CHAPTERS AND DOCUMENTS
ON
CHINESE NATIONAL BANKING

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Printed by the Commercial Press, Limited, Shanghai

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ON

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by

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Submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, in the Faculty of Political Science, Columbia University.

(Printed at Shanghai in 1920.)

PREFACE

The best apology for attempting this treatise and for doing so badly withal is a discussion of the previously existing books on Chinese National Banking printed in the English language.

Money reform in China has been treated in various books, pamphlets, and magazine articles. Schemes for the reform of Chinese banks, being closely related to the reform of Chinese money, have also been treated at some length. There are, however, only three books devoted wholly or in part to Chinese bank reform, those of Jenks, Vissering and Wagel, written respectively in 1904, 1913, and 1915.

Passing to the realm of events in the practice of banking in China that of banks as they actually have been, not of banks as they should be, we find just one systematic treatise in the English language. This is Mr. Jules Gory's notes on the Ta Ching Bank, 33 pages, written eleven years ago. Therein Mr. Gory sets forth the simple events of the first four years of China's experience in national banking. His treatise is, by the way, highly praiseworthy as a piece of accurate, conscientious work, and I have gratefully drawn from it at several points.

In face of such a dearth of systematized information, it was necessary for me to rely very largely upon the English press in China. The actual work of research mainly consisted, therefore, in going through a quarter ton or more of dusty, old newspaper files borrowed from various libraries at Peking and jotting down notes of all news items in any way connected with the activities of the Chinese Government Banks.

In this way I searched through practically every number of the following publications for the periods mentioned :

Peking Daily News, 1909–1917.
Peking Gazette (daily), 1913–1917.
Far Eastern Review (monthly), 1908–1917.
National Review—China (weekly), 1912–1916.
North China Herald (weekly), 1898–1917.
Journal of American Association in China (quarterly), 1906–1909.

In addition to searching through these periodicals, I examined such stray numbers of these periodicals as occasion brought to my hands. In like manner, I ran through several shelves of bound files of diplomatic correspondence between the United States and China finding thus many pertinent items of information. Then there was the task of securing typewritten copies of the various documents reproduced in the appendix. Further, I went to the pains and expense of having translated from the Chinese "The History of the Ta Ching Bank," 275(?) pages, and a volume on book-keeping methods in the Bank of China. Last, I obtained now and then a valuable item of fact or opinion from the several government officials, editors, bank employees, and "Old China Hands" with whom I was privileged to converse.

Many thanks are due for giving me numerous interviews or access to sources, to Dr. Jeremiah W. Jenks, Dr. C. D. Tenney, Dr. Morrison, Dr. Chen Chin-tao, Mr. Julian Arnold, Mr. Sheldon Ridge, Mr. C. S. Ling, Mr. C. H. Lee, Mr. Lucas, and Mr. S. Barton.

I am specially indebted to my colleagues at the Peking School of Commerce and Finance, Mr. Chow, formerly with the Bank of Communications, Mr. Wang Hai Ao, and Mr. Niu Hsi Ling. I recall with pleasure the many hours passed with Mr. Wang and Mr. Niu in the absorbing task of translating the "History of the Ta Ching Bank." We

found that chronology a veritable mine of material on the first central bank of China. Much of the data heretofore contained only in that volume will be found in English for the first time in the Appendix of this treatise or in the text proper.

I began the study of Chinese banking and currency in 1914: and as teacher of the theory and history of banking at the Peking School of Commerce and Finance, I soon felt the need of arranging my private notes in a form suitable for classroom use. It will be gratifying to know that this treatise may be of use as collateral reading in the classes of this and other higher commercial schools in China.

The book should be of more than academic use, however. The foreign groups that will one day lend China capital with which to reform her banking and currency systems will need all the information they can get: for it seems to be customary in lending to China to prescribe how loans shall be spent. Unfortunately, these foreign financiers will be unable to find data more accurate than such as I have amassed here. Chinese officials and financiers, too, may find a foreigner's viewpoint upon their banking problems interesting, even when annoying.

Further, there are the thousands of foreigners in China who know of China's temples, her schools, her Yamens, but who know little of her banks. You may reform her industry, her army, her creeds, as you will, but China will never become a modern nation while her national banks continue, as at present, virtually unregulated trust companies.

I have tried hard to confine myself closely to the several volumes of notes in my collection. Generalization is sometimes useful and speculation is always entertaining: but both are futile in a subject where one's very sources are sometimes open to doubt. Better to confine oneself to such apparently reliable facts as are available. Be it remembered that the national banks have had much to conceal: and their policy of secrecy (Mr. Eugene Chen calls it obscurantism) leaves unanswered many queries that would be quickly satisfied in a modern country. Occasionally in interviews with Chinese bankers, I have asked questions that would be regarded as incidental in my country and been startled by an evasive reply and a dazzlingly polite smile. I have hoped that chance remarks in my thousands of news items might clear up these points and not always in vain.

Due to the exactions of public accounting, in which I have been engaged, and to the interruption of military service, the work of compilation has been painfully slow: and the treatise has fallen nearly two years behind the times. I am not now able to bring it up to date. I earnestly hope that some one with more leisure and with better access to the sources than one has in this country may soon supply details of the events in Chinese national banking since the summer of 1917.

Professors Edwin R. A. Seligman and H. Parker Willis of Columbia University, to whom the manuscript was submitted for recognition as a doctor's dissertation, examined it and suggested many changes and some additions. Without the kindly encouragement of Professor Seligman, I never should have attempted to draft the last chapter, which treats of reform. I should have preferred not to commit myself to a new scheme of national bank reform, when so many schemes have failed so badly. The most that we can hope for is that the proposed plan may stimulate discussion.

R. O. Hall.

Stephentown, *N. Y.*

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CHAPTER I

Introductory Sketch

Although the ancient Chinese are sometimes said to be the first bankers, there is no indication that banking in ancient China ever attained any remarkable degree of development. An elaborate system of progressive banks was obviously impossible. Chinese business life was too elemental to support a sturdy system of credit, even in those widely separated epochs when Chinese arts and letters flourished and when inventors produced the compass and gunpowder.

China has always been an agricultural country. What little industrial life she has known, has never, until very recently, passed the home-industry stage. The highest types of business organization that might either create or absorb credit have been the partnership and the guild. Accounting and auditing, so essential to the growth of fidelity institutions like the bank and the insurance company, have naturally been fragmentary. Away from the coasts, the rivers, and the canals, transportation facilities have been so bad that to this day thousands may starve in one province while a neighboring province enjoys a rich harvest. A man's vernacular may not be intelligible, nor his money acceptable, to his countrymen a hundred miles away. Each locality has always had for its units of value its own weight and fineness of silver and copper: and barter was so prevalent that even public revenue was commonly collected in kind. The laying of seven thousand miles of steel rail and the stringing of fifty thousand miles of telegraph wire in this vast land have not yet materially altered these conditions. As late as 1915 a Chinese living near Chungking refused to accept a silver dollar stamped with the likeness of Yuan Shih-kai because he believed it to be a foreign coin. Considering the staging, the dramatic disasters recently suffered by the national banks were inevitable. A really modern bank would have been almost impossible.

We may assume that in ancient and medieval China, as in Europe, many of the services now extended by modern banks were rendered by a motley aggregation of silversmiths, money changers, pawnbrokers, taxgatherers, and well-to-do people of other callings. In China these classes of individuals probably received loans, made loans, and on occasion even transmitted values by means of bills of exchange. The risks incident to depositing with such bankers would be partly eliminated by a system of personal guaranties still existent, that might land even the well-intentioned defaulter in a muddy dungeon and throw his family into slavery. The remaining risks, which were great, would be compensated by the high rates of interest paid. Usury, still a curse in Chinese farming communities, is reflected only faintly in the rates of present-day Chinese cities. Mortgages on urban property commonly pay from 15 per cent to 30 per cent a year. Pawnbrokers and money changers pay up to 8 per cent upon the small deposits which they receive, or double the rates paid by American savings banks. Brutus collected interest at the rate of 48 per cent from his loans in

Corsica, and "Brutus was an honorable man": in Chinese rural communities he would have been a philanthropist.

The fact that both banks and communities thrive best when banks are under rigid laws has never been appreciated by Chinese. Prior to 1900, China never had anything resembling government regulation of banks, and since that time its banking ordinances have mostly provided regulation without inspection — merest paper. Until recently there were no banking laws at all. A man might start even a savings bank or a bank of issue with no more ado than is necessary to start a grocery store. There were no regulations concerning even the amount of capital, and it was a rare bank that had a capital exceeding ₮100,000. (A tael is a weight and fineness of silver, worth at the average price of silver about seventy cents of American money. The weight and fineness of the taels of various localities vary somewhat.) Mr. Gory remarked that "thousands of so-called banks thrived with capital hardly exceeding that of a boot-black in Western lands." Comparatively few had either branches or connections in outside provinces. They were rarely taxed.

Banking in each locality is in the hands of a few families, the business being passed from father to son, in some instances perhaps for many generations. This is true of many types of business in China. Further, as has been the case in several types of business, the men of one province so excelled in banking enterprise that they succeeded for a long period in maintaining a sort of monopoly of banking in many cities remote from their home province.

The bankers of Shansi province were widely and firmly established at the close of the last century, and they were easily the leaders in native banking. The Shansi Guild is a bankers' guild, and in several cities its buildings are among the most beautiful of the community. With their wide distribution of branches, the Shansi guildsmen were able to transmit values farther and more cheaply than any other banking association in the land, and they naturally came into the task of collecting and disbursing a large portion of the funds of the Empire and of the provinces. Their income from this source alone, through exchange and the use of balances, must have been very great. At any rate, their services to the public treasury entitles them to the honor of having been China's first national bankers.

Mr. Wagel, "Chinese Money and Banking," page 15, states that the Shansi bankers had dealings with the Romans. I am inclined to doubt this. When in late 1913 and early 1914 six representatives of the Shansi bankers went to Peking to petition the national government for subsidies or loans to remedy their condition, they claimed in their petition that their "senior firms had been in business more than a hundred years and their younger firms fifty years." (*Peking Gazette*, January 6, 1914, and *Peking Daily News*, December 31, 1913, to January 6, 1914.) It was later stated unofficially by one of the petitioners that fourteen of the Shansi banks were two hundred years old. (*Peking Daily News*, February 26, 1914.) Things traditional are so revered in China that the petitioners would not be likely to understate the age of the institutions they represented. Yet, instead of laying claim to a perpetual succession from ancient times, which would have been a trump card, they pleaded as follows:

> "In cases of necessity we rendered financial assistance to the government, and in times of flood and

famine we contributed relief to the sufferers. . . . Also, we helped Shansi to buy back her railway and mining concessions from the foreigners."

The Shansi bankers have ceased to be a reckoning force in Chinese banking. They were too weak or too apathetic to give effectual opposition to the organizing of the Hupu Bank in 1905, a rival which from the outset bade well to get control of the government balances and otherwise to restrict their business seriously. (Gory, "Notes on the Chinese Government Bank," pages 7 and 8.) Nor have they been in the foreground since then. The financial hardships imposed upon the entire nation by the Revolution of 1911 hit them hard: and they had not recovered when the counter-revolution in 1913 drove them, in many cases, to bankruptcy.

In early 1914, fourteen of the Shansi banks had an aggregate issue of ₮35,000,000. There was some talk of a £2,000,000 loan from an Austrian group for fifty years at 6 per cent, guaranteed by the government. One can only wonder what manner of security the bankrupts might have offered to the government for a fifty-year loan. Anyway the plan was ill-fated. As so often happens, the Hsiung Cabinet, with whom negotiations had been taken up, resigned before the Shansi men had made any definite loan agreement with the government. At best, the $50,000,000 Currency Loan, then under discussion, was entitled to precedence.

The government finally granted permission to the bankers to organize a new bank supervised by a delegate from the Ministry of Finance. This was manifestly one way to sanction the bankers' original request for permission to go into bankruptcy. (*Peking Daily News*, March

24, 1914.) A year later, the government regulations for Currency Exchange Offices in the branches of the Bank of China provided for the employment of Shansi men. (*Peking Daily News*, April 8, 1915.) Absorption is following dissolution.

The decline of the Shansi bankers is small cause for regret. Wise in their own day, they constituted a dangerously conservative element in Chinese banking. The bankers failed to anticipate the light of a new day. Had they organized a big private bank on strictly modern lines fifteen years ago, with a policy of service for patrons, iron discipline for employees and branches, and publicity in all, the men of Shansi might easily have held their old-time supremacy.

The opportunity is gone now: for the Bank of China and the Bank of Communications, despite their manifold shortcomings, have appropriated the field with their numerous branches and secured a joint control of the government balances.

That overissue was the occasion for the downfall of the Shansi bankers is not surprising. In recent times, if not always, no Chinese bank has been free from the vice of overissue for more than a few years at a time. "Native Banks" and "Suspensions and Failures" are two items in the index of my notebooks followed by practically identical page numbers. Ever since the days of Marco Polo, 1254–1323, and from centuries before (see Edkins's "Banking and Prices in China"), the rulers of China have made sport of paper money. Furthermore, private bankers were quick to see in paper the "alchemy" so astounding to Marco Polo.

Writing in 1878, the American Minister to China, Mr. George F. Seward, said ("Memorandum of Currency in

China") that probably 75 per cent of business in Peking was transacted with paper money, mostly of petty denominations: though in some cities, like Shanghai, paper money was never seen. In spite of frequent failures among the issuers, he said, people gladly accepted paper in lieu of copper "cash," which was cumbersome to handle, and in lieu of silver the use of which was attended with difficulties not experienced where a coinage system exists. Mr. Seward suggested that the authorities at Washington should appeal to our customs treaties and endeavor to secure currency reform in China. Possibly this was the first active interest displayed by any foreign nation in the reform of money and banking in China.

Attempts at reform in currency and banking, like several other reforms in China and Japan, were virtually forced upon the rulers by foreigners. In their business relations with Chinese subjects, foreigners found themselves seriously hindered by the chaos in Chinese money. The Chinese dealers were the only ones who even professed to understand the system whereby exchange eats up profits. Every now and then a foreigner has been caught with the notes of a semiofficial bank in suspension, and diplomatic intercourse has ensued. If a foreign chamber of commerce is temporarily without official business, it takes up the old matter with its legation at Peking. This seems to have been the regular procedure for a generation back.

CHAPTER II

The Organization of the Hupu Bank

Modern banking in China was born of the turbulence of 1900. This Boxer Rebellion against foreigners was tentatively settled by the Protocol early in 1901, granting huge indemnities to the powers and promising new trade treaties at an early date.

Great Britain was the first to apply for its new treaty. Early in 1901 negotiations were begun by a British commission of three, headed by Sir James Mackay, formerly President of the Bengal Chamber of Commerce and member of the Council of India. By July the draft treaty had been unconditionally accepted by the Chinese government, subject to ratification by the powers. The United States was the first to ratify it, and the other powers soon followed. It was signed at Peking on September 5, 1902. Those subsequently made with the other powers were virtually copies of the British treaty.

The Mackay Treaty (known also as the Treaty of Shanghai and as the British Commercial Treaty of 1902), had it been observed, would have been a sort of Magna Charta in the reform of Chinese commerce. It promised early reform in currency, mines, trade-marks and patents, bonded warehouses, navigation, corporations, treaty ports, barrier taxes, customs, and other important matters. The keystone of the whole treaty structure, in the eyes of the British at the time, was Article VIII, in which the Chinese government contracted to abolish all internal barrier customs in exchange for an increase in the customs duties to 15 per cent, the abolition of the free list, and the levying of a 10 per cent excess upon the product of British factories in China.

The Currency Clause, which was not to take effect until nine months after the signing of the treaty, read as follows:

> "China agrees to take the necessary steps to provide for a uniform national coinage which shall be legal tender in payment of all duties, taxes, and other obligations throughout the Empire by British as well as Chinese subjects."

Overshadowed by the agreement concerning barrier taxes, this Currency Clause was but little discussed until several months after the conclusion of the treaty. When finally it came in for its share of attention, the English press in China was unanimous as to the need of a national bank to regulate the new currency and nearly unanimous as to the need of a gold standard. In Shanghai, plans for a national bank were urged by such prominent men as Sir Robert Hart, Mr. E. S. Little, Mr. F. Anderson, Mr. M. H. Houston, and Mr. V. dal Ferro.

The Chinese, goaded by the prospect of being compelled to sell silver in a steadily declining market to pay in gold the interest and principal of the Boxer indemnities, were not averse to the gold standard. An imperial currency commission, headed by Mr. Na Fang, was sent to Japan to investigate; and this commission reported strongly in favor of a central bank as an adjunct to the gold standard.

Further, in a memorandum to Secretary Hay, dated January 22, 1903, Prince Ch'ing requested assistance from the United States government in establishing the gold standard. In compliance, the American government delegated to China a commission on international exchange, consisting of Jeremiah W. Jenks, C. A. Conant, and Hugh Hanna. The report of the Jenks Commission, later published ("Considerations on a New Monetary System for China," Hanna, Conant and Jenks, 1904), was first mimeographed in October, 1903. In this report, plans for a national bank with numerous branches to assist in monetary reform figure prominently.

The French also were interested in the new Imperial Bank, and the rumor was abroad that the Bank might be partly financed and controlled by French capitalists. An American note, sent late in December, 1904, to the Chinese government, protested against any such scheme, reminding the government that assurance had been given to the Jenks Commission that Chinese capital adequate for the enterprise would be forthcoming. Prince Ch'ing replied that plans for a strictly Chinese bank were nearly completed.

As a result of this agitation from so many quarters, the Council of Finance and the Board of Revenue (Hu Pu) memorialized the Throne for an imperial bank under the control of the Hu Pu. This memorial, which was promptly approved, was dated March 16, 1904, the thirtieth day of the First Moon of the thirtieth year of the reign of Kuang Hsu. The regulations for the new bank were approved in the Third Moon, a few weeks later. (It is easy to confuse this Imperial Bank, as it was sometimes called, with the National Bank of China, Limited. The latter, a private British concern, was launched at Hongkong in 1891 and was liquidated in 1911. It was one of the foremost financial institutions of the period, having a considerable issue in dollar denominations and a subscribed capital of £699,475 of which six sevenths had been called. An editorial of the *North China Herald*, February 25, 1903, suggested making this bank a nucleus for currency reform, multiplying its branches and using Shansi bankers as branch managers.)

The Hupu Bank was to be a limited liability company with an authorized capitalization of ₮4,000,000 operating under a twenty-year charter. Its stock could not be sold to foreigners. None of the twenty articles in the regulations of the Bank mentions its duties in connection with the mooted reforms of the currency system. The business to be transacted by the Bank comprised receiving deposits, making collections, and receiving safety deposits.

It was unnecessary to specify the function of the Bank in money reform, however, for Article II stated that the Bank was to be *controlled by the government:* "So that in case of emergency the government might make loans to the bank and receive interest." The irony of this excuse appeared when, in 1911 and again in 1916, a different "case of emergency" arose, and the government drained its bank of every available coffer, forcing it to suspend. (For detailed regulation see Appendix A.)

Private shareholders, who were permitted to subscribe to half of the total capital of ₮4,000,000 were empowered by Article VI of the original regulations to elect a governor, a vice governor, four directors, and three inspectors. Any shareholders owning four hundred shares, amounting to ₮40,000, was eligible for a directorship: and an inspector was compelled to own forty shares.

By these two contradictory articles, one vesting control in the government and the other in the private stockholders, the government might have become virtually a bondholder. In practice, however, Article II gained precedence: and subsequently, whether before or after the payment of the first private subscriptions the writer does not know, regulations of very different purport were enacted.

Under the new regulations (see Appendix B) the governor, the deputy governor, the superintendents of branches, and two official supervisors were to be appointed by the Throne upon recommendation by the Ministry of Finance. The four directors to be elected by the shareholders had to be confirmed by the Minister of Finance, and the managers of branches (managers were subordinate to the superintendents of branches mentioned above) were to be appointed by the four directors. Further, all resolutions passed at private stockholders' meetings had to be "signed" by the governor of the Bank. That all control was wrested from the stockholders by such an administration is not surprising.

The Bank early became a government "yamen," overstocked with the incompetent underlings of government officials. The private stockholders had little voice even in the filling of the offices definitely allocated to them by the regulations. Later they discontinued even the formality of holding stockholders' meetings. Twice in 1917, Governor Hsu En Yuan tried, with but indifferent success, to organize an "Association of the Shareholders of the Bank of China" (see Appendix P).

Although the government guaranteed a 3 per cent semi-annual dividend upon all installments paid in by private stockholders, it was forced for some time to finance the Bank unaided by private capital. The commercial class of the country, having learned from rich experience to distrust the motives of government officials, would contribute no funds either as capital or as deposits. To overcome this opposition, the government appointed several merchants of good reputation to the rank of "business manager" and "assistant business managers" of the Bank, two offices paying equal salaries of ₮300 a month. These officers had very indefinite power in the internal affairs of the Bank, but they served to dispel in a large measure the suspicions of the commercial class. (Gory, pages 9 and 10, "History of the Ta Ching Bank.")

The organization expenses, amounting to less than ₮4,000, were advanced by the Board of Revenue and repaid from net earnings. A petition, sent by the officers in August, notified the Throne that the Bank was ready to open and requested an appropriation of ₮500,000 as an initial installment of the government capital. Upon receipt of the first ₮200,000 the head office at Peking was formally opened in September 27, 1905. Three weeks later the government paid ₮300,000 more: and a second half million was delivered in 1906 in two installments. The remaining million of government capital was not delivered until early in 1908.

The twenty thousand private shares were not fully subscribed until late in 1906, and the second half of the installments upon these shares was not fully paid in till near the end of 1908, more than three years after the opening of the Bank. (It is interesting to compare this achievement with that of the first Bank of the United States. Two hours after the opening of the subscription books in 1791, the $5,000,000 of private shares had been oversubscribed by $1,600,000.)

The Bank made large profits from the outset. The first dividend, which included the net profits of the last months of 1905 and those of the fiscal year of 1906, was ₮219,834.99. The rate of dividend actually declared was 21.2 per cent: but the rates of income upon the capital in the Bank at the beginning of 1906, was more than 30 per cent. Profits undivided, surplus, and bonuses distributed to employees would have considerably raised this rate of income. ("History of the Ta Ching Bank.")

Figures so handsome as these suggest manipulation by the officials to facilitate floating the remaining private shares. The dividends did not greatly diminish, however, after the stock had been fully taken up. (See financial statements in Appendix F.)

