance of wooden currency was not backed by any regulation. In addition, then, there was possibility that the bank deposits would become nonperforming debts. Thus, it was neither official support nor its intrinsic value but a loose agreement among locals, otherwise they should have made barter trade, that sustained the acceptability of the wooden currency. This invisible agreement globally emerged in history with various forms.

### **Currency Stagnant rather than Current**

Some local notes in early 20<sup>th</sup> century China had printed the background of issuance. For example, a note of 100 *wen* face value issued in 1916 had the description on the back as follows.

‘Copper coins recently disappeared and silver subsidiaries were in short supply. Subsequently trades stagnated and traders have suffered from loss. Thus, we issue these small notes to circulate in the market for making supply of small changes easier’

Looking through history and across the world, it was small denomination currency rather than currency in general that local economy often had difficulty due to its shortage. Considering that wage goods level transactions occupied the majority of exchanges in the bottom of market layers, smaller denomination currency were naturally demanded more. Heterogeneous demand and inelastic supply very often caused currency to circulate independently according to market layers such as late medieval Europe (Spufford, 1999) and early 20<sup>th</sup> century Red Sea region (Kuroda, 2007). However the description of the local note mentioned above sounded to respond to temporal circumstance, the shortage had occurred universally and chronically. Why?

Investigations of coins collected from bank divisions in 1968 UK happened to bring us important information. Before introduction of decimal denomination, in cooperation with major banks like Barclays, the Royal Mint made a survey to know how many coins of each denomination actually crossed the counter of bank in one day and the distribution of the dates of issuance among coins. It was necessary for the Mint to measure how many coins should be supplied under the new denomination system. Since the Mint had statistics on the quantity of minted coin according to denomination each year, they could estimate how long a coin had lasted to stay. Anybody could suppose that, the older date a coin had, the less the coin returned from holders to banks. But the point was to what extent.

The result revealed that, besides the portion of disposal due to physical damage which account for just 0.1 per cent, 2 out of 100 coins annually failed to reach the counter of bank, or, we may say it economically became inactive. That meant that within 30 years more than half of coins would derail from a track in which they could fulfil economic operations. It is important that the wastage rate of coin was different according to denomination as shown in Table 1. It shows that nearly 4 'half pence coin' out of 100 were missing annually. The rate is far faster than those of higher denomination (De Glanville, 1970). The investigation of coins sampled from bank division across USA in 1962 showed the same result as Britain mentioned above. The average of wastage rate was, incidentally or not, 2 per cent. The wastage rate of the 10 cent coin, the smallest denomination in the sample investigation, was the highest (Patterson, 1972).

Who kept the cheapest and bulkiest coin for the purpose of keeping asset? Nobody by intention held the coins for any particular purpose. That is, besides hoarding by holders' intention of which importance I don't deny, a large amount of currency becomes inactive without any holders' notice throughout time. Currency has a characteristic that it is easy to distribute, but difficult to assemble on demand. That is

the back side of currency's nature that it can anonymously circulate, which is called acceptability.

Under the situation of the Great Depression in the 1930s Hicks uncovered a fundamental problem of why people keep currency with no return when they can purchase bonds with interests(Hicks, 1935), while, considering only explicit intention by holders, he overlooked unintentional stagnations of currency. The main stream of social sciences has been blind against the stagnant nature of currency.

Pay attention that the wastage rates mentioned above appeared through investigating the coins passing over the counter of banks. Anybody might admit that banking system should work to pump up currencies which were once distributed among numerous holders. Even with the most proliferated banking system in 1960s world, in USA and UK, 2 out of 100 coins were losing their functions every year. It is quite easy to imagine what happened to the circulation of currencies before the establishment of banking system. Large portion of currency must have become stagnant every year and were isolated to accumulate for long time.

Table 2 showed the distribution of era names with copper cashes from Chinese excavations. Although a large amount of paper money and some amount of silver ingot and silks worked as money under the Song (960-1279), it were copper cashes that mediated a large part of transactions, especially, under the Northern Song (960-1127). Among currencies there appeared to have a complementary relationship in which copper cashes worked to mediate daily transactions in ground level (Kuroda, 2008)

I selected to show a case of significant quantity and a case of relatively small amount for each coin. The former would suggest the situation of intentionally saved hoard, or stock, while the latter would bring us the situation of unintentionally lost currency, or flow. The amount of 726 pieces from the Wenqiaoyidui excavation may sound not to be small, but, considering the value of bronze coin, it could have been far from an intentional hoard. It is important here that even the cluster of stray coins unearthed had accumulated coins of three hundred years long.

### **Mutual Dependence between Money and Society**

We have confirmed that it is easy to distribute currencies but difficult to assemble them on demand. That is why people often made currencies locally to meet the demand flexibly in a variety of forms.

However, making currency is not only solution. Another is saving the usage of currency. How to save has two ways. One way is to directly exchange goods and service through keeping in books. In this way money exists as unit of account in booking, while

no currency circulates. Another way is to make deferred payment or make transactions through credit/debt among locals. This pattern not always but usually needs no currency and money works as unit of account too. It is important that the way of issuing currency and the way of making mutual credit among inhabitants are ambivalent (Kuroda, 2013).

As a local society intensifies commercial activities, it has to choose the direction of strengthening mutual credit depending on cohesive relationship in a human cluster or the direction of increasing issuance of currency depending on anonymous (though not universal) relationship. Both ways appear to be local. The former is intangible, while the latter is tangible. The intangible way relies on limited access among the well-acquainted or best customers. The tangible way enables locals to make anonymous transactions. Credit oriented trade can avoid the difficulty due to shortage of currency but often suffers from accumulating non-performance. Currency oriented trade can increase the degree of freedom in choosing opponents while often suffers from stagnation of currency. The subsequent story of local money movements in contemporary Buenos Aires appeared that there was a threshold between a stage of keeping records between the well-acquainted and another stage of issuing tangible device for circulation (Gomez, 2009).

It is crucial to note that the quality of money depends on social relationships and avoid being trapped by a dichotomy between money and society. A number of egalitarian movements in history repeated this mistake.

Table 1 Wastage rates of coins in UK 1968 (Public Record Office, Kew, Mint 20/3965)

half d	3.7per cent
1 d	2.2
3 d	1.7
6 d	2.1
1/-	0.4
2/-	1.2
2/6 d	0.9

Table 2 The distribution of era names with copper cashes from Chinese excavation.

Yankeshan Wenqiaoyidui

~618

27

~907	866	57
~960	12	3
~1004	472	32
~1054	2706	213
~1101	7156	277
~1126	2018	95
~1201	212	45
~1260		4
Total	13469	726

latest era 1131-63 1260-65

Miyake (2005) pp.104-105

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