The prospects of the Bank were so good that early in the summer of 1908 (Regulations approved by the Throne, February 28, 1908) subscriptions were opened for an increase in the capitalization to ₮10,000,000. Half of the new capital was supplied by the government, as before.

Enjoyment of the good-will in the going concern was given to the old stockholders by a somewhat novel arrangement. For a period of three years, the guaranteed 6 per cent dividend upon old and new private shares was first deducted from the net earnings: then was paid on the government capital: and the balance was divided equally between the government and the private shares, old and new private stock sharing alike, as the new private shares might amount to ₮3,000,000, while the old shares amounted to only 2,000,000, the dividend payable to the old shareholders would probably exceed that payable to the new shareholders. It is interesting to observe that this arrangement would insure the sale of at least a portion of the new stock: for if less than ₮2,000,000 were floated, the dividend upon the new stock would exceed that of the old. As a further privilege, the old shareholders were given about six weeks during which they had exclusive right to subscribe to the new shares.

The confidence of the old shareholders in the value of the new stock was such that few, if any, outsiders were able to acquire new stock at par. The first 50 per cent installment of the new private subscriptions was paid promptly during the second quarter of 1908, but the remaining 50 per cent was not called until the fifth and sixth moons of 1910.

As the capital flowed in, the number of branches, sub-branches, and agencies steadily increased. At the close of 1906 there were 6; at the close of 1907, 13; and 18 at the close of 1908, etc. (see Appendix F). So it was that in 1911, when the Mackay Treaty had been so frequently broken and so completely forgotten that the barrier taxes of Hupeh and other provinces were pledged to British financiers as security for the Hukwang Railway Loan, the Hupu Bank, the proposed engine of the currency reform, had as yet only 20 regular branches and 40 sub-branches.

The Mackay Treaty nevertheless did all that was expected of it at the time, and more. The effectiveness of the treaty was openly doubted from the outset. No one experienced in Oriental affairs expects sweeping reforms in a day, or in a generation. Delays and digressions are inevitable.

The *Economist* of August 2, 1902, commented briefly on the treaty and concluded warily: "This is all excellent on paper but we shall wait to see how the agreement is carried out before becoming too effusive."

The *North China Herald* (September 24 and October 20, 1902) pointed out that the sole foundation upon which the treaty rested was the good faith of the Chinese government and that even the provisions of the Boxer Protocol had not been lived up to. In Fengtien province Boxers were permitted to drill even in the Metropolitan Prefecture. This periodical definitely predicted that nothing would be done to give effect to the Currency Clause. (*North China Herald*, December 3, 1902.) Violations of the treaty were mentioned by the *Herald* as early as August, 1903.

In July, 1905, a petition by the British Chamber of Commerce at Shanghai called the attention of His Majesty's government to the "fact that China ignores the Mackay Treaty rendering it ineffective in most essentials and actively opposes currency, mining, taxation, and navigation reforms."

The Mackay Treaty even served temporarily to enhance the confusion in Chinese currency. One or two half-hearted attempts to abide by the treaty were made with the concrete result that small quantities of new types of coin were minted. Thus an imperial order was issued to the mints in the fall of 1905 to coin Kuping taels, half taels, and tenth taels, these coins to be the only legal tender. The coins were to be given to the Hupu Bank to serve as a reserve for bank notes. The order decreed that "once adjusted, China shall adopt forever the tael coin as the standard." A few thousand of the coins were actually minted before the administration went off on another tangent. Meanwhile, the provincial governments continued to mint their provincial coins and to enact laws to restrict the circulation of the coins of other provinces within their boundaries. Debasement of coins, depreciation of paper, and exchange on both coins and paper continued to rob the subjects of China and the foreign traders of millions without any compensating gain.

Nevertheless, it must not be supposed that the Currency Clause was unavailing. It was immediately responsible for the organization of a national bank which will at some future time be an indispensable agency in currency reform. Incidentally it has lent interest to currency discussion for nearly two decades.

While the controversy has been going on, sometimes favoring a gold standard and at other times a silver standard, or even a copper standard, the national banks have patiently grown and quietly circulated, along with several kinds of local tael notes, national dollar notes; as a result the silver dollar is now current in many cities far from the coast. The controversy has not settled very many points: but the banks are slowly tending to center monetary discussions around the Yuan dollar, which—dare we predict it—will some day become the basis of the first uniform currency system in China.

CHAPTER III

The Ta Ching Bank

The Hupu and Ta Ching banks and the Bank of China may be regarded as one institution at three different periods. Where the Bank of China begins and the Ta Ching Bank leaves off is easy to tell, because the Ta Ching Bank suspended in 1910 during the waning hours of the Manchu Régime and had to be reorganized to begin the Republican Régime. The bank resumed business a few months after the Revolution of 1911 under its present name, the Bank of China.

But where the Ta Ching Bank begins and the Hupu Bank leaves off is rather uncertain. As the Bank assumed national importance, it was no longer fitting to use the name Hupu (Revenue Board) Bank and the name, Hupu, fell into disuse. Ching is the name of the last Manchu dynasty, under which the bank was chartered, and "Ta" means "great." The name "Ta Ching" was officially applied to the Bank probably for the first time in the regulations of February 28, 1908, which provided among other things for an increase of capital to ₮10,000,000.

The old regulations (see Appendix A), under which the Hupu Bank was organized, were fragmentary, ambiguous, and contradictory. The regulations concerning issue, for example, specified only that the bank notes should be of such and such tael denominations, that they should exchange like silver, that they should be cashed by any bank, and that they should not be subject to disparaging "rumors" in cash shop (a cash shop is the shop of a money changer) or "seraph," as they are called in the Near East. No maximum circulation was set, and no provisions were made as to reserves or as to security. The founders of the Bank seemed profoundly innocent of all dogma affecting the elasticity, security, and limitation of issue.

Such regulations were tolerable only in the anticipation of others more adequate. Delay, however, served the selfish interests of the Bank, which might operate more freely under the looser regulations. Delay was further serviceable, in at least one case, to stifle competition. When in May, 1906, the Ministry of Commerce (Shang Pu) petitioned for the privilege of organizing a bank, the Hupu (Board of Revenue) opposed the project on the grounds that any such institution should be under the control of the Ministry of Finance "as in foreign countries," and that no such institution could be registered except under the provisions of the forthcoming code on banks in general. The position taken by the Hupu was sanctioned by the Throne: and the project of the rival bank, blocked thus for many months, was eventually forgotten.

The new law, so long delayed, only partially satisfied the need for more explicit regulations. For one thing, its twenty-four articles all pertained to the Ta Ching Bank: none pertained to banking in general. Even the bank-note provisions were postponed. The only article touching upon it provided as follows:

> "Article V. The Bank shall hereafter have the exclusive right to issue paper money, but such issue

> shall be in conformity with the laws appertaining to the same, and additional laws must be enacted by the Board of Finance before the Bank may issue paper currency. Temporary notes may be issued before the enactment of the said laws."

The promise of "additional laws" was accepted by foreigners for what it was worth. These laws were delayed for about seventeen months, being finally promulgated in July, 1909, two months after strenuous pressure had been applied to the Chinese government by the Doyen of the Diplomatic Corps at Peking. This bank-note law (see Appendix), as will be seen later, would have been fairly adequate, had it been enforced.

Some of the articles of the Ta Ching Bank were copied almost verbatim from the regulations of central banks in the older industrialized countries. Among these articles are those taking precautions against impairment of capital resulting from loans upon the stock of the Bank and against making the institution a land-speculation venture. At least one article, we may assume, never saw light in any modern country. This reads as follows :

> "Article XI. The Bank must not invest its funds in other concerns, but this does not preclude its dealing in the shares of perfectly reliable stock companies."

Fortunately, regulations do not make the bank. Particularly is this true of regulations affecting investments and reserves. If the Bank of England consisted of its regulations, it would be less stable than the Bank of Mexico. Banks depend partly, of course, upon their regulations, but almost entirely upon the men that manage them. It was due doubtless to the ability of the men that managed the Ta

Ching Bank in its earlier days that the Bank enjoyed, on the whole, an excellent reputation.

Thus in April, 1908, the Shanghai Taotai (a sort of imperial mayor) complained to the Senior Consul of that port that the foreign banks had agreed not to accept any bank notes issued by Chinese banks other than the Ta Ching Bank. This compliment to the Bank must not be swallowed too readily; for the Shanghai branch has always been strangely independent of the Head Office at Peking, and its business standards higher. The circulation of the Ta Ching Bank was, however, very small at that time, being estimated by the Shanghai General Chamber of Commerce at ₮200,000, half of which was said to be in Shanghai. Several of the Chinese banks, against whose paper the foreign bankers discriminated, had issues greatly exceeding their capital. The Chekian Shing Nih Bank, for example, had a paid-up capital of only $250,000 and an estimated issue of $800,000.

The officials of the Ta Ching Bank had favorably impressed the business community in China, particularly the foreign business community there, by its firm refusal to lend to the Viceroy of the Liang-Kiang provinces during the famine in his provinces in 1906 and 1907 (Gory "Notes on the Ta Ching Bank"). The Viceroy failed to proffer any but flimsy security for the four-hundred-thousand-tael loan he requested, and the Bank managers declined to compound charity with business. The attitude taken by the Bank in these negotiations was radical in the extreme and hence difficult to sustain, and it reflects the sound business sense of the men to whose charge the affairs of the Bank had been committed.

Writing in May, 1908, Mr. Gory praised the honesty of the Bank in unqualified terms. "Bearing in mind personal observation with three leading establishments of different nationalities (in one case inside observation)," he said, "I consider that the Ta Ching Bank is certainly, at present, up to the high standard of honesty set up by its seniors, the foreign institutions." ("Notes on the Ta Ching Bank," page 32.)

The impression is current to this day that the officials of the Bank distinguished themselves by avoiding investments in the rubber plantation shares which ruined so many banks in the Far East during the latter half of 1910. Certain it is that the Head Office was in a position not only to meet the withdrawals of deposits during the general panic but also to lend to less fortunate institutions. Possibly, however, some of the funds lent came direct from the Government Treasury. A study of the financial statements of the Bank for the years 1909 and 1910, throw but little light on the subject. The profits of the twenty branches of the Ta Ching Bank for 1910 were nearly ₮500,000 less than the profits of the fifteen branches operating in 1909.* (See financial statements in Appendix F.) The profits of the Shanghai branch during 1910 were only ₮63,000 less than during the previous year, and the Tientsin and Ch'ungch'ing branches showed a comparable diminution of profits. The various branches must have suffered greatly from the wholesale withdrawal of deposits from all banks during the panic and from the necessity of larger cash reserves upon the remaining deposits: but who shall say that they held no rubber stock? We know that the Bank was

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*Appendix F. No statements for the fiscal year of 1911 are available. They would probably be of little use for comparative purposes, however, due to the abnormal conditions resulting from the Republican Revolution of that year.

privileged by law to deal in the shares of "perfectly reliable stock companies."

The Rubber Boom of 1910 so shook the credit structure of the Far East that it deserves more than casual mention in the present treatise. Its effects were felt even in the distant Occident, particularly in London, where the sudden decline of rubber stocks impressed the dubious-minded that the rubber plantations were nothing but "another South Sea Bubble." Further, the fashion arose among financial editors there of refusing to run advertisements of rubber shares.

The price of rubber has always been subject to radical fluctuation. Thus "fine Para," formerly the basic grade upon which the prices of all grades depended, fluctuated between 2s. 6d. a pound to 6s. 9d. during the period of 1900 to 1908. Then, the development of pneumatic tires caused a great increase in the demand for rubber. Beginning with 1908, the price steadily rose to 4s.: during 1909 it rose to 10s.: and early in 1910 it went to 12s. Then, within a few months, it fell 50 per cent.

While the price of rubber was going skyward the acreage of rubber plantations in Ceylon, Malaya, Java, Borneo, and Sumatra expanded phenomenally. Tea plantations commonly set out rubber trees and became rubber plantations. In 1905 the acreage was 75,000: in 1916 it was 1,377,000. The world supply of plantation rubber amounted to only 145 tons in 1905: it was about 1,000 tons in 1907: and it doubled itself with remarkable regularity each year till 1911. Thereafter it increased absolutely by larger and larger amounts, but it declined relatively. ("Capital," published in Calcutta.) In 1905 about 5 per cent to 6 per cent of the world supply was plantation rubber. Now, fully 80 per cent of the world supply comes from these selfsame plantations that upset the banking world in 1910.

In some cases during the Rubber Boom, the older plantations paid annual dividends greatly exceeding their capitalization. To determine the real worth of rubber shares at such a time was obviously impossible: and that the valuation should have been run up too high by an ignorant, hopeful public was to be expected.

Chinese bankers caught the fever: and it will be remembered that there were no laws to prevent any Chinese bank from tying up, in rubber stock, funds which in other countries could have gone only into first mortgages, call loans, or well secured commercial paper. Incidentally Chinese bankers were too provincial to have acquired caution from disasters that have followed railway booms, trust stock booms, or realty booms in other lands.

The crash began in the middle of August, with the suspension of the Yuen Shing Bank, the largest Chinese bank at Manila. Lesser failures took place on the mainland at about the same time. Followed the failure of the great Yuan Feng Jun bank early in October: and the panic proceeded in earnest.

The Yuan Feng Jun, which was the State Bank of Chekiang province had seventeen branches (*Peking Daily News*, October 13, 1910), and handled large amounts of public funds. Some of the branches closed their doors immediately: the branch at Peking declared bankruptcy on October 9. Others, like the Shanghai branch, staggered along for several days longer, meeting all demands of their panic-stricken creditors. The Canton branch owed the Canton Customs House ₮6,000,000: the Hankow branch held ₮4,000,000 of customs funds: and the Shanghai branch ₮3,500,000—an interesting comment upon the Chinese practice of depositing government funds with almost any kind of semiofficial institution having political support. Strenuous efforts were made to save the Bank, the province of Chekiang even offering its provincial paper factory as security: but the damage was beyond repair. Liquidation ensued.

Two other large banks at Shanghai failed at about the same time that the Shanghai branch of the Yuan Feng Jun closed. These three failures alone involved about ₮18,000,000 of liabilities. Numerous lesser institutions and cash shops in Shanghai also failed. In Peking, some twenty concerns of the same grade suspended. In Canton, about fifty of a total of about one hundred fifty banking concerns closed their doors. ("China Year Book of 1912," page 302.) Wholesale failures occurred also at Ningpo, Nanking, Hankow, and other important centers. Considerable amounts of government funds were tied up all over the country, though in some cases the government withdrew its funds just in time.

The funds advanced by the Ta Ching Bank to the Shanghai Taotai to relieve the situation in his city were but a drop in the bucket. Foreign funds were more in evidence. The Hongkong and Shanghai Bank, a British concern, lent ₮2,000,000 to the Shanghai Chamber of Commerce. This association had previously requested ₮5,000,000 from the Ta Ching Bank and the Bank of Communications, receiving, as stated, one tenth the amount solicited. The province of Kwangtung borrowed ₮3,000,000 from foreigners. The Tuchi Pu (Board of Finance) distributed ₮400,000 to local Peking bankers through the Ta Ching

Bank: and the Bank added ₮600,000 to the same fund. Practically all of the cash shops in Peking were thus enabled to resume payments by October 27. Some of the "native orders" in the outlying districts, however, were not paid until more than a year later. (A native order is a draft upon a Chinese banker.)

As a side light upon Chinese bankruptcy proceedings, it is interesting to know that dozens or scores of bank officials all over the country were committed to jail. Thus, in the daily papers of the period, we read, for instance, (*Peking Daily News*, October 28, 1910) that "Viceroy Chang of Nanking is about to inflict severe punishment on Chen Yi-ching, banker, to compel him to meet his liabilities," also that "the proprietor of the Ten Yuan Bank has been arrested to undergo punishment." Some of the banks were assisted to resume payments through the agency of government offices or chambers of commerce: other banks had their holdings promptly sold at the auction block. In some cases, political affiliation was perhaps the principal factor in determining whether a particular bank should be assisted or, on the other hand, be sold out at break-up prices. Obviously, not every one could be spared.

The old, old means of attempting to remedy bad banks by more banks became popular. Thus, in Peking there was talk of a new bank with a capitalization of ₮10,000,000. The Szechwan Railway, caught in the crisis, proposed a bank of its own to be patterned after the Bank of the Ministry of Communications, to be called the Sheng Yih Bank, and to have headquarters at Peking and in Szechwan. Most of these projects vanished as suddenly as they appeared.

The rubber boom was followed, of course, by the periodical protest by foreigners to the Chinese government against the "unlimited utterance of notes," this time through the Doyen of the Diplomatic Corps at Peking. "If such conditions continue to exist," he said, "future international complications could hardly be avoided." (*North China Herald*, May 6, 1911.) The boom terminated thus with august decorum.

The managers of the Ta Ching Bank distinguished themselves, on a few occasions, as shown, for shrewd business ability. On other occasions they did not acquit themselves so creditably. In 1907 the Bank lent ₮4,500,000 on a mortgage upon the Whangpoo Conservancy Works at Shanghai. (Gory, page 29, "Notes on the Chinese Government Bank.") The obvious comment is that such a large loan by so small a bank is hardly deemed prudent, even where the security is unquestionably good.

At a meeting of the Currency Loan Committee at London in August, 1911, reference was made to "serious financial difficulties encountered by the Ta Ching Bank." ("Report of the Chinese Currency Committee and Minutes of the Meetings." This committee was composed of delegates from China and from banking groups of the leading Powers. Dr. Jeremiah Jenks presided.) There is some evidence, then, that the Bank was in a rather bad condition even before the outbreak of the Republican Revolution in the autumn of 1911.

About three years later, a Minister of Finance of the Republic expressed himself more definitely as to the methods of the Bank. "The Central Bank of the Ching Dynasty," said Mr. Chow Hsuh-hsi, "recklessly issued notes and accepted mortgages on properties, thereby destroying public confidence. Its blunders are glaringly evident." (*North China Herald*, January 4, 1913.)

The speculative nature of the Bank's activities is reflected in the wide variation in the profits of its branches from year to year. Thus, the Chinan branch reported no profit during the first six moons of 1909: though its profits during the similar periods immediately preceding and following were respectively ₮13,200 and ₮12,600: In the first half of 1908, the Head Office gained ₮167,000: while the figure for the second half year was ₮230,000.

In the second half of 1908, the Fengtien branch showed profits of ₮112,000: in the half year preceding the rubber boom, its profits were ₮2,100. The Yinkow profits dropped from ₮247,000 in the second half of 1908 to ₮27,500 for the second half of 1909. The statements of the Bank during the years 1906–1910 furnish numerous other instances of the same sort. (The figures are taken from my private translation of the "History of the Ta Ching Bank," see Appendix F.) Some allowance may be made for the uncertainties of an undeveloped country: though of course the first task of a conservative banker is to avoid just such uncertainties.

It is doubtful, however, that the fluctuations in the profits of the banks were caused by investments in business enterprises. The evidence in connection with the rubber boom is indefinite: but as further evidence concerning the Bank in its later days we have the statement of Dr. Chen Chin Tao before the Currency Loan Conference in August, 1911, to the effect that the Bank held, at that time, only ₮800,000 of stocks. This sum was invested entirely in one undertaking, the Relief Bank in Tientsin, an institution founded during the rubber boom. Whatever the Bank risked in this undertaking was for the eminent good of the community. Risks of this kind are occasionally taken by the most conservative banks of the foremost countries. Loans on clearing-house certificates by associations of American banks in time of need, are one case in point.

CHAPTER IV

Revolution of 1911 and Organization of Bank of China

The Revolution of 1911 came almost without warning through the revolt of the troops of General Li Yuan Hung at Wuchang on October 10, 1911. After a few months of desultory fighting and general disorder in most of the Eighteen Provinces, the diplomatic genius of the Chinese people reasserted itself in the "Articles of Compromise," and the Chinese Republic took the field temporarily to restore order. The hated Manchu House retired from political life on February 12, 1912, with an annual pension of $4,000,000. During this brief period, and during the troubled months that followed, a whole epoch of events transpired in the banking world.

The Ta Ching Bank was immediately dismembered. Branches in Manchu territory remained Manchu branches up to the inauguration of the Republic, while branches in rebel territory became rebel institutions, under new names in some instances. Much of the funds which were not promptly withdrawn by depositors in the inevitable "runs" were expropriated by one or the other of the contending governments or looted by undisciplined soldiery. A general orgy of note issue by both Manchu and Republican branches ensued. Finally the Bank lay prostrate, hopelessly bankrupt.

The Head Office reported on October 17 (*Peking Daily News*) that it had received from the Tientsin Mint many chests of coin and silver bullion and that as further indication of stability, the shares of the Bank had remained stationary. The Tientsin Mint worked double shift to produce more coins, and a large volume of coins from this source poured into the Bank coffers. The Bank announced that all its notes would be paid in full on demand. Ten days later the run had temporarily subsided, but the drain must have been severe indeed.

In six days the Chihli Savings Bank, a semiofficial institution, paid out something like $760,000 of its total fixed deposits which slightly exceeded $1,000,000.

As indicated, there was a general run on the Chinese banks at Peking, as elsewhere. The Peking Chamber of Commerce succeeded in alleviating the distress somewhat by borrowing ₮1,000,000 at 6 per cent for six months from the Ministry of Finance. (*Peking Daily News*, October 24.) This loan was apportioned among the banks of the city after the manner of funds borrowed by the Shanghai Chamber of Commerce during the rubber boom.

By the middle of November the National Treasury was empty, and the Imperial House then contributed ₮1,000,000 of its private funds in its vain attempt to quell the insurrection. About this time the president of the Ta Ching Bank, Yeh Ching-kuei, was "impeached for cowardly disappearance from the capital." Forcible borrowing from the Bank by the government had probably already begun, and it was impolitic for one to be in a position where the looting of the Bank might be laid at his door in later years.

The third week of November heralded an emergency issue of Ta Ching bank notes "to relieve the market." The Ministry of Civil Affairs had authorized the Commissioners of Police in the Outer City of Peking to make this issue under eight provisional articles. The notes were to be disseminated by fifteen selected banks in sound condition and with ample reserves: and they were to bear the government seal.

The inflation of issues went on apace. On December 20 (*Peking Daily News*), it was announced that the Ta Ching Bank would be permitted to secure its notes with Patriotic Loan Bonds. This recalls the measure taken by the national banks of the belligerents during the European War, a measure as old as the modern bank. Naturally the sale of Patriotic Loan Bonds by the failing dynasty was attended with difficulties: only ₮1,000,000 were subscribed during the first month. (*Peking Daily News*, January 4, 1912.) Had the entire block of bonds been used as security for note issue by the national bank, the note issue thus secured would have been very small.

The renunciation of the Bank's obligations was officially announced on February 14, 1912. (*Peking Daily News.*) This announcement, which was evidently for foreign consumption, took the form of an "Imperial Notice." It warned "buyers of time and current deposits in this Bank, different boards, and other government institutions, or those who take them as security, if there be any—that owing to immediate great political changes this Bank shall not be responsible for any loss which might happen to holders of these deposits."

A certain amount of note redemption continued, however, possibly, as the Chinese would say, to "save face."

On March 14, it was announced that as Chinese were sometimes forbidden access to the Legation Quarter by the Legation Military Guards, a redemption office had been opened outside the Winter Gate of Peking. Probably this redemption office kept short hours, worked slowly, and redeemed only in small amounts, ostensibly "to relieve the suffering poor." Disturbances at the capital were common, and on March 15 a mob burned the Heng-li Bank in the West City. Most of the city cash shops had long since closed their doors.

Naturally enough, some branches stood the strain better than others. The Dairen branch of the Ta Ching Bank, for example, apparently went through the worst of the crisis without a scratch. Dairen was far removed from the scenes of strife, and its branch was too small to attract the attention of the financiers of the belligerent parties. It reported that during the Eleventh Moon, which began toward the end of December, it did not receive a single call for note redemption. It continued during this period to receive deposits and make loans.

The Hankow branch was caught in the maelstrom. Together with its sister institutions of the city, it was promptly run and forced to suspend. The notes of the Hankow branch of the Bank of Communications fell abruptly to 80 per cent of their face value. (October 24, 1911.) But Hankow was veritably a camp of the victorious rebels, and a semblance of order and prosperity was soon established under the martial law of General Li. Early in February, General Li, then provisional Vice President, reassured the foreign consuls that the depreciated notes of the Hupeh Government Cash Bank would be redeemed in full at an early date. (*Peking Daily News*, February 7, 1912.) After a few weeks of resumption this bank suspended again on May 10. Early in February the British Chamber of Commerce at Shanghai passed a resolution that Chinese business in Hankow be undertaken only on a cash basis or against "native bank orders" of not longer than three days' usance. This resolution was to become effective on February 19. The blow was not, however, aimed solely at Hankow banks. A similar resolution to apply to business in Tientsin, Newchwang, Tsingtao, and Chefoo was made effective ten days later. (*Peking Daily News*, February 8 and 29, 1914.) The Chinese protested in vain against these resolutions.

The cash shops in Hankow, said to have liabilities exceeding ₮10,000,000, were compelled to resume payments in March, their proprietors being given two weeks to return to business under penalty of having their property seized.

The Shanghai branch of the Ta Ching Bank was protected to a certain extent by being located within the boundaries of the International Settlement. But the panic of Shanghai was very severe, there being a period when the notes of reliable foreign banks, like the Hongkong and Shanghai Banking Corporation, were refused by Chinese merchants. (*Peking Daily News*, October 26, 1911.) By November 4 (*North China Herald*), fourteen of the thirty-six Chinese banks had suspended, owing foreign banks alone about ₮8,500,000.

As is stated in Chapter XIV, the branch fortified itself by withholding funds from the Head Office by quasi-fraudulent means. Like the Head Office, it drew heavily from the mints, ordering at one time a supply of dollars stamped on only one side. It was drained heavily during the "run" and paid out during a period of three days in October nearly $2,000,000.

The deposits of the branch, as of other branches, were diminished in another way. On December 18, the Imperial Chinese Customs, which has been controlled by foreigners since Boxer times as security for the Indemnity Loan, ceased to deposit its balances in the Ta Ching branch and began to use the Hongkong and Shanghai Banking Corporation as its depository. This was a hard blow: as the customs receipts of Shanghai are larger than those of any other port of entry. The Consular Body of the port announced that the funds would be redeposited with the Chinese Bank as soon as the Republic should be established.

Several branches of the Ta Ching Bank suffered greatly during the general disorder through the expropriation of funds by the warring parties. An unimportant instance of this kind occurred at Nanking early in November, when a Republican cruiser seized ₮21,000 consigned to the Hankow branch. (*North China Herald*, November 4, 1911.) Looting "by unpaid troops" during the first year of the Republic accounted for other large losses. Thus, in June, 1912, the troops and armed police at Tsinanfu got beyond control and looted the Ta Ching branch, leaving other leading banks untouched. Similar rioting occurred at Mukden. (*Peking Daily News*, June 15 and 21, 1912.)

Early in January, 1912, it was announced that the Changsha branch had changed its name to the Ta Han Bank and declared itself free of Imperial control. It proceeded to transact local business as an independent institution. A similar step was taken at about the same time by the Ta Ching Bank agency at Urga. (*Shanghai Times* and *Peking Daily News*.)

With the wholesale closing of banks, national, provincial, and private, came the plethora of new banks, so characteristic of such periods. On November 26, 1911, General Chen Yin-hai, commander of the Republican Troops, proclaimed that a Chinese national bank would be established at Shanghai with a capitalization of $5,000,000, one half to be subscribed by the government. (*Journal de Pekin.*) In January the military government at Foochow established a four-hundred-thousand-tael bank under the name of the Foochow Bank of the Chinese Republic. Later in the same month, Kiangsu province set aside $2,000,000 as capital for a provincial state bank with its head office at Shanghai. Early in February the Board of Finance of Hupeh announced the opening of Republican banks at Hankow and in Anhwei province. In May, 1912, there was talk of organizing a people's bank at Shanghai to handle Patriotic Funds. Two months later, Shantung province opened a new provincial state bank. All these concerns were to be, as a matter of course, banks of issue. (*Peking Daily News.*)

The Shanghai branch was perhaps more a rallying point for the reorganization of the government bank than was either the branch at Nanking, the temporary capital of the victorious Republicans, or the Head Office at Peking. This branch had withstood the panic comparatively well. The cause of its success in this matter has been stated. Further, being located in the commercial center of the country, it could master the best business genius and the strongest financial support during the period of recuperation.

The stockholders early petitioned the Provisional Government at Nanking and secured permission to continue business under the name of the National or Republican

Bank of China. (*North China Herald*, February 11, 1912.) Accordingly, on February 5, 1912, the launching of the new institution was formally celebrated at Shanghai by a social function on the premises of the Ta Ching Bank, and the winding up of the affairs of the old branch followed. The capital of the old institution was transferred to become part of the new capital, and old subscribers were given the privilege of priority in making new subscriptions. It was estimated at that time that the losses of the entire Ta Ching Bank would not exceed the capital subscribed by the Manchu government, and the capital of the private shareholders would remain intact. (*China Press.*) The blame for the "unsafe advances made to the government" was laid upon the defunct dynasty.

The Head Office at Peking did not resume business for another six months. Toward the middle of May, Dr. Chen Chin-tao, China's ablest financier, went to Peking from the Provisional capital at Nanking expressly to reorganize the government bank. (*Peking Daily News*, May 12, 13, and 16, 1912.) His work was, however, necessarily slow. The Head Office had left little to build on, and Dr. Chen's purposes were not furthered by the Premier, who had proposed making immediate use of the new bank to issue more irredeemable notes through a department to be specially created in the Bank. (*Peking Daily News*, May 7, 1912.) Foreign loans were not forthcoming, and the new government was in bad straits financially: the people were accustomed to depreciated currency; and as a result of these conditions, the Premier's plan aroused but little protest. It was sufficient achievement for Dr. Chen to prevent the Premier from saddling the Bank with an enormous unreserved indebtedness at the outset.

President Yuan Shih-kai's message to the National Council at its opening session in April had mentioned the need of currency reform. (*London Times*, April 29, 1912.) How the Council dallied with all constructive business is now one of the most significant items of recent Chinese history. A bill to provide government funds for the rehabilitation of the national bank appeared in the Agenda of the National Council on June 7 and again on June 11. The bill was not discussed, however, until June 19. Then the Council made the brilliant recommendation that "President Yuan should be asked to order the Minister of Finance to improve the condition of the China Bank and issue a proclamation reassuring the people." (*Peking Daily News.*)

In the interim the President appointed Mr. Wu Tingchang to reorganize the Bank. The plan before Mr. Wu included recapitalizing the Bank with ₮8,000,000 from the Treasury. This, with the original capital, would bring the capitalization up to about ₮15,000,000. The Treasury was empty, however, and any such plan would necessarily remain on paper for the time being. (*Politics*, May 30, 1912.) Just what part Mr. Wu played in the months following is not now clear. It was said, however, that he, like Dr. Chen, was opposed to the Premier's plan of issuing more irredeemable notes. (*Peking Daily News*, June 7, 1912.)

The Head Office apparently made heroic attempts at resumption, but by June 20 the most that it could do was to pay the interest upon deposits. It could not pay the deposits themselves. Order had been restored at the capital, and one by one the banks were reopening their doors. Thus the Commercial Guarantee Bank of Chihli opened its

Peking branch on June 1. The Head Office finally began business on August 1, about six months after the reopening of the Shanghai branch and under the same name, the Bank of China. It was to be controlled by the Minister of Finance but no definite regulations were drawn up at that time. The only provision made was that all government bureaus should accept its notes.

On July 6 a conference of leading financial experts was held at the request of the National Council to discuss regulations for the new Bank. The conference favored a capitalization of $30,000,000; and the government was to supply one tenth of the capital until the subscription should total $10,000,000, after which the government should have the option of withdrawing. The Bank was to be patterned after the Bank of England in that the issue department should be definitely separated from the banking departments. Dr. Chen, then chief of the Audit Department, attended the conference: and we can trace his influence in its resolutions as it is well known that he was for some time connected with banks in England. It is not clear, however, that this conference had any influence upon the final draft of the Bank regulations.

The regulations of the Bank of China were held up in the usual course of delay and appeared finally as a Presidential order on April 15, 1913. The Minister of Finance, Mr. Chow Hsueh-hsi, had suggested early in January that there was urgent need of the regulations "to expedite currency reform." Yet in spite of this need of regulations Articles XII–XIV are even less satisfactory as to control of issue than the similar articles of the old Hupu Bank, drawn up nearly a decade earlier.

It is unnecessary to comment extensively upon the new regulations, as they are given in full in the Appendix. Suffice it to observe, that these are the regulations under which the Bank still operates. The Bank has a thirty-year charter, makes regular appropriations for a reserve, and is forbidden to participate directly or indirectly in industrial or commercial enterprises. It had a tentatively authorized capitalization of $60,000,000, the first half of which was to be subscribed by the government with the privilege of later calling its shares.

The Budget of the Second Year of the Republic, promulgated by the Ministry of Finance early in 1913, included an item of $30,000,000 for the "reform of the Bank of China." But the $30,000,000 of government capital has not been paid to this day. The Budget of 1913 had a deficit of $650,000,000 which was to be covered by loans. That some items should have been pared down was inevitable: for the 6 per cent Domestic Loan Bonds that had been counted upon for $200,000,000 actually brought in less than $10,000,000. (*North China Herald*, January 11, 1913.) The total capital of the Bank, public and private, still remains at $10,000,000.

After a year or more, strenuous measures were again advocated to increase the Bank capital by $20,000,000 — half of the new funds to be governmental and half private. The President actually sanctioned the sale of public properties to raise the necessary funds, but the project collapsed and was forgotten. (*North China Herald*, September 4, 1915.)

Despite its limited capital, the Bank of China expanded its business phenomenally during the next four years. By the end of 1915, the Bank had nearly one hundred fifty branches, and sub-branches increased from thirty-seven to seventy. Before the suspension of 1916, it had more than a thousand employees.

The affairs of the old Ta Ching Bank have lingered on unsettled in a manner almost scandalous. The assets of the old institution were, of course, seized by the newer one: but debts of bankrupt concerns are proverbially difficult to collect. The shares and deposits of the defunct institution were treated as fixed deposits in the Bank of China to be refunded by installments, the amount originally involved being slightly less than ₮11,000,000. The proceeds remaining after the refund of deposits and private shares were to be remitted to the Head Office as government capital in the Bank of China.

As late as April, 1915, Mr. Li Shih-hsi, director of the Office for the Management of Government Properties, was appointed chairman of a commission to attend to the winding up of the Ta Ching Bank affairs. In August of the same year, the government decided that to expedite matters, all lawsuits directly arising from the liquidation proceedings should be heard and settled by district magistrates instead of by law courts. Matters were in such an unsettled condition, however, that as late as November, 1915, the Ministry of Education attempted to collect $200,000 deposited in the Ta Ching Bank by that Ministry several years previously as a fund for new buildings for the Government University at Peking. (*Peking Gazette*, April 4, August 5, and November 11, 1915.) As suggested, it is unlikely that this delay is due to downright dishonesty on the part of the Bank of China. Delay was, however, obviously to the advantage of the Bank.

There was, however, somewhat of a shadow over the transactions connected with the transfer of the affairs of the Ta Ching Bank to the Bank of China. It consisted of an implied accusation in an interpellation by a member of Parliament about a year after the transfer was made. His question was translated as follows: "Has the handing over charge of the Ta Ching Bank been effected, and are there corruption and squeeze in connection with it?" (*Peking Gazette*, September 30, 1913.)

CHAPTER V

The Bank of Communications

For a nation to emit paper currency through several separate, rival banking systems is common enough, even to-day. England, Germany, Italy — all are guilty. Further, for a nation to collect and disburse its provincial revenue through the media of numerous provincial banks has abundant precedent. But China divides the balances of her national treasury at Peking between two separate, competing concerns — the Bank of China and the Bank of Communications. In this respect China is probably in a class by herself. Let us trace the origin and growth of this second of the twin national banks.

The General Bank of Communications received its charter in the form of an "Imperial Rescript" on December 8, 1907, more than three years after the formation of the Hupu Bank.

The natural prejudice against a twin national bank had to be overcome: and the functions — real and fancied — to be fulfilled by the new institution were consequently elaborated in detail in the memorial petitioning for the charter. (See Appendix D.) Briefly, the Bank was to be the means of " uniting under one control " the four groups of enterprise supervised by the Board of Posts and Communications—(changed later to the Ministry of Communications)—the post office, the railways, the telegraphs, and the steamship lines of the government. Inadequate funds in one enterprise would be supplemented by superfluous funds in one of the other enterprises. It was to negotiate loans for the construction of railways and to safeguard and disburse the proceeds of the loans. Its regulations (Article V) specifically mentioned that in the projected purchase from foreigners of the Peking-Hankow Railway, it should be "the duty of the bank to manage the deposit and the transfer of the funds required therefor and to furnish quotations of the price of British gold and to purchase in advance the French money needed."

The memorial complained that the Board of Posts and Communications had lost large amounts of exchange in the past through being compelled to rely upon the existing banks, Chinese and foreign. The Hupu Bank, it was alleged, was not in a condition to compete successfully with other concerns in quoting exchange rates and to render the necessary services. Eastern and Western nations, it was contended, permit the establishment of banks to an indefinite number in each large city and town: and these institutions are carried on in conjunction with a central bank, not in opposition to it. In short, the more banks the better, or as an aside, remedy one weak national bank by establishing another petty national bank.

The Bank of Communications has an authorized capitalization of ₮10,000,000, of which ₮5,000,000 were to be obtained by immediate subscription, twenty thousand shares being taken by the Board and thirty thousand shares offered to private interests. The private shares were over-subscribed, these subscriptions being payable in four equal installments. The government capital was derived primarily from surplus profits of the Imperial Railways of North China, the Peking Hankow Railway, and the Imperial Chinese Telegraph Administration. (*North-China Daily News*, April 19, 1906.)

The private shares, like those of the Bank of China, draw 6 per cent interest, guaranteed by the government. Profits in excess of 6 per cent are distributed equally between the government and the stockholders, after deducting a portion for the Bank's surplus and a portion for bonuses to employees. The effect is comparable to that of a tax upon the Bank: the German Reichsbank yields a very large government revenue by a similar division of profits. Stockholders enjoy limited liability, and may not be assessed under any circumstances.

The regulations provided for the establishment of branches, mentioning definitely in this connection Tientsin, Shanghai, Hankow, Amoy, Chekiang, and Canton. Article VIII suggests that the Bank was not empowered to establish any branch in provinces not traversed by railroads until at least one branch had been established in each one of the provinces traversed by railroads. As a matter of history, it is interesting to observe that this Article was not obeyed in the letter. In several instances, agencies were established in provinces not traversed by railways before branches had been established in all the provinces which were traversed by railways. At one time, a non-political tribunal — granting China possessed such — might have handed down a decision highly embarrassing to the Bank, had enemies of the Bank sought to prosecute the case. That the Bank went *ultra vires* in this respect is no longer important, however: for in 1914 the Bank secured a new charter in the form of new regulations approved by Presidential mandate. This charter effectually absolved the Bank from responsibility for all prior offenses.

Ultimate authority in the administration of the Bank was vested originally in a board of control consisting of a president and a vice president appointed by the Minister of Communications (elected by "large shareholders" in regulations of 1914) and of an associate vice president, who is always the officer in charge of the Railway Department of the Ministry. At the Head Office and at each of the branches are a director and sub-director elected "by the largest shareholders" from a list of names compiled by the Board of Control and approved by the Minister of Communications. An inspector, "dispatched by the Bank," has the right to examine all the affairs of any branch bank. The branch director appoints the branch employees.

"The principal shareholders" are empowered to elect four representatives to keep watch of the officials of the Board of Control." The shareholders likewise elect two representatives to watch over the officials of each branch, but these representatives do not give full time to their work.

The business of the Bank is not restricted by provisions like those contained in the regulations of the Bank of China. The sole specific restriction is that the Bank may not traffic in its stock nor lend on security of it. In general, it is permitted to perform the functions of a commercial bank, a savings bank, and a trust company. It is a bank of issue as a matter of course. It is not specifically forbidden to speculate in stocks and bonds or real estate.

Article VII stated that "all steamship, railway, telegraph, and postal offices under the immediate control of the Board of Posts and Communications shall, in all that relates to the deposit or transfer of funds, or to the raising of public loans, make use of the Bank of Communications." It would be profitable to ascertain just how this monopoly of railway banking affected the older institution known as the "Chekiang Railway Bank."

The nationalization of railways and telegraphs has been a great boon to the Bank of Communications. Use of government balances destined to redeem the stock of private shareholders in these enterprises and charges for exchange in transactions have been important factors in increasing the profits of the bank.

The popularity of national ownership in China, by the way, is certainly not due entirely to suspicion of foreign bondholders and stockholders and to a sincere belief in the efficiency of the Chinese government as a business manager. An entirely different motive is found in the possibilities so richly exploited by such archgrafters as Chen-pi, Sheng Kung-pao, Liang Shih-yi, and Hsu Shih-ying, all of whom have at different times arbited the destinies of the Bank of Communications.

The impeachment charge drawn up against Chen-pi (January 14, 1909) mentions that he had personally benefited from the foreign loans made for the nationalization of railways. A very unconvincing report on the purchase of telegraphs was made by Chen-pi's successor, Hsu Shih-chang, on March 9, 1909. It states that the accounts of the Board of Posts and Communications correspond with those of the Bank of Communications and "now accordingly in duty bound the officers request the Throne to consider the accounts settled." If the agreement of the accounts were to have any significance whatsoever, the Bank obviously should not have been under control of the Board.

In the spring of 1917, large sums of graft from the notorious goods-van contract were freely distributed to railway officials by Hsu Shih-ying through the medium of the Bank.

In 1914, there was a rumor that work on the Lung Ching Yu-Hai Railway had to be suspended because of diversion of funds allotted to the construction of this railway and deposited in the Bank of Communications. The Bank met the accusation by stating that the Belgian investors interested in the railway had been prevented from remitting funds by the European War. (*Peking Gazette*, August 3, 1914.) If the defense of the Bank was valid, as it may have been, all hands concerned are to be credited with some remarkably swift work. To declare war, shut off the funds, start the rumor, and print the Bank's defense took less than a week.

The press of the period made but casual mention of the Bank's activities during the rubber boom. There is some indication, however, that the bank was hit hard by the panic, either as a result of " fliers " in rubber shares on its own account or else as a result of withdrawal by depositors during the crisis. For instance, the failure of the Yi Shan Yuan Bank with its seventeen branches was attributed to the sudden withdrawal of support and demand for refund of advances by the Bank of Communications. (*North China Herald*, April 1, 1911.) Many weeks before the major crisis, Hankowese went to Peking vainly attempting to negotiate a loan of ₮2,000,000 from the Bank at 7 per cent interest " to relieve the stringency of the money market." (*Peking Daily News*, June 21, 1910.) The security offered by the Hankowese may have been defective: but it is equally possible that the Bank had been using all available funds to speculate in rubber shares, the returns from which promised to make 7 per cent seem paltry indeed.

The Revolution of 1911 was naturally as trying to the Communications Bank as to the Ta Ching Bank. Within two weeks after the outbreak, the notes of the Communications branch at Hankow had fallen to 80 per cent of their face value. (*Peking Daily News*, October 24, 1911.) Like the Ta Ching Bank, it was dismembered, "run," and looted. Like that Bank, it was slow to recover. Two years after the Revolution, the foreign banking group refused to transfer the proceeds of the Hukuang Railway Loan from their custody to the Bank of Communications and Bank of China, stating as one of three reasons that those institutions had not recovered from the shock of the Revolution and could not yet be trusted with the funds. (*North China Herald*, November 9, 1912, and March 8, 1913.)

The history of the Bank of Communications has been one of almost constantly growing political prestige. The Ministry of Communications has for many years been controlled by an influential body of politicians almost constituting by themselves a separate political party, "the Chiao Tung Clique." The Clique controls the Ministry of Communications: and the Ministry controls the Bank. Practically all experienced railroad men in China belong to this Clique and to the Hukuang Guild, the leading railway association. Thus entrenched and organized, the Clique has compelled every political party in power to reckon with it and to bargain with it — a significant comment upon the policy of government ownership.

Even before the Revolution of 1911, the Ministry of Communications had sufficient power to negotiate large foreign loans and issue instructions to the provinces.

(*North China Herald*, August 12, 1911.) Early in the Revolution, the Manchu dynasty promulgated an Imperial notice attributing the revolt to popular dissatisfaction with the high-handed methods of the Ministry in nationalizing certain railways. (October 26, 1911.) Less influential ministries had attempted to establish national banks to rival the Ta Ching Bank and failed. (Gory, pages 6 and 7.)

The monarchy project of Yuan Shih-kai in 1915 and 1916 was vastly indebted to the assistance of Yuan's lieutenant, Liang Shih-yi, who was the recognized leader of the Chiao Tung Clique and who brought to Yuan the resources of the Bank of Communications. The Bank made itself conspicuous in the support of Yuan as early as 1913 in the counter-revolution against him. Officers of the Hankow branch were decorated for remitting ₮5,000,000 of military funds to quell the rebels at that time. (*Peking Gazette*, June 14, 1914.) The strain on the branch in adding its own funds to the Treasury funds from Peking had evidently been severe, for in March of the following year we find records of a request by the branch for permission to delay remitting provincial revenue destined to the national treasury. (*Peking Daily News*, March 27, 1914.) That the Bank of Communications went to greater extremes to support Yuan during the counter-revolution than did the Bank of China is further indicated by the suspension of the Communications branch at Yinkow. (*Mukden Daily News*, February 5, 1914.) The writer does not know that any branch of the Bank of China, outside of the battle territory, was forced to suspend during the counter-revolution. (A correct interpretation of banking events in China during the past ten years is impossible without familiarity with the career of Liang Shih-yi, the "God of Wealth."

Material concerning this extraordinary character will be found in Appendix L.)

It was Liang's financial assistance to Yuan that eventually made the Bank of Communications a national bank in name as well as in fact and that at last openly authorized the Bank not only to collect revenue from the post office, railways, telegraphs, and steamships but to participate with the Bank of China in the transaction of all kinds of Treasury business. The document creating this absurd situation was a Presidential mandate, dated October 31, 1915. This document had been foreshadowed, however, more than two years before in a mandate appointing Yang Yu-lan as president of the Bank (*Peking Daily News*, January 29, 1913) and more definitely in a note from President Yuan on October 23, 1915.

The Bank had already collected revenue that naturally would have gone through the Bank of China, and had done more than its share in floating Domestic Loan Bonds. Thus, in making bond sales at Shanghai, in 1915, the great branch of the Bank of China at that port was not a specially authorized agency. The three agencies to deal in the bonds were the magistrates, the Chamber of Commerce, and the Bank of Communications. Interest on the bonds were to be paid through this Bank. (*North China Herald*, January 25, 1915.) Yet, the Shanghai branch of the Bank of China was a vastly richer, more influential institution than the Communications branch.

As a business concern the Bank of Communications has ranked with the Bank of China, particularly at the capital, where one sometimes hears it stated by foreigners that the Bank of China is less efficient in its methods. As a matter of fact, both institutions leave so much to be desired in respect to efficiency that comparison from their standpoint is idle.

The Bank of Communications has enjoyed extraordinary advantages in establishing branches, because the Ministry already had offices and strong mercantile and financial connections in all the leading cities by virtue of its railway, post office, and telegraph interests. Further, to open banking offices in the station houses of the leading cities was a simple matter, and this step was actually taken under the instructions of Liang Shih-yi in 1914. (*North China Herald*, February 7, 1914.) Large shippers would naturally find it convenient to use the facilities of the railroad and telegraph bank.

Partly because of these advantages, the Bank of Communications expanded rapidly. Its branches have increased in number, keeping close parallel with those of the Bank of China. In 1914 the Bank made a profit of ₮1,600,000, (*North China Herald*, May 22, 1915), and about the same for 1915 (*Peking Daily News*, November 2, 1915). These profits equal about 30 per cent of the paid-up capital. In some years a third or a half of its profits have been made at the Head Office in Peking. (*Peking Daily News*, January 15, 1913.)

CHAPTER VI

The Struggle for Government Balances

Morse once spoke of Peking as the nominal destination of public revenue and proved it to be so, since less than half the provincial revenue reached it. ("Trade and Administration in China.") Gory partially explains this situation as follows: "If money has to be remitted from, say, Canton to Peking, a certain quantity of silver of weight and fineness imperfectly known at Peking is handed at Canton to some native bank through which, after a good deal of delay, it reaches its destination. And as there is no reliable standard of weight, no possibility of comparing exactly what has been paid at Canton with what is received at the capital, there are many complaints of shortness. The same is true as regards the purity of silver, and still more so." ("Notes on the Chinese Government Bank," page 26.) The difficulty lay in the fact that each locality in China has as its measure of value its own peculiar tael, which is not a coin but a weight and fineness of silver. Morse has discovered upwards of a hundred of these local taels.

The services performed by the Hupu and the Ta Ching Bank in connection with the transmission of government funds were relatively efficient and inexpensive. The marvel is that this institution was not at once supplied with government capital sufficient to enable it to dominate the situation. Nevertheless, the government balances continued to be banked in scores of institutions — private banks, provincial state banks, provincial treasuries and financial bureaus, and national departments and bureaus. With politics determining the banking of every last dollar of public revenue, the struggle for the government balances by banks of all descriptions continued to be a popular Chinese sport. It still is.

One of the principal obstacles that has prevented a systematic handling of Treasury funds in China is the custom of assigning all the income of a definite tax direct to some enterprise of the province. Thus, the entire revenue of the government mines in Hupeh province was at one time assigned to make a cash reserve for the paper money of the province. (*Peking Gazette*, September 27, 1915.) The revenue of a particular "likin" (barrier tax) station may be appropriated in advance for the maintenance of a particular arsenal. If the revenue is large, the arsenal prospers: if it is small, the arsenal is forced to retrench. The Chinese government has never learned to prepare a budget and abide by it. With the entire system of finance so loose, it is not surprising that irregularities in the banking of the Treasury still occur.

Another great obstacle to national control of the collections, transmission, and disbursement of public revenue, has been the overlapping of provincial and national powers. In the latest drafts of the constitution, the provincial government in China is one of "specially given powers." Powers not specifically given to it are reserved for the national government — a direct reversal of the provisions of the United States Constitution. All of this would seem to be in accord with the traditions of government as handed down from the monarchical régime, when the power of the Peking government was supreme. In practice, however, the powers of a particular province are tentatively determined by its prestige with the party controlling affairs at Peking. At various times the provincial authorities have prevented centralization of Treasury control and even done much to impede the establishment of branches of the national banks. In short, the provinces have sometimes had their own ideas about the banking of public funds and have greatly contributed to the strife for the government balances. How difficult it was to abolish the Provincial Finance Bureaus in the provinces having national bank branches or to compel the provincial state banks to transfer their funds to these is easily imagined. (See, for instance, *Peking Daily News*, July 6, 1914.).

Something like a general bolt by the provinces away from Treasury instructions occurred in the spring of 1913. The governors of Hunan and other provinces protested against the instructions on the National Tax Office, which urgently recommended the use of branches of the Bank of China as provincial depositories. The provincial governors, naturally enough, signified a preference for their provincial institutions: and the Minister of Finance was compelled to agree, conditionally at least. He consented to the irregularity on the grounds that the Bank of China at that time lacked an adequate number of branches. Obviously any excuse would have sufficed: for who could say that the governors were not within their constitutional rights? (*Peking Daily News*, March 6, 1913.)

A classic instance of overlapping and conflicting powers was seen in 1915, when the governor of Chekiang province impeached the financial commissioners sent to his capital. He was rebuked by the Minister of Finance, as a matter of course: but he won his point, notwithstanding. Probably the Minister of Finance would have been yet more lenient, had he been dealing with the governor of a more influential province. (*Peking Daily News*, September 20 and 21, 1915.) In fact, in 1914 the governor of Kwangtung province actually prevailed upon the financial commissioners at his capital to disobey the Peking regulations requiring the transfer of funds from the provincial state bank there to the Canton branch of the Bank of China. The reason given was that the rates of interest upon deposits was smaller in the national bank. Kwangtung is the "country" of Liang Shih-yi. (*Peking Daily News*, September, 1914.)

A bright side of the situation is that there has never been any doubt as to the functions of the Bank of China as originally planned. If one day it is favored with a complete monopoly of the balances, the law will be on its side. Article II of the regulations of the Hupu Bank (approved in 1904) stated that the Bank was to be controlled by the government so that in case of emergency the government might make loans to the Bank and receive interest. Article VI of the revised regulations of the Ta Ching Bank, appearing nearly four years later, outlined the treasury functions of the Bank yet more clearly:

> "The bank will hereafter at the discretion of the Board of Finance, have control of the National Treasury vaults, the financial affairs of the government, the national debt, loans, etc."

The next Article, which concerns the mints, shows that the Ta Ching Bank was to be the central bank of the government: and Article V, which states that eventually the Bank should have "the exclusive right to issue paper money" confirms the point in question. (See Appendix B.)

That the founders of the Bank of Communications clearly appreciated the delicate position of the proposed twin is clearly seen in the elaborate but specious apology which they made in their Memorial to the Throne. (See Appendix D.) There is not a clause in its regulations to indicate that this Bank dared to aspire to handle any funds except those of the Board of Posts and Communications.

In the "Report of the Chinese Currency Committee and Minutes of the Meetings" (August 4, 1911) the following statement is made as being a part of the law of the country.

> "Only one official bank may be established in any provincial capital or at any one commercial center. . . . When any official bank wishes to establish branch banks, it must first offer to make the Ta Ching Bank its agent in all places where the Ta Ching Bank has already established branch banks."

In the last days of the Manchu dynasty, then, the subordinate position of the Bank of Communications was apparently taken for granted. At that time the Treasury funds were kept by the Ministry of Finance, and the only government funds held by the Ta Ching Bank were on special, open account.

The attitude of the founders of the Republic toward the handling of the government balances is unmistakable. At the celebration of the closing of the Ta Ching Bank and the opening of the Bank of China in Shanghai, the Minister of Finance of the Republic promised his support in collecting taxes and in handling government funds. (*North China*

Herald, February 10, 1919.) Article XIII of the Regulations of the Bank of China (Presidential Order, April 15, 1913) states that the Bank "receives the government's commission to superintend the National Treasury and affairs connected with the collection and payment of the public debt." The Bank was designated at the outset as the official agent to handle the proposed $100,000,000 Republican Military Loan. (*North China Herald*, February 10, 1912.)

Most people have forgotten that the allocation of a portion of the treasury balances to the Bank of Communications was one of the points which rankled most with the Kuo Min Tang. (This political party was in favor of a Republic and was, therefore, early opposed to President Yuan Shih-kai.) An interpellation concerning this matter was made by a member of the Kuo Min Tang in the Upper House. (*Peking Daily News*, June 24, 1913.) A bill to impeach Yuan's government for unconstitutional acts contained as the fifth charge the following statement:

> "The Minister of Finance has changed the law passed by the Council by giving the Bank of Communications the management of the Government Treasury instead of to the Bank of China as fixed by law."

This bill went through the first reading in the Chung Yi Yuan on July 3, 1913. (*Peking Daily News*, June 30 and July 4.) That nothing came of the bill in those disorderly days is no reflection upon the validity of the charges made. On November 4, 1913, Yuan and his cabinet signed an indictment of the Kuo Min Tang and forced all members of that political party to leave Peking, thereby reducing both Parliament houses to a membership less than the constitutional quorum. As usual the military won.

But the claims of the central bank continued to be pressed. A few days later Mr. Liang Chi-chao reported concerning one of the many decisions of cabinet policy as follows:

> "The Government will make only one organ to act as the National Treasury. All powers now granted to the Bank of Communications and other public banks will be withdrawn."

The language of this statement is, in last result, indefinite: but it is not supposable that the term, "other public banks," included the Bank of China. (*Peking Daily News*, November 11, 1913, and *Peking Gazette*, November 21, 1913.) In fact the report was out a month previous to that time that Premier Hsiung Hsi-ling had instructed that all government money in the Bank of Communications should be transferred to the Bank of China within a week, with the admonition that thereafter the latter institution should act as the national treasury. *Peking Daily News*, October 6, 1913.)

Notwithstanding all this, the revised regulations of the Bank of Communications, which appeared the following spring, stated in Article VII that:

> "The Bank of Communications shall take charge of the special accounts of the National Treasury."

Designed evidently as an opening wedge to legalize the illegitimate, this Article met prompt resistance. The Minister of Finance, Mr. Chow Tzu-chi, was compelled to explain that the Article alluded only to taking charge of the receipts of the four departments of the Ministry of Communications. (*Peking Daily News*, April, 24, 1914.) In July, Mr. Liang Tung-yen, then serving as Minister of Communications, had occasion to deny a rumor that the Bank of Communications was to be nationalized. (*Peking Gazette*, July 10, 1914.) It is significant that this able official was not in harmony with the "Chiao Tung Clique," which under Liang Shih-yi eventually forced the Bank to a government status: his tenure of office was brief. The Chiao Tung Clique was fast arriving.

No part of the struggle for the balances has been more bitter than the struggle for the deposits of the Maritime Customs. In 1916 the Bank of Communications was transacting the customs business at four of the forty-seven ports — Tientsin, Kiukiang, Chefoo, and Wuhu. The receipts from these four ports for the year 1915 were, in round numbers, as follows:

Tientsin	₮4,600,000
Kiukiang	,, 630,000
Chefoo	,, 560,000
Wuhu	,, 480,000

These figures do not include the receipts of the "Native Customs" at these and other ports.

The customs receipts of Tientsin are second only to those of Shanghai and are, as seen, nearly three times as great as the total of the three other ports. The case of Tientsin is, therefore, very important. The receipts of that port were originally deposited in the Customs Bank founded by Yuan Shih-kai when he was governor of Chihli province, 1901–1907. Even after Yuan had been transferred to Peking, it would have been well-nigh impossible to deprive his bank of these deposits. That institution failed completely during the Revolution of 1911, at which time Yuan and his lieutenant, Liang Shih-yi, were both in Peking. Further, Liang had been in Tientsin when Yuan was governor there. Under the circumstances it was almost inevitable that the customs balances should have been unscrupulously transferred to the Tientsin branch of Liang's bank, the Bank of Communications, rather than to the Bank of China. The near-by Head Office of the Bank of China was, accidentally or otherwise, very slow to recover from the Revolution. Furthermore, the reputation of the Dynasty Bank was never so good at the capital as at Shanghai: consequently the transfer of the customs, alleged to be only temporary, met with no real opposition. How the Communications Bank has continued to serve as customs depository is another story.

The Bank of China was in no position to press its claims until after it had been reorganized and had received its new charter in 1913. How it then proceeded has been narrated in the foregoing record of the attempted impeachment of Yuan's government by the Kuo Min Tang. The exile of the members of the Kuo Min Tang was evidently a sufficient setback to the Bank of China to prevent its forcing its claims further. Then, in May, 1914, Liang Shih-yi was made concurrently director of the Shuiwuchu, or Revenue Council, the organ to which the Maritime Customs is subordinate. (*Peking Gazette*, May 4, 1914.) This position he held until the death of Yuan.

The Bank of Communications was now in a stronger position than ever, and nothing but a determined stand on the part of the foreigners in charge of the Maritime Customs could have assured the handling of the customs funds in the legal manner. This stand was not taken, for Liang is possibly as adroit a politician and diplomat as has ever lived. He counts on his belt the scalps of both Chinese and foreigners, including at least one foreign Minister.

That Liang enjoyed much vogue among the subjects of Britain is well known. It was he who induced the Hongkong and Shanghai Banking Corporation to lend its great prestige to the Domestic Loan Bonds of Yuan Shih-kai by serving as agent in floating the bonds. (*Peking Daily News*, September 1, 1914.) His popularity with the high foreign officials of the Maritime Customs was at one time a matter of comment. As intimated, this popularity largely accounts for the retention of the Tientsin customs receipts by the Bank of Communications.

The appointment of Mr. S. V. Lucas, a British subject, to the post of assistant manager of the Peking branch of the Bank of China in 1916 was regarded by many as another instance of the unfailing loyalty of a Chinese friend : for it was known that Mr. Lucas and Mr. Hsu, the governor of the Bank, were friends of long standing. The appointment of a foreigner to such a position was, however, unprecedented and would not have been permitted simply as an act of friendship. Mr. Lucas is admitted to be one of the most capable financiers of the Far East, but we can reasonably doubt that the Bank appointed him to reform its policies and methods. Seemingly, the most noteworthy of Mr. Lucas's unusual qualifications is that he is one of the most popular members of the British social set at the capital : and there is little doubt that he would serve admirably to counteract Liang's influence over his fellow nationals in the Maritime Customs and in time secure for the Bank of China the annual banking of seven million taels illegitimately withheld from it. This service alone would have paid for his salary several times over.

In permitting the Communications Bank to acquire control of the customs balances at Kiukiang, Chefoo, and Wuhu, the Bank of China was itself partly to blame. The Communications Bank seems to have succeeded in each case except at Wuhu by "getting there first" and establishing a branch at the port. If the managers of the Bank of China had kept one eye half open, they would have noted the growing power of the rival institution and foreseen the loss of these balances. Incidentally they might have seen that for the Communications Bank to get control of the returns from additional ports was to justify retention of their control of the large returns from Tientsin. Accordingly they should have established small branches at all ports not already connected with, even if these branches would promise little or no income. The inevitable occurred with the official announcement in December, 1914, that "for convenience the Bank of Communications has been asked to collect customs where no branch of the Bank of China exists, as at Kiukiang." (*Peking Daily News*, December 21, 1914.) The Communications branch at Kiukiang had been established only shortly before. (See report in *Peking Daily News* the next year, May 18, 1915.)

In discussing the contest for the customs receipts, it is essential to take note of the long periods when the receipts were held by foreign banks. The first transfer of these funds occurred in the Revolution of 1911, and the second case was the result of suspension of the two national banks in 1916. It is to be remembered that the Maritime Customs have been pledged for foreign loans: and in withholding the customs receipts from the Chinese government, the foreigners in charge were generally well within their technical right. Further, during the uncertain months after the Revolution, the government itself made frequent use of foreign banks to transact business. (See for instance, *Peking Daily News*, August 5, 1912.)

At Shanghai the customs receipts were promptly turned over to foreign banks when the Manchu Taotai was forced by the Republicans to retire. This act is not to be regarded as antagonistic to the Republic: for the Shanghai Consular Body immediately recommended to the various legations at Peking that the funds be intrusted to the Chinese government as soon as the Republic should be established. (*China Press*, February 7, 1912.) The funds were not finally promised to the Chinese banks until January 5, 1914, after protracted negotiations between the Inspectorate General of the Maritime Customs and the Ministry of Finance. Even then, the Inspectorate compelled the Bank of China to assent to a long list of demands requiring the Bank to maintain an efficient staff, keep accounts in the Western way, quote satisfactory rates of exchange, and open branches near the customs. Even then, some receipts were retained by the Hongkong and Shanghai Banking Corporation. (*Peking Daily News*, January 10, 1914.) As late as December, 1915, the Bank of China had occasion to request the Ministry of Finance to urge the "I. G." (Inspector General) to transfer certain customs from the Hongkong and Shanghai Bank to the Bank of China in accordance with the terms of the document prepared a year before.

Why this inordinate delay? Recall that the Maritime Customs reports to the Revenue Council, of which Liang Shih-yi was director. Consider, also, that there was a prospect of ultimately having the customs balances of additional ports transferred to Liang's bank, the Bank of Communications. Under these circumstances, Liang was not constrained to agitate for the transfer of customs balances from foreign banks until his own bank stood a better chance of receiving them. In the interim, the balances remained in the British bank. The Inspector General would not be likely to urge matters, for he was a British subject; while from Liang's point of view, it might seem better to have the profits from the customs balances go to a foreign bank than to his hated rival, the Bank of China. This is surely a scathing comment upon the policy of maintaining twin national banks. Some substantiation of this reasoning is had in the fact that the proposal had actually been made to use the Bank of Communications as the sole depository of these customs funds. (*Peking Gazette*, June 3 and 13, 1914.)

The struggle for the customs returns intermittently went on, of course. Thus, we hear in 1916 that the central government was seeking to unify the Treasury by placing all government receipts in the Bank of China and the Bank of Communications, including both the Maritime and the "Native" Customs. (*Peking Daily News*, January 11, 1916.) To understand this news, we need only read between the lines.

A contest of a different nature has probably been secretly waged, to decide which of the two national banks shall make certain payments. Having obtained Treasury deposits, a bank naturally loses from Treasury withdrawals. There are indications that both national banks have used their great political influence, at one time or another, to postpone or prevent certain Treasury disbursements. Liang Shih-yi was once in an excellent position to require all

Treasury payments to be made from the Bank of China before any were made from the Bank of Communications. He could at the same time use his influence to prevent absolutely many government appropriations. Herein lies one of the many evils of combining politics with Treasury banking.

Both national banks shared about equally in the transaction of several pieces of government business. Both appointed agents in all provinces to collect subscriptions to the Hsin Hua lottery bonds. (*Peking Daily News*, October 16, 1914.) Both banks were appointed to receive donations to the Patriotic Fund to be spent in some kind of retaliation against the high-handed acts of Japan. (*Peking Daily News*, April 28, 1915.) The Peking banks alone collected $200,000 from this source. (*North China Herald*, May 15, 1915.)

The Bank of China long enjoyed a monopoly of the Salt Tax: though the organization of yet another national institution, the Salt Bank, has encroached upon this monopoly. (*Far Eastern Review*, February, 1915.) The Communications Bank, on the other hand, has maintained a monopoly over the balances of the post offices, government railways, telegraphs, and steamships. The Bank of China was, nevertheless, requested to take part in redeeming the funds of the People's Railway Company at Hankow. (*Peking Daily News*, March 27, 1914.)

The two banks engaged in the sale of Domestic Loan Bonds, but with different results. In the first years of the Republic, the sales of the Bank of China exceeded those of the Bank of Communications, but for some reason fell far behind it in the bond sales of later years. The Communications Bank floated $6,338,000 of the Third Year Loan: while the Bank of China floated only $2,800,000. (*Peking Daily News*, January 11 and 16, 1915.) That the Bank of Communications was rewarded for such signal service was only natural, and the document which nationalized the Bank made mention of its services in selling bonds.

A certain amount of chicanery is assumed to be back of these statistics of bond sales, however. For example, though the Shanghai branch of the Bank of China is more influential than the Communications branch, it was not a designated agent for the sale of the bonds. (*North China Herald*, January 25, 1915.) Shanghai is, of course, the leading commercial city in China. Furthermore, Canton, the great metropolis of Kwangtung province, is the city of Liang Shih-yi: and special privilege would naturally be accorded to the Communications branch at that capital. (For a better understanding of the struggle for the government balances, the reader is referred to the notes on Liang Shih-yi in Appendix L.)

CHAPTER VII

The Moratorium

The same conditions that led to the struggle for the government balances and the nationalizing of the Bank of Communications led to the suspension of payments by the national banks. Proximately it was the desperate need of more revenue to hold the government together. But fundamentally it was the widespread distrust of the motives and methods of President Yuan Shih-kai.

Having served as the last Premier of the Manchu dynasty had indeed little to commend him for the post of guardian over the Republic. He had been notoriously treacherous in personal dealings with his Manchu masters years before a Republic had been deemed possible. The new régime had hardly been inaugurated when his name was connected with the assassination of several officials known to be antagonistic to his interests.

He dissolved Parliament, wrote his own Constitution, made himself dictator, and passed the law that should determine how his successor should be elected. He encouraged the formation of a society to discuss and propagate monarchical doctrines and finally in December, 1915, "accepted" the exalted rank of Emperor of the new Hung Hsien dynasty, reigning till his death in June, 1916.

"Old China hands" predicted the attempt to betray the Republic years before the formation of the Chou An Hwei Society: and even new "China hands" might read between the lines of the volumes of Presidential mandates their message of hypocrisy and incompetence. That such a person should be given the unqualified financial support of the provinces, particularly of the staunchly republican provinces, was impossible. That the difficulties of the Treasury should increase was natural.

Within two weeks after Yuan's acceptance of the Throne, the Yünnan Rebellion against Yuan broke out, entailing, of course, extraordinary expenditure from the National Treasury and at the same time cutting off important streams of national revenue from the Southern Provinces.

The sales of Domestic Loan Bonds were so slow that territorial quotas were disposed of by compelling landowners to subscribe by assessment. Official salaries were subject to a graduated "assessment" of the same nature. Thus, 20 per cent of a monthly salary of $100 would be paid in Domestic Loan Bonds: while 50 per cent of a monthly salary of $500 would be paid in these bonds. (*Peking Gazette*, April 19, 1916.)

In 1915 and 1916 salaries of official and government employees were at times months overdue. Even the annual pension of the Manchu House was in arrears. (*Peking Gazette*, March 27, 1916.)

In May (*Peking Gazette*, May 30), the report was out that the government had attempted to borrow from the Manchu House! The Land Measurement Bureau, which had made valuable progress toward assessing the land of China for a more equitable and more productive land tax, was disbanded. Other organs, like the Historiograph Bureau, were abolished or amalgamated.

The "imperial preparations" went on, nevertheless, little impeded by lack of funds. The Bureau for the

Preparation for the Grand Ceremony is said to have reported an expenditure of more than \$20,000,000 (*Peking Gazette*, March 31, 1916). The cost of the Throne, the imperial robes, the imperial seals, and the emperor's stockings became matters of scandal. It cost tens of thousands to repaint a single pailou. (A pailou is a sort of arch usually of wood, erected on Chinese streets.)

The Treasury was in such a plight that, as early as March 22 (and March 27, 1916: *Peking Gazette*), the rumor was abroad that a one hundred million-dollar issue of "petty loan bonds" was about to be made. The title of the proposed issue was a misnomer, for the bonds were to be ordinary irredeemable paper money. They were to be kept at par by making them acceptable at a 10 per cent premium by the government railways. This was an ingenious adaptation of the device by which Liang Shih-yi raised funds during the Revolution of 1911. At that time he arranged to sell "freight futures" at attractive discounts.

The petty loan bonds were not resorted to, as a matter of fact: but it is significant that they were seriously considered.

An accurate reflection of the state of the national finances is had in the attempt to mortgage the National Museum as security for a foreign loan of \$5,000,000. The Minister of Finance, Sun Pao-chi, actually offered to accept loans: but a hitch appeared somewhere and the loan fell through. (*Peking Gazette*, May 31 and June 2, 1916.) The Lee Higginson Loan agreement, which might have brought in some tens of millions and which might have enabled Yuan to suppress the Republican uprising, was quashed by the State Department at Washington after only \$1,100,000 (gold) had been paid over.

With such a desperate need of funds, it could not be expected that the cash reserves of the national banks would go unmolested.

There are indications that both banks had early lent to the government every dollar that could be spared with safety. But the Bank of Communications under Liang Shih-yi had been particularly liberal in advancing funds. The relative coolness of the Bank of China toward Yuan during the Counter-Revolution of 1913 has already been commented upon.

One of the last instances of the lukewarm support given to Yuan by the Bank of China was its refusal to lend to the government, without interest, its profits for 1915. In January, 1916, representatives of the various banks at Peking met and arranged to loan in this way the following amounts:

Bank of Communications .	$800,000
Salt Industrial Bank . .	400,000
Bank of Colonization . .	400,000
Bank of Industry . . .	300,000
Hsin Hua Savings Bank .	300,000

(*Peking Daily News*, January 25, 1916.)

How well the Bank of China had protected itself from the government is indicated in the financial report on the great Shanghai branch by a British firm of auditors, dated March 16, 1916. (See Appendix K.) The auditors are responsible for the statement, that far from being liberal in advancing funds to the government, this branch was actually a debtor to the government.

The Bank's attitude now promised to carry it through the financial stress perfectly solvent: while the Bank of

Communications would be prostrated. Obviously Liang Shih-yi would never permit the rival of his bank to achieve such a victory. To overcome the coolness of the Bank of China, it was necessary to place the Bank under the control of some one sympathetic to Yuan and Liang: and this is precisely what was done.

On April 21, 1916, a Presidential mandate appeared creating the new office of director general of the Bank of China and appointing Mr. Chow Tzu-chi, a member of Yuan's Cabinet, to the office. The purpose of the appointment was veiled somewhat by a sister mandate appointing Mr. Sah Fu-mou to the post of governor and relieving Mr. Li Shih-wei of that post. Mr. Sah had held the post for a period prior to the appointment of Mr. Li, a year before: and he had never been suspected of being overzealous in furthering Yuan's purposes. It was surmised, nevertheless, that his later appointment was the result of an agreement with Yuan — that he had a definite piece of work to do. Whether or not this is true, the creation of the superior office of director general placed him in a subordinate position where he would be helpless to prevent the lending of the cash reserves of the Bank to Yuan.

As a matter of fact, Mr. Sah found one excuse or another to prevent his actually assuming the responsibilities to which he had been appointed: and as late as June 15, to his immense credit, he was still governor in name only (*Peking Gazette*, June 15, 1916). Accordingly, Mr. Sah is not blamed for the events following his appointment.

On May 12, just three weeks after the shackling of the Bank of China, came the Moratorium Order of the Cabinet declaring a suspension of specie payments by both national banks. (See Appendix M.) It is conceivable that during those three weeks the Bank of China was so drained of its silver that suspension was necessary. It is equally conceivable, on the other hand, that this Bank was still relatively sound and that it was suspended by Liang Shih-yi to become a companion in misery to his own institution, the Bank of Communications. As the financial statements of the two banks were not made public, the matter is still conjectural.

Numerous precautions were taken in an attempt to lessen the shock of the Moratorium Order. The notes of the suspended banks were simultaneously made legal tender at par: and to accept them at less than par was an offense subject to severe punishment. These measures have been enacted repeatedly in times of suspensions from the days of John Law early in the eighteenth century. The public was told that the mints had been put on double shift to produce new silver and copper coins. The Order was further proclaimed to be only temporary, and the banks were directed to "seal up all the silver reserves and deposits now lying in their vaults." Probably this last provision deceived no one. Certainly, no one was deceived by the attempt to base the Order upon the moratoria declared by the belligerents of the European War. The Chinese Order applied only to the two national banks.

The Moratorium Order mentions the suspension of payments on silver notes only. Both national banks had in circulation a considerable volume of copper notes: and payments were suspended upon this "shinplaster" issue also. This was an act of reckless cruelty and stupidity. To obtain another half million of funds or thereabouts, the government thereby evinced its readiness to increase the hardships of the poorest people in the community: for these people deal almost entirely in copper denominations. Had payments on these notes been continued, the shock of the Order would have been less severe, there would have been less danger of a popular uprising, and the confidence of the people in the larger notes would have been enhanced: since it would be felt that a partial continuation of payments was evidence of partial soundness on the part of the national banks. (Fractional notes were first issued by the two national banks early in 1915. The total authorized issue at the outset was $2,000,000, *Peking Gazette*, September 2, 1914, and January 8, 1915.)

Grave predictions were made by the press as to the effects of the Moratorium. The *Peking Gazette*, for instance, predicted that, since silver would be hoarded and would disappear from circulation and since the only revenue of the government from the customs, the salt gabelle, the various taxes, and the government railways would be paid in paper, there would be no silver with which to pay foreign bond-holders. (*Peking Gazette*, May 13, 1916.) Since foreigners would naturally refuse paper, there would be imminent peril of armed intervention by the powers. Further, wholesalers would refuse to sell to retailers: and starvation would become the lot of the poor, once the retailers' stocks should be exhausted. Universal disorder was anticipated.

Chang Hsun, the "pig-tailed general," who in 1917 enthroned the Boy Emperor, protested vigorously against the Order, making the veiled threat that unless the Order should be repealed, he would not be responsible for the maintenance of order among his troops. High officials of many of the provinces raised their voices, also. (*Peking Gazette*, May 22, 1916.) The Minister of Finance, Mr. Sun Pao-chi, was not consulted before the issuance of the

"Cabinet" order; and he made his protest practical by quietly slipping away from the capital. General Feng Kuo-chang, later president of the Republic, expressed his sentiments much as General Chang Hsun had done. "Had it not been for the timely assistance of the various provinces," he said, "these two banks would have long ago come to grief." "Who in these circumstances," he asked, "can guarantee that there will be no riot among the police and the troops?"

The attempted impeachment of Liang Shih-yi, by Chief Censor Chang Yuan-chi, resulted in the resignation of the latter official. (*Peking Gazette*, June 6, 1916.)

The department heads of the Bank of China promptly resigned. Liang attempted to prevent this move by refusing to accept their resignations and by giving them sums equaling one month's salary: Lin, chief accountant, refused the bribe. He simply disappeared from the capital, ostensibly "to make investigations in the provinces." (*Peking Gazette*, May 22, 1916.)

The next move is reminiscent of the dismemberment of the Ta Ching Bank during the Revolution of 1911. Following the lead of the great Shanghai branch, numerous branches of the Bank of China refused to obey the Moratorium Order, thus practically declaring themselves independent institutions. Among the more important branches which immediately took this stand are those at Tientsin (the Tientsin branch later suspended), Nanking, Hankow, and Wuchang. (*Peking Gazette*, May 16 and 19, 1916.) The singular method of procedure employed by the Shanghai branch — that of appointing foreign trustees to continue the operations of the branch — is discussed in Chapter IX. Other branches shielded themselves behind the authority of the military governor of the province in which they were located, if the governor had allied himself with the rebels against Yuan, or if he had declared his province either "neutral" or "independent."

The Bank of China continued to combat the financial schemes of Yuan and Liang. On May 30, it was reported that the Ministry of Finance had attempted to obtain the unissued notes of the Bank, particularly those of independent branches like that at Shanghai, with a view to using them for government payments. This move was promptly checkmated by the Bank officials, who sent most of the unissued notes to the Legation Quarter at Peking. (*Peking Gazette*, May 30, 1916.) The government issued bright new notes of the Bank of Communications, on the other hand, as late as January, 1917, and possibly much later.

The suspension of a bank in a modern country is ordinarily followed by the appointment of trustees, who promptly secure a reliable financial statement of the concern and proceed to realize on assets and liquidate liabilities. As a matter of fact, one or both of the national banks in China had much to conceal, and politics protected them from the disclosures which such a course of action would effect. The auditor general of the Board of Audit appointed two foreign advisers and two members of the Ministry of Finance as a committee to inspect the accounts of both banks; but this attempt was unavailing. Though specifically authorized by law to make such an investigation, the auditor general was refused access to the books of accounts of the banks. His protest to the Ministry of Finance was ignored. (*Peking Gazette,* May 27 and June 15, 1916.)

Accordingly, the financial condition of the national banks was not officially revealed to the public. Under the circumstances the following statements, which appeared in the *Peking Gazette* of June 3, 1916, is better than nothing:

"A foreign estimate fixes the note issue of the Bank of Communications at $159,000,000 and that of the Bank of China at $50,000,000. According to a Chinese estimate, however, the note issue of the Bank of Communications is fixed at $80,000,000 and that of the Bank of China at $34,000,000."

As further data concerning the relative condition of the two national banks, it may be noted that the Bank of Communications did not distinguish itself either through the resignation of any of its department heads or through disobedience to the Moratorium Order on the part of any of its branches.

There are indications that the Bank of Communications, unlike the Bank of China, was in such straits that suspension was an admitted necessity. Another indication is had in the fact that this Bank made no attempt to open its doors after the death of Yuan, while the Bank of China did. Yet another indication of weakness on the part of the Communications Bank is that almost from the first its notes exchanged in the market at rates from 5 to 15 per cent lower than the rates quoted for the notes of the Bank of China. On June 3, the *Peking Gazette* stated that "it is definitely known that the coffers of the Bank of Communications are empty"—a statement which the Bank did not take the pains to deny.

The effects of the Moratorium upon the community, though not as calamitous as predicted, were indeed distressing.

In those cities where the Order was observed silver was, at the outset, hardly to be found except at the foreign banks.

One no longer saw long rows of silver dollars displayed on the counters of the cash shops. The money exchangers at first did not dare openly to refuse notes at their face value: but they effectually evaded the law by hoarding their silver and professing piously that they had exchanged all their silver for notes and that unfortunately no silver was coming in.

> "Even subsidiary coins are getting scarce, most of the exchange stalls on the streets disappearing: and owners of exchange shops now greet their customers with the remark: 'We have not got much silver to-day. Do you wish to exchange a dollar into silver? Perhaps there are some dimes to be found at the bottom of the drawer. If your money is a dollar note, then you will have to satisfy yourself with its equivalent in copper notes.'" (*Peking Gazette*, May 15, 1916.)

On the day following the Order, no dollar exchange was quoted by the Money Changers' Guild at Peking. The money changers later sent a petition to the Ministry of the Interior, praying for a revision of the Order, which they said had closed their cash shops and thrown ten thousand persons out of employment. (*Peking Gazette*, May 17, 1916.)

Chinese merchants promptly evaded the Order by raising the prices of their wares, thus placing a discount upon bank notes, for naturally they received little or no silver money. In fact, the only record of the depreciation of the bank notes at the outset is in the form of estimates of the percentage of the increase of prices. Two days after the promulgation of the Moratorium Order it was estimated that prices had risen from 10 to 20 per cent. About this time (*Peking Gazette*, May 17, 1916) the price of rice rose thirty cents a picul, about 50 per cent. Flour rose proportionately. Efforts were made to ameliorate conditions somewhat by lowering the freight rates for foodstuffs on the government railways. Obviously only slight relief could be anticipated from such a measure.

The poor suffered acutely. So many people in China live literally at the minimum of subsistence that a 20 per cent rise in prices without a commensurate rise in wages may prove fatal to many. The Peking Chamber of Commerce and the Superintendent General of Police petitioned the government, pointing out the grave danger of food riots, should the Order remain in force. "You high officials, we merchants and the people of every class in the Metropolis," said the Chamber of Commerce, "will sit motionless and wait for the end of our lives. Thus, without attack from our enemies we shall perish by ourselves: and without any instigation to disturbance we shall run riot among ourselves."

Depositors of the national banks were as seriously inconvenienced as the noteholders. It was found that many depositors had acted on the broad warning afforded by the appointment of a director general for the Bank of China in April and promptly transferred their deposits to foreign banks. Less alert depositors found it necessary to pay their accounts in depreciated checks. Came then the odd spectacle of a bank receiving from depositors its own depreciated bank notes and honoring checks in this same depreciated paper. In this sense, if in no other, even the Bank of China was guilty of issuing notes after the suspension of payments.

During the first week of the Moratorium, the legal tender provision of the Order was generally obeyed at Peking and at various other places. Foreign banks, whose aggregate business probably surpasses the aggregate business of Chinese banks, ignored the Order as a matter of course. But the Chinese government at first accepted paper in all its departments whether for taxes or for services rendered by the government railroads, telegraphs, and telephones. This condition of affairs could not continue indefinitely : since the government was receiving nothing but paper and since foreign creditors of the government would demand silver. Few indeed were the cashiers in government employ who were honest enough to hand over such limited amounts of silver as they received. What was easier than to exchange the silver in the government tills for their own depreciating paper money? The "squeeze" thus made would be regarded as entirely legitimate by a great majority of Chinese employees.

To meet the exigency, various government organs gradually went in contravention to the Order. On May 21, the Ministry of Communications, ever first in lawlessness in those days, notified the public that paper payments for freight and fares would be accepted only when accompanied by silver payments in accordance with a schedule. Thus in payments under $10, from 100 per cent to 33 per cent of the total payment was required in silver, while at least 30 per cent of all payments exceeding $50 must be made in silver. The Ministry further refused to accept any Bank of China notes — an act which might be regarded as a blow at the credit of this Bank and as an attempt to lessen the depreciation of Communications note by creating a demand for them. (Later such vigorous protest was made that the Ministry of Communications was compelled to discontinue the discrimination against the notes of the Bank of China. See *Peking*

Gazette, June 12, 1916.) On the same day the Ministry published a notice to the effect that it would receive only the notes of certain branches of the Communications Bank upon certain of its railways. On the Tientsin-Pukow Railway, for instance, only notes of the Bank of Communications marked Tientsin, Tsinan, Hsuchow, Peng-pu, or Pukow would be accepted. The purpose of these last provisions is not clear.

On May 31, following the precedent established by the railways, the Chinese Telegraph Administration and the Peking Telegraph Administration published schedules similar to those just described. In fact, charges for foreign cablegrams were payable only in silver. These organs did not discriminate against notes on the Bank of China, however, nor against the notes of any branch of either of the national banks. Foreign influence is very strong in the telegraph and telephone administrations.

Among the first to disregard the Moratorium Order was the chief of the finance bureau of Chihli, Metropolitan province. This official instructed his subordinates to refuse all notes of the national banks in payment of taxes. (*Peking Gazette*, May 24, 1916.) The Maritime Customs and Salt Gabelle being under foreign control did not lag and soon the entire official world was guilty of disobedience to the Order. The reasons most commonly given were that the government needed silver to pay troops, who might loot if paid in paper, and to pay foreigners, whose ability to enforce contracts had often been demonstrated.

Under the circumstances, it could not be expected that the business community would continue to obey the Order. Within three weeks after the Order was issued, merchants and money changers were refusing to accept the suspended notes, except at discounts. Notes were fearlessly quoted by the money changers at rates that fluctuated with each rumor that concerned the national banks.

Following are the market quotations of the notes on various dates: April 24, Canton branch of Bank of China — 92 per cent — Reuter's Telegram. June 2, Head Office notes of Bank of Communications — 80 per cent — *Peking Gazette.* June 5 (the day before Yuan died) notes of both national banks — 70 per cent — *Peking Gazette.*

June 9, copper notes of national bank — 70 to 80 per cent — *Peking Gazette.*

December 22, 1916 — Communications notes — 86 per cent. China notes — 97 per cent — personal investigation.

March 15, 1917 — copper notes — 85 to 90 per cent — *Peking Daily News.*

March 27, 1917, Bank of China notes — 99 per cent — *Peking Daily News.*

Two or more attempts were made to sustain the credit of the national banks by partial redemption of their notes. The first attempt was to redeem the copper notes. One exchange office was opened up near the East Tan Pailou in Peking, but the methods of the office were subject to all manner of derision. After waiting in line for several hours, a noteholder was permitted to exchange only one hundred coppers in notes. He received for his hundred-copper note 30 copper coins and 1,020 cash in new copper notes. "One may slip away with the 30 coppers and sneak back into the line again," said the *Peking Gazette* of June 2, "provided one is willing to take the risk of receiving a few punches in the chest."

The Premier, Mr. Tuan Chi-jui, took a saner step in appropriating an immense stock of rice stored for the army and exchanging it at a reasonable price for only copper notes. (*Peking Gazette*, June 9, 1916.)

Another attempt made about the same time entailed the opening of an exchange office at the temple of Agriculture, well outside the business center of Peking. Only ten-dollar notes of the two banks were accepted and the holder received half in silver and half in notes. The hours were short and the line was long.

Later came the more resolute attempts of the Bank of China to resume payments unconditionally.

The indifference with which the Bank of Communications endured its suspension, even after the restoration of the Republican government, had almost invariably been attributed to absolute inability to resume payments. This opinion may, however, be incorrect. It is equally possible that the bank preferred to remain in suspension. Certainly the public has generally given too little weight to this possibility. Two incidents recorded in the history of banking in other countries will throw some light upon the matter.

1. Scott's "Money and Banking," page 240. "Thru bad management in 1805, the Bank of France became the possessor of a large amount of the paper of a firm engaged in furnishing supplies to the government, and the failure of this firm obliged it to apply to the state for the privilege of temporarily suspending the redemption of its notes in specie. This request was denied". . . but the business of the Bank went on about as usual.

2. The National Bank of the Kingdom of Italy suspended payment at the outbreak of the war in 1866: although the capital of the bank had been increased by 100,000,000 lires the year before. It remained in suspension till after 1874. Conant says ("History of Modern Banks of Issue," page 20), "The national bank made handsome profits . . . made large advances to the government and again" (during the period of suspension) "increased its capital by 60,000,000 lires under authority of a law of April 9, 1872."

From these two cases we may infer that suspension sometimes is, from the standpoint of the bank, not an unavoidable calamity but a blessing undisguised. We have, indeed, the comment of a viceroy of the Liang Kiang province to the effect that Chinese banks have frequently suspended for false reasons. (*Peking Daily News*, November 4, 1910.) The explanation of the phenomenon is simple.

A bank in suspension may keep invested in interest-bearing securities practically 100 per cent of its capital, deposits, and issue: while a bank not in suspension must keep a large reserve stock of gold or silver in its vaults, where naturally it brings in no direct income. Moreover, a bank in suspension has no use for the large staff of clerks normally necessary for keeping depositors' accounts, collecting checks, etc. Thus, by suspending, a bank increases its income and decreases its expenses. Further, when a suspended bank plans to resume payments, it can secretly buy in its notes at the market rate: and if the government is sufficiently ignorant or dishonest, the bank may be permitted partially to repudiate its indebtedness by redeeming all its notes at the market rate "in order to prevent unprincipled speculators from realizing large profits." The Bank of China was actually accused of buying in its notes before its first attempt to resume payments; and the Provincial State Bank of Kwangtung illustrated the second case in paying forty-five cents on the dollar of its circulation and retaining a sufficient portion of its capital to continue business as usual. (*Peking Daily News*, June 3, 1914.)

The bearing of all this upon the protracted suspension of the Bank of Communications is obvious. This bank grew fat from Yuan Shih-kai's favor and the use of the balances of his "Imperial" Treasury. It was at one time good evidence of loyalty to the Hung Hsien dynasty to have an account at the Bank of Communications. Circumstances have changed now, and there is much less incentive to do business with this bank. The Bank will naturally object to resuming payments: since it would not be able to retain its present volume of deposits. The first large foreign loan will probably be partly employed to make good principal and interest of the government bonds and floating indebtedness in favor of the Bank: hence in the long run the Bank will have collected interest upon all the funds lent to it by depositors and noteholders.

CHAPTER VIII

Policies and Methods of the Bank of China

The three classes of security upon which the Bank of China makes loans are: Personal, chattel, and mortgage. Personal security is represented by single-name paper or by paper with more than one name. In China payments are often guaranteed by one or more parties in a peculiar type of Chinese document as distinctive in form and content as a draft of mortgage; and this business document is very common in the portfolios of the Bank of China. The notes and drafts, with which foreigners are familiar, are also commonly accepted as security for loans.

Chattel loans are made possible by the Bank through maintaining warehouses, or "go-downs," to which the borrower carts his security by the ton. This very serviceable idea was borrowed from European banking practice. The nearest approach to the idea, ordinarily found in America, is in the pawn-shop business or perhaps in the practice of lending on warehouse certificates; though these ideas were, of course, borrowed from Europe.

Large amounts have been lent, also, upon security of stocks and bonds. Stocks are still somewhat rare in most parts of China, but government bonds are plentiful enough; and they have been rather freely accepted as security for loans by both national banks. In 1910 and 1911, the Ta Ching Bank, through its Head Office and branches, held as security for loans as many as 17,600 shares of the Bank of Communications. (See Auditors' Report in "History at the Ta Ching Bank.") The total loans on this security were more than ₮1,700,000. (With Communications shares floating about so freely, one can only wonder why the Ta Ching Bank stockholders did not devise means of securing a controlling interest in the rival concern. This move might have facilitated on amalgamation, whereas now such a move would be very difficult.)

Mortgage security is said to have become less popular with the Bank of China than it was with the old Ta Ching Bank. The savings department of this Bank, founded by Imperial Sanction on May 4, 1908, made a limited amount of investment in mortgages quite legitimate and fairly prudent. In 1907, the Ta Ching Bank lent ₮4,500,000 on a 7 per cent mortgage upon the Whangpoo Conservancy Work at Shanghai ; and mortgages have been accepted from time to time since. Mortgages in China are less satisfactory, however, than abroad because of loose laws which render foreclosure difficult and uncertain, even when payments have clearly been defaulted. The risk is reflected in the interest rates on mortgages, which often amount to 20 per cent.

The Bank of China has very frequently made loans to commercial houses and banks facing bankruptcy as a result of having unwisely tied up too much capital in fixed assets. In these loans the Bank is naturally careful as to the security offered, but it has been willing to assume a certain amount of risk where the general welfare of the community is at stake.

It is known that the national banks have often held a large part of the floating debt of the central government caused by temporary shortages in the budget, when there has been a budget. In addition, large loans have been advanced by the Bank of China to the provinces from time to time. Thus, in 1914, together with the Kwangtung Provincial Bank, it advanced $7,000,000 to the Government of Kwangtung. (*Peking Daily News*, October 8 and December 11, 1914.) In 1915, it advanced $800,000 at 7 per cent for two years to the governor of Kirin province "to relieve the stringency of the market" in that province. *Peking Daily News*, July 17, 1915.)

Ordinary commercial overdrafts draw 8 or 9 per cent, and it is said that branches and subbranches lend small amounts to farmers at rates as high as 2 and 2½ per cent a month. The nature of this business naturally makes it expensive to handle.

Back in 1908, Mr. Gory wrote that the rates of interest paid on deposits were as follows :

On current account . . .	2 per cent
On six months' deposit . .	5 ,,
On twelve months' deposit .	6 ,,

The rates for more recent years have been substantially the same, though they are subject to considerable bargaining where a depositor offers an exceptionally valuable account. In branches where market rates are high or where competition is keen, 2½ per cent is commonly paid on current accounts. The rates paid by the Bank of China are considered low by the business community, and in 1908 about 90 per cent of its deposits were from the government. Merchants felt at that time that they could do better elsewhere. In common with the foreign banks operating in China, the Bank of China makes no charge for handling small and unprofitable checking accounts.

Deposit accounts may ordinarily be opened either in taels or in Yuan dollars. Formerly gold accounts might be opened.

There is, of course, no required reserve against deposits. In the negotiations for the Currency Loan in the summer of 1911, the Ta Ching Bank agreed to keep a reserve of 25 per cent against current accounts and against fixed accounts maturing in two months. The loan did not materialize, however, and the Bank was accordingly not bound by its offer. The business statement of December 31, 1914 (See Appendix J), shows a cash reserve of about $11,000,000 against about $50,000,000 of current deposits and about $9,000,000 of fixed deposits. Further, the auditors' report on the Shanghai branch in 1916 showed about $3,000,000 of cash reserve against about $10,000,000 "Due to the Public and to the Government Department." Some of the most reputable foreign banks in China habitually hold reserves of less than 10 per cent.

One of the puzzling features of the policy of the Bank of China has been its attempt to convince the public that it always maintains a cash reserve of 100 per cent upon its note issue. The balance sheet mentioned in the last paragraph shows 100 per cent "reserve against notes in circulation." Furthermore, in commenting upon the auditors' report above mentioned, Mr. G. Passeri, financial adviser to the Ministry of Finance (*Peking Gazette*, March 29, 1916) is responsible for the unqualified statement "that the note reserve is 100 per cent of the notes issued." Small wonder that the British auditors had occasion to defend themselves against libel by instituting proceedings against Mr. J. E. Melchoir. Incredulity and open derision were to be expected. (*Peking Gazette*, April 14, 1916.) In fact, it was definitely stated in a press report in 1914 that the issue alone of the Fengtien branch was $600,000; while its total cash reserve was only $500,000. (*Peking Gazette,* May 16, 1914.)

The probable meaning of this vaunted 100 per cent reserve against circulation is, that in the Bank of China the issue department is separated from the banking department, ~~as in the Bank of England,~~ and that the issue department has something specific to show for every dollar of notes in circulation. Remembering the heated debate between the Chinese and foreign delegates at the Currency Loan Conference at London in 1911 as to whether the cash reserve should be 65 per cent or 50 per cent of the note issue, we cannot believe that the Chinese bankers would suddenly become so extremely conservative as to insist on a 100 per cent reserve. At that time the foreigners shrewdly urged that bonds of the proposed Currency Loan should be made the only lawful security, except cash, for future note issues, and that not more than 35 per cent of the issue should be secured by these bonds. The last regulations of the Ta Ching Bank required a 50 per cent cash reserve on its circulation, and there are some indications that the rule was in general faithfully observed.

If the 100 per cent reserve is what it is surmised to be, the Bank is only playing ostrich. No one will be deceived, and the Bank has lost prestige by being guilty of false pretenses. It was guilty also of incompetence or else of conscious deception in permitting the auditors' report of the Shanghai branch to be published as a report of the Bank of China. Many people reading the very favorable report of this branch never noticed that the conclusions drawn by the auditors' applid only to the Shanghai branch, which has been, as will be shown, practically independent of Head Office control.

An important note to be made concerning the Bank of China is that a strikingly large portion of its revenue has always been earned by exchange operations. This is a natural condition of affairs in China, where exchange upon various kinds of money within the country constitutes an important element in the total exchange operations and where branch banks ordinarily accept the notes of sister branches only at a discount. Again, in a country where stock markets are hardly to be found, dealings in exchange serve as a substitute to some of the purely speculative and gambling activities of other countries.

Both national banks deserve severe censure for their policy of secrecy. The Bank of Communications has never exerted itself to give the public evidence of good faith through publicity, and the Bank of China has done so only fitfully. Both banks have spent large sums in recent years to run ill-conceived, non-appealing advertising copy in the leading newspapers. One half these sums spent in intelligent, dignified publicity would have produced great results, had the banks truly been in a position where complete publicity would not have made a bad matter worse. To get a balance sheet of these banks, once acquired, the balance sheet is likely to prove more valuable for the information it withholds than for that which it gives.

Neither of the national banks has established any strong connections with foreign countries. This is particularly strange in the case of the Communications Bank, since one of the alleged reasons for its existence was that the foreign exchange rates quoted by the foreign banks had always been exorbitant and that the Ta Ching Bank had been unable to remedy matters. Nevertheless there was considerable talk of establishing a branch of the Bank of China in London in 1913. Dr. Chen Chin-tao was there at the time on Currency Loan business, and the plan was that he should remain and attend to the establishing of the proposed branch. (*Peking Daily News*, March 9 and 12, 1913.) In 1914 the Bank of China entered into negotiations with the Morgan House in America with a view to affiliating with the Banks of the Morgan group. The matter seems never to have got into the newspapers, and nothing is known of why the negotiations were unsuccessful. In 1913, Premier Hsiung Hsi-ling suggested establishing a branch of the Bank of China at San Francisco with a capital of six and one half millions, the capital to be taken from the proceeds of the projected Currency Loan. (*Peking Daily News*, November 28, 1913.) The loan was prevented, of course, by the European War. The reasons why the national banks are tardy in establishing foreign branches seems simple. Few of the officials of these banks have traveled extensively; and rightly or wrongly, China is quite large enough for them. Their outlook is rather too provincial to enable them to give due weight to the arguments for foreign branches, such as they are. Again, neither bank has had sufficient capital to develop the home field as intensively as should be done. France, with domestic territory that compares with some of the largest provinces of China, has a national bank with four or five times as many branches as either the Chinese national banks has. Last, most of Chinese foreign trade, both exporting and importing, is transacted by foreigners, the Chinese playing only a passive part. Under the circumstances, it has been easy for the foreigners to turn the banking business connected with his trade to the Chinese branch of a homeland bank. These banks have ordinarily rendered services quite satisfactory to all concerned.

The organization and methods of the Ta Ching Bank and the Bank of China has always been taken from Japanese banking practice almost without change. Like the Japanese banks, the Bank has used Arabic numerals and Western writing implements almost from the start. When the Bank was being reorganized in 1912 and 1913, a delegation of two was sent to Japan to investigate yet further into Japanese methods. (*Peking Daily News*, February 18, 1913.) In the multiplicity of its books of account and in the profusion of their special columns, the Bank has always been strictly Japanese. The frequent attempts of Western expert accountants in the employ of the Bank to introduce more efficient accounting methods have accomplished little. (There is a Chinese treatise on Accounting Methods in the Bank of China, published about 1914. An English translation exists in manuscript form at the Peking School of Commerce and Finance.)

There was a period in 1913 and 1914, when the Bank of China was planning to secure the expert services of a large staff of foreigners to place the Bank on a sound basis throughout. Foreign accountants were actually engaged for several of the branches, and matters looked bright indeed. (*Peking Daily News*, April 18, 1913.) But the period mentioned was one of rapid political change; and in the procession of governors that followed there were several who had little interest in internal reform. The result was a reversion to type.

An excellent description of the departmentalization of the Ta Ching Bank is contained in the "History of the Ta

Ching Bank"; and as changes in such matters in the Bank are slow, the description has considerable value to-day. The following are the nine departments of the Ta Ching Bank at Peking:

1. National Treasury—(This department was later placed under the control of a superintendent, appointed by the Ministry of Finance. *Peking Daily News*, May 19, 1915.)
2. Head Office
3. Note Issue
4. Operating
5. Receiving and Paying
6. Accounting
7. Auditing
8. Business
9. Investment

Except for certain advisors and secretaries, all employees were members of some one of these departments.

A glance at this list of departments reveals that the departmentalization of the Bank had little in common with that of Western banks. Some statement as to the function of certain of the departments is accordingly necessary. The Operating Department attended to discounts, loans, exchange, bonds sales, corporate registrar work, and bullion dealings. The Business Department attended to unusual contracts of the Bank, lawsuits, guarantee of employees, preparation for stockholders' meetings, library, purchase of furniture and equipment, care of Bank building, sanitation, printing, and "all matters not stated." It is not easy to see how such unlike functions as exchange sales and credit investigation could be efficiently combined under one head, even in China. Certainly Western practice would not sanction a uniting of the receiving and paying functions; as such an organization would complicate the system of internal check. The organization of the branches varied widely, but the general plan was ordinarily a miniature of the one in use at Peking. When Governor Chang Yun-yen attempted to unify the accounting methods of all branches in accordance with twenty rules, he was disobeyed by most of the branches (*Ibid.*) and even sub-branches ignored their orders.

Repeatedly the Bank has been criticized for being more like a "yamen" (office of a Chinese official) than like a business enterprise. Thus, in 1913, the Premier announced his intention "to make the Bank of China a commercial institution, not a yamen with departments and sub-departments." (*Peking Gazette*, September 23, 1913.) Later, one of the native papers, the "Shun Tien Shih," stated that there was a general lack of confidence in the Government Bank, which was famed among merchants for the red tape usually found only in yamens. Foreign banks, however, on the other hand were more businesslike. (Quoted in *Peking Gazette*, June 11, 1914.) In 1915, the employees of the Bank were given an official rank, a custom that has long existed in the German Reichsbank. (*Peking Daily News*, August 3, 1915.) This enactment gives yet sounder basis to the criticism that the Bank is conducted like a yamen. Possibly the greatest failures of the Bank may be traced indirectly to wastefulness and inefficiency in the conduct of its daily routine. If, in its early years, the Bank had made profits sufficiently large to invite an unlimited amount of capital, it might have so multiplied its branches and so strengthened its prestige that rival institutions like the Bank of Communications never could have entered the field. It might have secured a monopoly of issue and of the Treasury balances by compelling rigid enforcement of the laws that have been enacted repeatedly by the central government. Relatively low profits have impeded the influx of capital with its resultant growth of prestige and economy in the day's work at the Bank would have secured the all-essential augmentation of profits.

A most commendable effort to increase the efficiency of the younger employees of the Bank was made in the founding of the Ta Ching Bank school on 1908. A separate building was erected at a cost of ₮30,000, and the maintenance expenses amounted to about ₮2,000 month. The school as originally planned was to accommodate eighty students, a few of whom should be sent by the Communications Bank, which contributed ₮1,000 a term toward the running expenses. The course was two years long, and the students — called apprentices — were paid a fair salary during this time, with the understanding that they would remain with the Bank at least five years afterwards. (From "History of the Ta Ching Bank.")

In 1910 the school graduated a class of more than thirty apprentices and recommenced with a new class shortly after. Two of the graduates and two of the teachers were sent to America and England for advanced study. A brief course in bookkeeping and political economy was successfully given to branch employees in the summer of 1910. The Revolution of 1911 broke up the work of the school, however; and the school never reopened after the Revolution. (*Ibid.*)

A similar attempt to educate the apprentices of the Bank of China was begun in the summer of 1915. Three or four hundred young men outside the Bank were induced to take competitive examination with the understanding that a few of the most successful candidates would be appointed to the rank of Paid Apprentice and given two hours of lectures daily for three years to supplement the experience which they would acquire from the routine tasks assigned to them during the rest of the day. Unfortunately, this lecture course was a failure. After a few months of random work, the course was discontinued. The writer will venture the statement that business concerns in China commonly employ two, or perhaps three, second-rate assistants where one really competent assistant would be more satisfactory. Certainly this comment applies to the Bank of China, which, in recent years at least, has been so overstocked with help that it has refused to investigate the qualifications of applicants of truly extraordinary native ability and special training. Thus, in 1917, the manager of the Peking branch politely but firmly refused even to consider an application for a clerical position by a young Chinese who was at once valedictorian and president of his class in one of the largest and most thorough commercial schools in the country.

The bonus system of paying employees, which is in wide use among mercantile establishments in China, was adopted in the earliest days of Ta Ching Bank and is still in operation. It has been the subject of much unfavorable comment. Article XIII of the earliest regulations of the Ta Ching Bank specified that one tenth of the net gain of the Bank should be devoted to the payment of bonuses. (See Appendix A.) This article seems to have been evaded, however; for the statements of the Bank given in the Appendix specifically mention that the Bank had contracted to pay to the superintendents, managers, and employees of the branches 20 per cent of the profits remaining after setting aside a surplus of 20 per cent, in other words, 16 per cent of the net profits. In addition to this large bonus to branches, a bonus was distributed at the Head Office amounting to 10 per cent of the profits remaining after setting aside the 20 per cent for surplus; in other words, 8 per cent of the net profits. This Head Office bonus was divided into 20 shares, which were distributed in the following manner:

Three shares as *fanyin* (service tip) to Ministry of Finance.

Two shares to inspectors of Bank.

Twelve shares to governor, vice governor, and managers.

Three shares to employees.

The branch bonus was divided into 20 shares, which were distributed as follows:

Eight shares to manager.

Five shares to assistant manager.

Seven shares to employees.

This ratio of division in the branches changed in 1909 to 10, 5, and 5.

As is seen, bonuses absorbed 24 per cent of the net profits of the Bank. The employees received three sevenths as much of the profits as went to the stockholders and to the government as dividends. In most years, the bonus received by an employee was several times in excess of his monthly salary. At the close of 1909, for instance, a bonus of ₮244,080 went to the branches alone. There were less than twenty branches at that time, and the total number of employees certainly did not exceed three hundred. On this conservative estimate, the average bonus received by a branch employee was about ₮800. Few indeed were the employees who received a monthly salary of more than ₮150.

As the bonus of an individual branch was determined by the profits of that branch, not by the profits of the Bank as a whole, the fluctuations in bonuses were wild indeed. Take the Fengtien branch, for an extreme example. Its net profits fluctuated as follows:

1908	₮126,312.91
1909	,, 79,298.03
1910	,, 13,285.05

Again, imagine what fat bonuses were due to the Chungching branch in 1909, when its profits were ₮200,344.11. It cannot be assumed that the efficiency of the employees of that branch increased fivefold over that of the preceding year, when the profits were only ₮40,955.20. This is eloquent proof of the wastefulness of the bonus system. Several unsuccessful attempts were made to alter the system so as to distribute the loans from the Head Office to all branches alike. The proposed improvement might have stabilized the bonus and enabled the Bank to predict its amount more accurately and to adjust salaries accordingly. As a matter of fact, four of the branches were compelled arbitrarily, after the banner year of 1909, to share their bonuses of that year with six other branches, a transaction of questionable honesty.

The method of distributing bonuses remained much the same in the Bank of China. A slight change was made at a stockholders' meeting, about 1913, whereby not only the surplus but the guaranteed dividend upon private shares and an equal amount upon the government shares, would be deducted from net profits before appropriating the 30 per cent to bonus. The remaining 70 per cent would go, as before, to dividends.

If the only persons permitted to share in the profits were employees in subordinate positions, the bonus system would be relatively harmless. It would be virtually a system of profit-sharing such as is found in other countries — and such as is slowly dying out in those countries because of its tested ineffectiveness. But in the national banks of China, as on the government railroads, all officers from the highest to the lowest receive a bonus, and the officers receive by far the greatest part of the bonus. The effect is natural: the system encourages speculation and careless accounting for losses, by the banks, just as on the government railroads it discourages adequate provision for repairs and depreciation. Certainly the national banks should abolish the bonus system in as far as it affects its employees in executive positions: and in view of the various excellent substitutes for the profit-sharing system for subordinates, there is no good reason why the entire system should not be uprooted. The Provincial State Bank of Kirin has adopted the less baneful system of permitting only subordinates to share. The managers, auditors, and provincial governor are excluded from the system. The president of this bank, who was concurrently a member of the Provincial Assembly, sought to secure legislation to abolish the system. A period of prosperity had resulted in handing over to the Bank employees enormous sums that might more wisely have been held for dividends. (*Peking Daily News*, February 7, 1914.)

The national banks of China have created a weird precedent in the payment of bonuses. In 1912, when the Ta Ching Bank was in suspension — when the claims of depositors and note holders of the Bank were being dishonored — the payment of bonuses to officers and employees for the year of 1911 went in as usual!! The governor of the Bank thus received a bonus of about $3,000 while creditors of the Bank went unsatisfied. This outlandish proceeding was repeated in 1917 during the Moratorium with the original variation that stockholders received the large dividend of 16 per cent at the same time that the employees received their bonuses; Mr. Hsu En-yuan, who was governor of the Bank, was decorated for meritorious service at about the same time that the dividend was declared. A member of Parliament interpellated the government and protested against the decoration of Governor Hsu on the ground that his attempt to resume payments in his Bank had disastrously broken down. The Parliament member made no mention of the dishonest distribution of bonuses and dividends, however. As a reflection upon the state of business ethics in China, the following defense of Governor Hsu by one of the leading Chinese newspapers is beautiful:

> "If the interpellators require further grounds for the Government's action, let them note the Bank of China dividend announcement recorded in our issue of yesterday."

As far as the writer can ascertain, neither of the national banks was criticized for paying dividends to stockholders and leaving the claims of creditors unsatisfied. Yet, even if the dividends were paid in notes, or only credited to the stockholders' deposit accounts, the difficulty of resuming payments would be vastly enhanced; and to effect this was plainly an injustice to creditors. One may well wonder how the Chinese people ever acquired the excellent reputation for business honesty which they almost universally enjoy.

CHAPTER IX

Shanghai Branch of Bank of China

The Shanghai branch is easily the largest and most important branch. Moreover, it is recognized as a modern bank and a compeer of the foreign banks of the city, an honor not usually accredited to the Head Office at Peking. It has repeatedly demonstrated remarkable independence of the Head Office and remarkable freedom from politics. It was to be one of the four regional banks in the Chinese federal reserve system advocated by Mr. Hsiung Hsi-ling and others. In fact the commercial supremacy of Shanghai has led an occasional reformer to commend this city as the most suitable location for the Head Office of a national banking system. Considering the fact that an organization thus located would probably be less hampered by politics, there is indeed something to be said in favor of such a plan.

In the event of a permanent breach between the Northern and Southern provinces, there is seemingly an excellent prospect of the present Shanghai branch becoming the Head Office of the Southern banking system. Had the Bank of Communications succeeded in securing absolute control of the Treasury balances, the Bank of China would perhaps have wisely shifted its headquarters from the capital to the financial center of the country.

During the first six years of the Ta Ching Bank, the Shanghai branch occupied the same building. In 1910, the branch moved to large quarters specially erected, a splendid four-story building, 240 feet long and 75 feet wide.

It has remained in this location ever since. It owns at least two warehouses in addition to its business offices. (*Peking Daily News*, August 1, 1910.)

Ever since the early days of the Ta Ching Bank, the Shanghai branch has been highly esteemed by foreigners. It was the Shanghai branch that refused to lend to the Liang Kiang Viceroy for famine relief in 1906–7 on the ground that the Viceroy lacked adequate security. In April, 1918, the Shanghai Taotai had occasion to complain to the senior consul at Shanghai that the foreign banks had agreed not to accept any bank notes issued by Chinese banks other than the Ta Ching Bank; and the Municipal Council of the International Settlement voiced a similar predilection for the notes of this Chinese bank as the media in which taxes might be paid. (*Journal of the American Association of China*, February, 1909.)

In volume of business, the Shanghai Bank is second only to the Hongkong and Shanghai Banking Corporation. (*Peking Daily News*, August 26, 1915, and December 23, 1915.)

The deposits of the Shanghai branch of the Ta Ching Bank ordinarily exceeded by a wide margin those of any other branch except the branch at Peking, whose deposits included the government balances. In fact, in 1908, the Shanghai deposits exceeded even those of the Head Office.

Also the Shanghai branch of the Ta Ching Bank invariably exceeded any of the other branches or the Head Office in collateral loan business. Probably it has maintained supremacy in this field, but no recent figures on the subject are available. During the six years covered by the reports in the " History of the Ta Ching Bank " the collateral loans held by the branch usually totaled about ₮4,000,000 ; but in 1908 it was ₮7,700,000. The revenue from collateral loans vastly exceeded the revenue from commercial loans, being not less than ₮346,197.06 for a half year in 1908. As an explanation of the preëminence of the Shanghai branch in this field, we might consider that Shanghai is the financial center of China, that it supports the principal stock exchange of the country, and that suitable collateral is consequently more common at that port.

The secondary rating of the branch as a profit producer is shown in the following table (compiled from "History of the Ta Ching Bank"):

	1908	1909	1910
Total profit of T. C. B.	₮1,512,548	₮1,648,526	₮1,189,216
Profits of Shanghai branch	258,822	163,387	100,642
Profits of Head Office .	397,834	369,126	399,642
Offices reporting . .	10	16	20
Tientsin profits . .	183,159	185,565	150,036
Hankow profits . .	122,728	193,071	131,082
Chungching profits .	40,955	200,344	130,416

The question naturally presents itself, Why was it that the branch that stood premier in deposits held usually subordinate rank as a profit producer? The answer seems to be that at Shanghai the discount rates were lower as a result of greater security and keener competition and that larger cash reserves were held as protection against the flurries and panics of a financial center. Possibly it is also true that the Shanghai branch confined itself more closely to legitimate banking operations. It is certain that its profits fluctuated less widely than those of some of the sister branches.

In the later days of the Ta Ching Bank, most branches had a manager, an assistant manager, and a superintendent, the last office being in reality a political sinecure filled by the Ministry of Finance through the Head Office. The importance of the Shanghai branch and its freedom from politics are seen in the fact that it had a superintendent for only a short period. In the Fourth Moon of 1907, the office of superintendent was taken by the deputy governor of the Bank, who held it for two years, after which he went back to Peking to take charge of the Head Office while the governor replaced him as superintendent of the Shanghai branch for some months. Thus the Shanghai branch was in a sense the Head Office of the Bank for a period. During the last two years of the Ta Ching Bank, however, the branch had a superintendent. ("History of the Ta Ching Bank," about page 96.)

Through the initiative of Manager Sun Hang-chang, the Shanghai branch of the Ta Ching Bank greatly furthered the interests of the Republicans in the Revolution of 1911. This fact was disclosed in the sensational trial of Mr. Sun for defalcation in May, 1912, a few weeks after the reorganization of the branch. All Shanghai was aroused by the announcement that Mr. Sun had been arrested under the charge of fraudulent transference of over ₮2,000,000 of official funds to private accounts.

The branch was seized, and an examination begun. Eleven cases of alleged irregularity were threshed out in court, proving little but the clumsiness of the prosecution and the innocence of Mr. Sun.

The facts of the principal case are as follows: During the Rubber Boom crisis late in 1910, the Head Office remitted ₮2,000,000 to the Shanghai branch to relieve the market. One half of this fund was lent to the Taotai of Shanghai. The Taotai paid back to the branch ₮1,020,000 about one year later, at the beginning of the Revolution. To prevent the Manchu government from withdrawing this sum and using it to fight the Republicans, Manager Sun promptly entered it as a "Central Bank Emergency Fund" in a separate book.

Early in the Revolution the Shanghai branch succeeded miraculously in extracting an additional ₮500,000 from the Head Office, ostensibly for "market relief." Even this Mr. Sun insisted was inadequate to the infinite needs of his "market," and he succeeded in getting permission to use ₮930,000 of bullion from the Nanking Mint. These two sums were added to the "Central Bank Emergency Fund" and treated in the same way.

When the Peking government began to appreciate the seriousness of the Uprising, the Head Office wired to the Shanghai branch to refund ₮500,000. To this demand, Manager Sun replied that only ₮930,000 had been received from the Mint; that ₮400,000 of this sum had been lent to two foreign banks as "indemnity installments"; and that the remainder had been found necessary "to preserve confidence in the branch deposits and bank notes."

In simple words, the Shanghai organization had outwitted the Head Office, the former having accurately judged from the first the potence of the Republican Uprising and prepared to do its part by relieving the Peking government of as much funds as possible. (*Peking Daily News*, April 9 and May 10, 1912; also *China Press*, May 1, 1912.) We may suspect similar shrewdness on the part of the Nanking provincial government, which approached the Head Office for large temporary loans late in September, 1911. (*North China Herald,* September 30, 1911.) Unfortunately for the fair name of the Shanghai organization, this body did not content itself with the glory of its achievements during the Revolution. Some of its glory was traded for pelf. We read in the "History of the Ta Ching Bank" that Manager Sun Hang-chang received a large increase in salary because of his success in inducing foreign banks to accept the bank notes of his branch throughout the period of the Revolution; while the employees of the branch received three months' additional salary for not deserting their posts. Who authorized these increases of salary we do not know; though we are tempted to imagine. An outsider might regard the increases as special bonuses paid, of course, at a time when the Ta Ching Bank as a whole was insolvent.

The Shanghai branch has shown its independence by advertising its affairs as separate from the affairs of the Bank of China as a whole. While the policy of the Head Office with respect to publicity has been erratic, the Shanghai branch has maintained a policy of publicity for years. This may or may not have been ordered from the Head Office. Surely the branch at the financial center would need to measure up more exactly to the standard of a modern bank than would an interior branch; and the Head Office may have been glad to advertise the affairs of its model branch at times when other branches had little to advertise. However this may be, the fact that the Head Office has failed to prevent this independent publicity, gives the public a moral right to expect independence from the Head Office on the part of the branch where such independence is essential to the safety of public deposits.

The stock of silver in the Shanghai branch in June, 1915, was $8,100,000; while the silver of the Communications branch and the office of the Commercial Bank of China totaled $8,780,000. (*Peking Gazette*, June 29, 1915.) A fact which the writer is unable to avouch for is that the branch had about $2,000,000 more in specie in June, 1915, than it held in March, 1916.

According to a statement given to the press in August, 1915, the deposits of the branch increased in the years after the Revolution as follows:

1912	$ 190,000	fixed	$ 700,000	current
1913	399,000	,,	......	,,
1914	400,000	,,	......	,,
1915	23,000,000	,,	12,000,000	,,

Mention has already been made of the report of the auditors as to the affairs of the Shanghai branch on March 4, 1916, and as to its success in preventing the government from borrowing beyond the limits of safety. This report is reproduced in Appendix K.

The strength of the Shanghai organization and its freedom from politics were clearly evinced in 1914, when the Minister of Finance attempted to replace the manager, Mr. Sun Hang-chang, with Mr. Tao Hsing-sung. There was a storm of protest, much like that against the transferral of the assistant manager in 1916, for Mr. Sun had had a record of many years of efficient service. The Head Office acted as mediator between the Minister of Finance and the Shanghai organization and proposed that the special office of superintendent be created for the office seeker, Mr. Tao. The matter was thus partially settled by Chinese compromise, and Mr. Tao took up office. Later events indicate that Mr. Tao had but little influence over the organization, however. Even this partial victory of efficiency over politics we may suppose would have been impossible in any other branch. (*Peking Daily News*, November 11, 1914.)

About this time, Governor Sah succeeded in securing government approval of five regulations to effect a strong central management of all branches. The regulations do not refer specifically to the Shanghai branch; but reading between the lines, we perceive the influence of the struggle between Governor Sah and Manager Sun. (*Peking Gazette*, October 10, 1914.) Of course, the five regulations were in effect strictly "paper."

News of the Moratorium Order reached Shanghai at a particularly bad time. Shanghai was already in a panicky state of mind in consequence of a run on the Bank of Territorial Development begun a day or two before the issuance of the Order. It had been rumored that one of Yuan's sons had used his influence as stockholder in this semiofficial institution to advance large sums to his father. The Territorial Bank slowly doled out payments for a few hours daily to large and rather disorderly crowds of note holders and depositors; and it finally suspended payments on the 16th, ostensibly for a period of ten days. The notice on its door attributed the suspension to the Moratorium Order. On the day of the Moratorium the notes of the Territorial Bank changed hands at from 10 to 20 per cent discount.

The Order was promptly obeyed by the Communications branch at Shanghai, which posted a notice on its door stating that no notes could be exchanged till after the receipt of further instructions from Peking. This institution was obedient to the Order, probably because the Order was known to be the handwork of Liang Shih-yi, who was a member of the Communications organization; because the branch at Shanghai could not rely upon the support of the foreign banks at Shanghai during the "run," as could the Bank of China branch; and because, we suspect, a suspension had been for some time regarded as unavoidable by those on the inside of the Bank.

With equal promptness, the management of the Bank of China branch at Shanghai devised means of evading the Moratorium Order. On the same day that the Order was promulgated, the Shanghai shareholders of the Bank met and passed the following resolutions:

> "1. The Bank of China in Shanghai has been entrusted to the two trustees of the shareholders, Mr. White-Copper and Mr. Murakami — both foreigners; and the Government is not allowed to draw funds.
>
> "2. All assets and liabilities are left in hands of foreign lawyers to be audited at any moment.
>
> "3. As the bank notes of the Shanghai branch of the Bank have adequate reserves, they will be paid even though the Central Government may stop such payment at other places.
>
> "4. If there be any loss to customers the shareholders will be responsible for making good the same; and this will be confirmed by both Southern and Northern Governments."

In taking this stand, the branch had everything in its favor. Yuan was being shorn of the power by the Yünnan Rebellion, which was rapidly gaining the support of all the

Southern provinces. The governor of Kiangsu province, in which Shanghai is situated, had protested strongly against the Order. Further, the branch was located inside the International Settlement and was accordingly protected from any intervention except through the Mixed Court composed of Chinese and foreign magistrates. Incidentally the insubordination of the branch had the unqualified approval of prominent foreigners including Mr. Passeri, an adviser to the Ministry of Finance. (*North China Herald*, May 19, 1916.) Last, the branch held strong cash reserves and was early backed by some of the strongest foreign banks in the Settlement.

On the 15th, the foreign bankers held a meeting and through the Local Consular Body telegraphed to the diplomatic body at Peking for permission to assist the Shanghai branch. Although to sanction the proposed loan was to support disobedience of the central government, the majority of the diplomatic body favored extending immediate assistance to the branch. Only two members favored deferring their decision until the matter should be reported to their Governments. (*North China Herald*, May 19, 1916.)

Accordingly, on the 16th, the foreign banks actually came to the assistance of the Shanghai branch. The run on the branch subsided a few days later; and one might surmise that the branch could have met all demands without foreign assistance, this being solicited chiefly to secure evidence of the official support of foreign countries in its insubordination to the Head Office.

About the same time the Shanghai branch of the Bank of Communications attempted to raise a loan of $700,000 from foreign bankers. This attempt seems not to have succeeded. (*North China Herald*, May 27, 1916.)

An amazing expression of independence on the part of the Shanghai branch was made toward the end of 1916, when the Head Office attempted to transfer the assistant manager to the position of manager of the Chungking branch. It was rumored that Governor Hsu, who attempted the transfer, would next strike at Manager Sun Hang-chang. These officers had demonstrated unusual executive ability, had opposed the Moratorium Order, and had done much to win the esteem and support of foreigners. Manager Sun had, of course, been with the branch for several years. (*Peking Daily News*, November 11, 1914, also August 1, 1910.)

The Shanghai stockholders immediately wired to the Head Office and to the governor of Kiangsu, refusing to take orders from Peking. They claimed that in the days following the Moratorium Order, the Shanghai stockholders had been recognized by the central government as a separate and independent legal body under the name of the "Shanghai Mercantile Shareholders' Association." Further they threatened to withdraw their capital from the Bank unless their protest should be properly entertained.

Replying to this message, the Peking shareholders, representing 11,942 shares, it was said, wired to the vice president, the governor of Kiangsu, the Shanghai Chamber of Commerce, and other public organizations and denied the right of a shareholder minority to obstruct the management of the Head Office. (*Peking Gazette*, December 19, 1916.)

Meanwhile the shareholders refused to transfer silver to the Head Office. The Shareholders' Association took the case to the local Chinese court, which adjudged that the silver was the property of the shareholders. (*Peking Gazette*, December 21, 1916.) It may be said, therefore, that the courts actually recognized and sanctioned the independence of the Shanghai branch. This recognition has no such significance in China, however, as it would have in America for instance.

As a result of pressure from the shareholders of Peking and Hankow and from the various chambers of commerce, the branch decided to withdraw its action from the local court; and it pledged obedience to the Head Office. The governor of the Bank, probably in the interests of "face," agreed to permit the assistant manager to remain at Shanghai till the end of the year. (*Peking Gazette*, December 27, 1916.)

But the independence and initiative of the Shanghai branch were not destroyed in the controversy concerning the removal of the assistant manager. Rather, this independence remains as a tradition, which under given circumstances, will be a factor to be reckoned with in the future.

CHAPTER X

An Appraisal: Reforms

Several of the general functions of a national banking system, in connection with both public and private finance, were enumerated by Sir Robert Hart in 1903, when the proposal to found a national bank of China was in discussion. These functions were set forth as follows (*North China Herald*, July 3, 1903):

1. To assist the authorities to collect and take charge of public revenue and to keep account of it.
2. To facilitate the making of government disbursements and accounting for the same.
3. To assist in the floating and liquidation of the National Debt.
4. To take charge of monies deposited by the masses under the same terms and conditions as an ordinary mercantile bank.
5. To do the same as other banks in investing government and private funds deposited with it.
6. To transmit for the government all funds needed in the provinces or abroad.

It will be observed that the first three and the last of these functions relate to the National Treasury; while the third and fourth functions relate to transactions with persons of the business community. It is to be observed, also, that Sir Robert Hart neglected to enumerate an important group of functions related to the safeguarding of bank-note circulation.

In appraising the accomplishments of the Chinese national banking system, it is only fair to concede that for months and years at a time the banks have had some small success in assisting the government in Treasury operations. Yet, to appreciate the larger failure of the system, we need only review the bitter struggle of the two national banks and the several provincial state banks to secure control of funds of the National Treasury. The outstanding fact is that the system has absolutely failed to achieve the simplicity of a unified control of the collection and disbursement of public revenue.

And what shall we say of the success of the system in its relations with the business community? Even the banking officials themselves would hesitate to profess much achievement in this field. The part which the national banks have played in the development of the resources of China has been petty indeed. The combined "banking power" of the two banks, consisting of capital, deposits, and issue, would not begin to fulfill the commercial requirements of a single province. There are foreign banks in China whose banking power ranks with that of either of the national banks. Being less restricted by Chinese politics, these foreign banks have probably yielded more concrete benefits to native business, than have the national banks.

Further we must consider the vast disservices rendered to the business community during the long periods when the national banks have been in suspension, periods of such tight money and of such fluctuating prices that legitimate business became gambling. Of the first twenty-two years of the combined life of the two national banks, about five years have been spent in suspension. Both banks are still in suspension. This is a record not rivaled by any nation except Italy or some of the South American countries.

Contrast China's record with, for instance, that of the United States under the National Banking Act of 1863. The average solvent life of a bank in that system was about four hundred years. When this average bank failed, its affairs were settled within a few months; and it paid 100 per cent of its note issue and 85 per cent of its deposits and other unsecured liabilities. (The "average solvent life" just mentioned is computed as follows: Arrange in a column the varying numbers of national banks doing business each year between 1863 and 1913. Find the total number of years of bank life shown in the column. Divide this sum by the number of banks that failed during the period. The quotient thus found, though not strictly accurate, indicates the stability of the American national banks.)

Surely no one will contend that the Chinese national banking system has accomplished much toward providing an ideal bank-note circulation. Indeed, to systematize the bank-note circulation of China, bringing it under a single head, where its volume and its security might be regulated effectively, would be more difficult now than it would have been a dozen years ago. At that time there were fewer banks of issue to eliminate from the bank-note system, or to bring into the system. Furthermore, a dozen years ago there was less precedent than now for disobeying national ordinances restricting the issuance of bank notes. Again and again the national government has ordained, in almost identical terms, the formula that "new banks may issue no notes, banks already in existence may not increase their circulation, and eventually the Bank of China is to be the sole issuer of bank notes.'' (See Appendix Q.) In this matter the government has formed the dangerous habit of failure.

In failing to bring note issue under rigid control, the national banks have created in China a problem of great urgency and great difficulty. Probably no one has ever known the exact amount of bank notes in circulation in China, but only a comparatively small part of the present volume was in circulation in the early days of the Ta Ching Bank, when private issue would have best been eliminated. In 1912, the Minister of Finance roughly estimated the total issue of the country at ₮370,000,000 (*Peking Daily News*, July 13, 1912). Another official estimate, made in 1913, fixed the volume of notes at $209,000,000. (*Peking Daily News*, October 24, 1913.) This smaller estimate was not due, however, to any contraction of issue during the preceding months. In the following year, the issue of the country was estimated at $162,000,000 (*Peking Gazette*, June 5, 1914); and at $145,000,000 (*Peking Daily News*, April 24, 1914); while a third estimate placed it at $300,000,000 of a total of 1,050,000,000 of coins, bullion, and paper. (*Peking Daily News*, March 2, 1914.) In 1915, an investigation of the Ministry of Finance showed that the country had $162,000,000 of paper so depreciated that its total market value was $113,000,000 (*Far Eastern Review*, February, 1915). The present issue of the country is certainly much greater than the figure for 1915 due to the wild issue during the political troubles of 1916 and 1917. To extend government control to an issue of only $162,000,000, bringing it to par and replacing it with notes of the national banks, would be a slow and labored task for a country so poor as China.

The national banking system of China has failed completely that, instead of enhancing the credit of the nation, it has seriously injured it. Moreover, now after a dozen years of opportunity, the objects to be attained by a reform of the system are precisely what the founders of the Hupu Bank had in view. Briefly these objects are to unify the control of bank-note issue, to unify control of the banking of Treasury funds, and to create a bank productive of genuine services to depositors and borrowers from the business community, thereby actively assisting in the development of the resources of the country.

The twin system of national banks stands squarely in the path of unified control of issue and of Treasury banking. Either the Bank of Communications must be stripped of all note issue and of all Treasury deposits, or else a scheme must be devised to amalgamate it with the Bank of China.

A course of unquestionable legality would be to strip this bank of its issue and of all of its Treasury balances except those of the Ministry of Communications. The right of the Bank of China to a monopoly of note issue and to a monopoly of Treasury business other than that of the Ministry of Communications is beyond dispute, as was shown in Chapter VII of the present treatise.

An alternative course of action, equally legal, exists in the possibility of forcing this concern into bankruptcy and of closing it out immediately. Certainly it would be a poor remedy to wait until 1944 and then refuse to renew the charter of the Bank.

Unfortunately these plans of action, however legal, must reckon with the opposition of one of the most persistent groups of politicians in China, the "Chiao Tung Clique." That these politicians were able to refuse the Board of Audit access to the books of the Bank of Communications after its suspension in 1916 demonstrates how poor an argument the law is when it would encroach upon their private interests.

The proposal to amalgamate the two national banks has actually been considered, and strangely enough the proposal seems to have emanated from the Bank of Communications. The plan was unfavorably reported upon by the shareholders of the Bank of China at Tientsin in 1916. (*Peking Gazette*, June 13, 1916.) Something is to be said in favor of amalgamation, nevertheless. Although as early as 1911 it was expressly provided by law that only one official bank might be established at any provincial capital or in any commercial center, there are now many cases of duplication of branches (" Report of the Chinese Currency Committee and Minutes of Meetings," 1911). Probably there are several cities in which one of the branches of the two banks might profitably be closed, in the event of an amalgamation.

There are, however, grave dangers in an amalgamation. Sustained by hundreds of lucrative offices in the government railroads, the Communications Clique is permanently assured of a political " machine " of great power, and there is little doubt that in an amalgamation it would rule the roost. The record of the Clique is anything but creditable; and to give it a free hand in the amalgamation would be comparable to delivering the banking system of the United States into the mercies of Tammany Hall. Through its control of the railroad, the Clique already wields a power extremely dangerous to the public weal, and it would be shortsighted to risk augmentation of this power through Clique control of the finances of the country.

In the writer's opinion much may be said in favor of merging the two official banks into a colossal and entirely new corporation financed largely by foreign capital and controlled mainly by foreign financiers. Tens of millions are needed to enable the banks to resume payments, to shoulder the note issues of all private banks, to establish numerous additional branches both at home and abroad, and to enable the national bank of China to take an active, constructive part in the commercial and industrial development of the country. It is doubtful if sufficient loanable capital for the establishment of such a bank is available in China; and even if it is available, it would be madness to expect that any considerable number of prudent Chinese capitalists would invest in another official bank subject to the manipulation of politicians. In spite of the dismal failure of the national banks, a few politicians in China within the banks or outside of them may still deem themselves competent to run a national banking system for profit; but the capitalists of the country are hardly to be expected to concur in their opinion. During the last ten years the government has almost constantly demonstrated its inability to manage the delicate mechanism of a modern bank, and it would not suffer from admitting the fact.

By calling in foreign capitalists and giving them fair representation in the new institution, China would early attain the efficiency in her national banking system which has characterized the Maritime Customs and the Salt Gabelle, both under foreign control. If the new institution were given all privileges now granted by law to the Bank of China, we may feel confident that it would soon secure an absolute monopoly of note issue and absolute control of Treasury banking. Foreign nations have repeatedly secured the enforcement of Chinese law where foreign profits were at stake, and they could be counted upon to secure enforcement of the rights of the new national bank with respect to issue and Treasury business. The means of enforcement to which foreigners have resorted have been harsh at times, but in the long run China has usually benefited.

Means would need to be devised to enable the new national bank to secure a monopoly of note issue without violently upsetting the business of the present banks of issue. In other words the transfer should be made gradually. The writer suggests as a first step that such private banks of issue as are solvent be required to refrain absolutely from increasing their circulation; though they might be permitted to re-issue notes already in circulation when these notes return to the banks. At the same time all these private banks might be required to remit to the nearest branch of the national bank, as additional reserve against their issue, an amount of cash equaling 20 per cent of their issue. These remittances would be held by the national bank as ordinary commercial deposits with the exception that they could not be withdrawn by the depositors. On the following year the private banks of issue would be required to raise the amount of their deposits to 40 per cent; and so on till at the beginning of the fifth year the central bank would have in cash deposits a fund equaling 100 per cent of the total private issue of the country. The actual retirement from circulation of all private bank notes would then begin. Within a few months all but a fraction of these notes would be received in the normal conduct of business by the various branches of the national bank, the notes being perforated and withdrawn from circulation. By this plan the national bank would secure, from the first, its right to a share of the profits upon all the private issue of paper money in the country. The deposits of the solvent banks alone would probably aggregate upwards of $75,000,000 at the end of the third year. In shouldering the issues of private banks in suspension, the central bank would, of course, proceed differently.

The charter of the proposed new bank might be granted for a relatively brief period, say fifteen years, with the understanding that at the expiration of this period the foreign stock in the bank would be converted automatically into ordinary government bonds of a fixed maturity and that all foreign control in the bank would cease immediately. The practical working of this arrangement would be simply the foreign experts would be called in to set the house in order for ultimate occupancy by Chinese. Not only would the issue of paper money and the transaction of Treasury business be brought under control, but the commercial activities of the national banks would be expanded and improved. A body of competent Chinese employees and executives would be selected and organized; strong connections with foreign countries for the transaction of exchange business would be permanently established; and a new tradition of energetic, conservative management would be created.

Special inducements would need to be made to the private stockholders of the Bank of China and the Bank of Communications to persuade them to petition the government for cancellation of their charters. They are in a position to drive a hard bargain. Their total private capital stock in the two national banks is, however, only about $13,000,000; and it has not yielded an average annual dividend of much more than 12 per cent. The promoters of the new national bank could afford to purchase the equity of these stockholders with $13,000,000 of 15 per cent preferred stock convertible at option into common stock at the end of fifteen years. The promoters would thus assume an annual fixed charge of about $1,950,000. If the bank-note tax is not excessive, the preferred stock dividends would be offset by profits from the issue acquired from private banks, but the profits from this source would be a small part of the total profits of the enterprise.

Many Chinese would object to a plan whereby large dividends, even for a brief period, would find their way into foreigners' pockets. The objection overlooks several important considerations. First, the present national banking system is yielding but scanty profits to any one. Second, through numerous foreign banks located in China, huge profits from the banking of Chinese funds are already going into foreigners' pockets. Prudent Chinese business men cannot be expected to deposit their funds with the national banks under their present management, but a very considerable portion of these depositors would transfer their funds to a more reliable Chinese national bank partially owned and controlled by the Chinese government and by Chinese capitalists. The profits upon such funds would go largely to Chinese; at present they go wholly to foreigners. Last, a further portion of the profits of the new institution might be retained by the Chinese people through a reasonable tax upon the circulation of the bank.

That foreigners would not abuse the control over the finances of the country which the new bank would give them is strongly indicated by the excellent record of the Maritime Customs and the Salt Gabelle. The danger of an abuse of power might be reduced greatly by stipulating in the charter that loans by the bank to foreign enterprises at home or abroad would be forbidden. Similarly it would be only a sane precaution to exclude from more than nominal connection with the new bank the nationals of any country having a record of unfair dealing either with the government or with the citizens of China.

Another plan of reform, which would effect a merger of not only the branches of the government banks but of various provincial state banks and private banking concerns, is an adaptation of the Federal Reserve System of the United States.

The debate over the reform bill that was waged so seriously in the United States in the latter part of 1913 seems to have been echoed in distant China, where, in 1914, the regional bank idea was urged by persons of great influence. Mr. Liang Chi-chao of the Currency Reform Bureau, Mr. Chow Tzu-chi, Minister of Finance, and Premier Hsiung Hsi-ling were among the distinguished personages back of the movement. (*Peking Daily News*, January 15, 1914, and March 31, 1914; *Peking Gazette*, May 12, 1914.)

In the national banking system proposed by these reformers, there were to be four regional banks, instead of twelve as in the American system. These regional banks would be established at Peking, Hankow, Shanghai, and Mukden; and they would connect with the "member" banks located respectively in the five northern provinces, the Yangtze Valley provinces, the southeastern provinces, and the three eastern provinces of Manchuria. As in the United States, the regional bank would receive as deposits a portion of the reserves of all member banks, rediscount the paper of these banks, and be the sole source of note issue in the region. Capital to open the regional bank would be obtained by assisting its member banks. The "reserve board" of the system, we may assume, would consist of politicians and would have offices at the capital. It was stated clearly that the regional system would be put into operation in conjunction with the reorganization of the currency. (*Ibid.*) As is known, the currency reorganization was indefinitely postponed when the Currency Loan fell through at the outbreak of the World War. There is great doubt, however, that the reform could have been effectuated; for the proposal seems to have aroused no press comment whatsoever. In such a case silence may be construed to be dissent.

The regional system of banks, though superbly adapted to the needs of the United States, seems premature and ill-adapted to the needs of China. In the United States it seemed to be the best means of strengthening the individual bank by combining the reserves of all the banks of the system and of securing, at the same time, a more elastic issue. Prior to the Federal Reserve Act of 1913, banks in the United States were forbidden to have branches by all but a few of the States, a condition which prevented the combining of bank reserves. No such condition exists in China, where all important banks have numerous branches. Prior to 1913, issue in the United States was extremely inelastic; indeed one authority characterized it as "perversely elastic," since it tended to contract in volume at about the same time that a panic seemed imminent. China, on the other hand, does not need an elastic currency. Her financiers are not compelled to cope with the seasonal variations attending "the movement of the crops" in the United States, nor with the "cyclical variations" attending the progress of

American business through periods of panic, depression, and prosperity. Anyway, Chinese currency is already highly elastic, humorously elastic, as is seen in the events of 1911 and 1916.

A regional system of national banks under control of Chinese politicians would result in giving a sort of financial autonomy to various sections of China ; and it would facilitate sectional strife, if it would not actually provoke it. With a regional system, a revolution would find the "member" banks of a section already organized into a group for the financing of civil war. On two occasions various branches of the present system have declared themselves independent of the national government, or even antagonistic to it. The dangers of a similar phenomenon under a regional organization would be doubly great.

How the weaknesses of the national banking system of China are imbedded in the incompetence, the ignorance, and the selfish expediency of the great majority of present-day Chinese business men and politicians is seen in comparing the records of the provincial state banks with the record of the national banks. These official banks of the provincial governments have been guilty of secrecy as to accounts, politics in management, wasteful bonuses to employees, reckless issue, inadequate reserves, protracted suspensions of specie payments, and even repudiation of liabilities.

It cannot be too often repeated that the disasters that have befallen the national system of banks have arisen not so much from defects in the framework of the system as from defects in the men that have administered the system. Absolute freedom from politics, such as is enjoyed by the

Bank of England, would evidently be a great boon to the national banks. With this achieved, however, something would be lacking. What is needed above all is a staff of men trained to the rugged honesty that characterizes the bankers of the industrialized nations, men who cannot be bribed, nor coerced, nor cajoled.

China has a few men of this caliber, but they are woefully outnumbered. The Chinese business community, at its present stage of development, is a poor training school for such men. The traditions of spoils in government, squeeze in business, compromise in justice, and loyalty to persons rather than to principles, all tend to eliminate the type of man who may be trusted to administer the funds of others. It is for precisely this reason that the corporate form of business organization has had such slow growth in China.

Without the responsible assistance of experienced bankers trained to the standards of more highly developed countries, it seems clear that the Chinese national banking system cannot, for generations, rise above the plane of passive mediocrity, if indeed it can be saved from total failure.

APPENDIX A

Substance of Regulations of Hupu Bank

Article I. Capital stock ₮4,000,000 of 40,000 shares of ₮100. Government takes 20,000 shares. Rest to people. Limited liability company. Business to make loans, buy and sell gold and silver, sell drafts, make collections, safe deposit.

Article II. Controlled by government so in case of emergency government makes loans to bank and receives interest. Charter 20 years.

Article III. Bank sends to government every season balance sheet.

Article IV. All subscribers should pay $\frac{1}{4}$ before opening of bank. Foreigners may not subscribe.

Article V. Installments. If the subscribers fail to pay at time, fine of $\frac{1}{10}$ of installments still unpaid. If after two months subscribers do not pay in installments, stocks already subscribed will be resold.

Article VI. The public subscribers have to elect Governor, Vice Governor, and four Deputy Governors. Governor presides at meetings of stockholders. Decides in case of a tie. Three managers elected by stockholders.

Article VII. 100 shares may be elected as director.
Manager 40 shares.

Article VIII. Governor—term of office, 5 years.
Vice Governor—5 years.
Directors—4 years.
Manager—3 years.

Retired officers may be reëlected. Every March and September at directors' meeting.

Article IX. All officers meet monthly. Governor, director, and managers—several meetings.

Article X. Every meeting to have $\frac{1}{2}$ of directors with $\frac{1}{2}$ stock.

Article XI. Transfers must be registered at Head Office.

Article XII. Books closed twice a year.

Article XIII. All public shares guaranteed 6 per cent. $\frac{1}{10}$ net gain goes to surplus, $\frac{1}{10}$ bonus. Dividends must not be paid out of capital.

Article XIV. Denomination of notes 1–5–10–50–100 taels and more.

Article XV. Notes shall exchange as silver.

Article XVI. All notes must be cashed in any bank.

Article XVII. Bank may prevent cash shops, etc., from spreading rumors.

Article XVIII. All important documents to be signed by seal, which is kept by Governor or Vice Governor.

Article XIX. Whenever government desires to stop business can do so. Officers must not resign till accounts are cleared up.

Article XX. Above are the regulations of the Hupu Bank.

APPENDIX B

The Imperial Bank

(Translation)

Regulations approved by the Throne, February 17, 1908

Article I. The Imperial Bank (formerly called the Bank of the Board of Finance) had an original capital of ₮4,000,000; and this capital will be increased by ₮6,000,000, making a total of ₮10,000,000 issued in 100,000 shares. The Government will take 50,000 shares, and the remainder will be sold exclusively to Chinese. When the state of the business warrants such action, the capitalization may be increased by action of a meeting of the shareholders and the concurrence of the Board of Finance. The shares will be put on the market in any way that the Bank desires with the proviso that no shares be sold to foreigners.

Article II. The Bank is a limited liability company, and no shareholder will be liable for more than the amount of his share holdings.

Article III. The Head Office will be in Peking. Branches will be established in ports and important centers. As circumstances warrant, the Board of Finance may be applied to for permission to found other branches in the prefectural, departmental, or district cities of the Empire, or existing banks of good standing may be accredited as agents, or mutual agreements may be made with other banks, which must be investigated by the Board of Finance. The same Board will, at its discretion, permit the establishment of branch banks.

Article IV. The business of the Bank will be of the following sorts:

(1) Discounting commercial paper.

(2) Sale of time drafts.

(3) Dealing in gold and silver bullion.

(4) Transfer of money from place to place and the loaning of money on warehouse receipts.

(5) The forwarding for collection of drafts on other concerns.

(6) Safe deposit.

(7) Loaning of money.

(8) Sale of drafts.

Article V. The Bank shall hereafter have the exclusive right to issue paper money, but such issue shall be in conformity with the laws appertaining to the same; and additional laws must be enacted by the Board of Finance before the Bank may issue a paper currency. Temporary notes may be issued before the enactment of the said laws.

Article VI. The Bank will hereafter, at the discretion of the Board of Finance, have control of the National Treasury vaults, the financial affairs of the government, the national debt, loan, etc.

Article VII. The Bank shall keep accurate account of the financial situation throughout the country and report the same to the Board of Finance. The Board acting on this information shall issue orders to the mints and thus the particular locality requiring it will be supplied with currency.

Article VIII. Aside from the above-mentioned duties, the Bank will have no other functions.

Article IX. The Bank may not use its shares as security for loans, nor may it itself buy back such shares as have been sold.

Article X. The Bank is not permitted to acquire any real estate nor houses other than what is required in the transaction of business, except what is offered in payment of obligations, or as security for loans, or comes to it in litigation. Property coming in the last three ways must be assessed by two of the Bank officials, and they must consult with the official in charge of such business. If all is found satisfactory the property may be taken, but must be sold within the year ; or if for any reason such a course would entail any loss, an additional six months may be granted ; but the officials in charge of the transaction will be held accountable for the assessed value of the property, for any deterioration in the value and also for neglect of opportunities to sell advantageously.

Article XI. The Bank must not invest its funds in other concerns, but this does not preclude its dealing in the shares of perfectly reliable stock companies.

Article XII. The Bank may, after receiving the consent of the Board of Finance and the directors, lend money to relieve stringency in the money market due to shortage of silver in any locality. All funds accumulated regularly as interest on sums lent in accordance with this article must be held pending the receipt of instructions from the Board of Finance with regard to its disposition.

Article XIII. The period of existence of this Bank is fixed at thirty years. At the end of that time, the directors and shareholders shall hold a conference and if so decided shall petition the Board of Finance for an extension of time.

Article XIV. The Bank shall have a President (*Cheng Chien Tu*), a Vice President (*Fu Chien Tu*) and four Directors (*Li Shih*), who shall share the responsibility of its management. The President shall be appointed by the Throne from a list of candidates submitted by the Board of Finance. Three Inspectors (*Chien Shih*) having supervisory duties over the different branches will be elected by the shareholders subject to the approval of the Board of Finance. The Managers (*Tsung Pan*) of the local branches will be nominated by the local institutions and submitted to the Board of Finance, which will memorialize for Imperial sanction of the choice. The First (*Ching Li*) and Second (*Shieh Li*) Class Clerks and the Accountants (*Ssu Chang*) shall be chosen by the authorities of the branches and reported to the Board of Finance for registration. Directors must own at least one hundred shares; Inspectors at least forty shares. The salaries of the President, the Vice President, the Directors, and the Inspectors, their authority and duties, as well as the contracts, guaranties, amount of deposit, etc., of the two classes of clerks and their subordinates, shall be determined by the Bank and submitted to the Board of Finance for approval.

Article XV. The Board of Finance shall memorialize the Throne for the appointment of two Directors-at-Large (*Chien Li*) who shall maintain a general supervision over all the affairs of the Bank. They shall keep watch of the note issue of the Bank, the cash on hand and all the accounts. The Directors-at-Large shall also attend the meetings of shareholders and assist them with advice and explanations, not, however, interfering with their independent action. At any time that the Board of Finance deems it advisable to do so, it will dispatch an officer to make in conjunction with the Directors-at-Large a thorough examination of the condition of the Bank.

Article XVI. The President and the Vice President of the Imperial Bank and the Managers of the provincial branches shall hold office during five years; the Directors, four years; the Inspectors, three years. The Managers, the Directors, and the Inspectors may be appointed for successive terms, if their conduct is in all respects satisfactory. The President, the Vice President, and the local Managers shall not hold any other important public office during their term. The Directors and the Inspectors shall not during their terms hold office in any other bank.

Article XVII. The principal and the branch banks must prepare full and accurate reports of their business and submit the same through the central office to the Board of Finance for examination.

Article XVIII. Every half year the Bank must prepare a full report of the business transacted by the principal and the branch banks and their financial condition and submit this to the Board of Finance for inspection. The only expenditures which may be made are for the running expenses and for dividends at six per cent. Of the remainder at least a tenth must be set aside for a reserve fund, which may be drawn upon only for a deficit in the capital or for the payment of interest for which funds may be lacking.

Article XIX. Every year at a stated time there shall be a meeting of shareholders, but only those shall be admitted who purchased their shares a month before the meeting and who three days previously brought their certificates to the central office and identified themselves. Notice must be given by post to each shareholder and also in the press one month in advance of each meeting. If at other times any important matter arises demanding discussion, special meetings may be called at which the three Inspectors must all be present, or at least fifty shareholders. The Inspectors must explain to the shareholders the reason for the calling of the special meeting.

Article XX. The Imperial Bank should in conformance with its constitution make for itself complete regulations and submit the same to the Board of Finance for sanction. Any changes in these regulations must be made by the shareholders at a meeting and must be promulgated on approval by the Board of Revenue.

Article XXI. If at any time it is discovered by the Board of Finance, the Bank officers, and the shareholders that half the capital of the Bank has been lost, then the Bank must cease to transact business; and after the accounting officers have liquidated outside obligations, what remains shall be divided proportionately among the shareholders.

Article XXII. If the President or the Vice President, or any Director, or the Manager of a branch bank infracts these regulations or exceeds his authority and causes the Bank to suffer loss, the Board of Finance must investigate the case and fine the culprit or memorialize the Throne for his removal, as the degree of seriousness of the offense may require. The loss incurred by the Bank will be entirely made up to it by the offending official; or if at the motion of the shareholders he be compelled to refund only two thirds of the amount, the Board of Finance must be asked to memorialize for his dismissal.

Article XXIII. These regulations will go into effect three months subsequent to their sanction by the Throne.

Article XXIV. If these regulations shall be found deficient after due consideration, the Throne may be memorialized to make the required addition.

APPENDIX C

Rules and Regulations of the Bank of China

(Translation)

Approved by presidential order of April 15, 1913

Article I. The Bank of China shall be a limited stock company.

Article II. The capital of the Bank of China is fixed at sixty million, divided into 600,000 shares at a par value of $100 per share. The government shall first undertake to take up 300,000 shares. The balance shall be put on the market for popular subscription. If popular subscription shall be in excess of 300,000, the government, with due regard to the circumstances, shall take the shares which it has assumed, and from time to time place them on the market for public subscription.

Should it be necessary to increase the capital of the Bank of China, it shall be decided upon at a General Meeting of the stockholders. After being approved by the Minister of Finance, such increase may be made.

When the National Currency has been issued, silver dollars must be converted in accordance with the Currency Regulations. Should discrepancies result, the said discrepancies shall be made good to or by the shareholders.

Article III. The Bank of China, the government having first paid over one third or more for the shares assumed by it, shall begin business, at the same time offering for sale the shares assigned to the public, for which separate regulations shall be drawn up.

Article IV. The Bank of China's General Office shall be at the National Capital. The Bank may, after having considered the circumstances, establish branches and agencies at the Provincial capitals, or at principal commercial centers, or it may make agreements with other banks that they act as correspondents or exchange agencies; but the permission of the Minister of Finance shall be necessary.

If the government sees that a place is of importance, it may order the General Office to establish an agency or a correspondent at that place.

Article V. The share certificates of the Bank of China shall all be made out to holder. They cannot be bought by or sold to any one but citizens of the Chinese Republic.

Article VI. The life of the Bank of China shall be thirty years from the date the General Office commences operations. At the expiration of this period, a General Meeting of the stockholders shall decide upon an extension of the time limit, but such extension must be approved by the Minister of Finance.

Article VII. After ten per cent of the annual net profits shall have been placed in the reserve fund, dividends shall be decided at a General Meeting of the shareholders, and shall be approved by the Minister of Finance.

Article VIII. The uses of the reserve fund shall be as follows:

a. To make up losses in the capital.

b. For the equalization of dividends.

Article IX. The Bank of China's activities shall be as follows:

a. To discount or buy Government Treasury Certificates, reliable time drafts and bills of exchange.

b. To do an exchange business and to issue time drafts.

c. To buy and sell gold and silver bullion and foreign currency.

d. To accept deposits, and to receive in safety-deposit certificates, securities, and all kinds of valuable articles.

e. In behalf of the banks, corporations, business houses, and individuals, with whom they commonly have business relations, to collect amounts on various kinds of negotiable paper.

f. To accept gold and silver money and bullion as security for loans.

g. To accept the above enumerated, public debt bonds, or certificates issued by the government, or various kinds of certificates guaranteed by the government as security for fixed date or unlimited time loans; but the amounts and the interest shall at the time be decided upon by the President, the Vice President, the Superintendents, and the Auditors, and shall also have the approval of the Minister of Finance. The limitation on the enumerated classes of business, and the explanations of the terminology used will be indicated elsewhere.

Article X. The Bank of China may buy and sell public debt bonds, but it must be with the consent of the Minister of Finance.

Article XI. With the exception of the various activities enumerated in the two preceding articles, the Bank shall specifically not engage in those enumerated below, nor in any other sort of trade:

a. The receiving of immovable property and various kinds of bank and corporation shares as security for loans.

b. The buying of the Bank's own shares, or the accepting of them as security for loans.

c. The buying or receiving of any immovable property except that which is necessary for the carrying on of business.

d. Engaging directly or indirectly in various kinds of commercial activities.

Article XII. The Bank of China in issuing notes shall be governed by the rules regulating the same. Such regulations will be fixed by law.

Before the operation of the laws mentioned in the pervious clause, temporary regulatious fixed by the Ministry of Finance shall be in force.

Article XIII. The Bank of China receives the government's commission to superintend the national treasury and affairs connected with the collection and payment of the public debt.

Article XIV. The Bank of China is charged with the responsibility of issuing the national currency for the national government.

Article XV. There shall be one President, one Vice-President, nine Directors (*tung shih*), and five Auditors (*chien shih*).

Article XVI. The President and the Vice President shall be appointed by the President of China; the Directors and the Auditors shall be elected by a General Meeting of the stockholders. A stockholder owning less than fifty shares shall not hold office as a Director or as an Auditor.

Previous to the subscription to ten thousand shares by the public, the aforementioned qualifications for office holders shall be in abeyance. The number and the election of Directors and Auditors in such a case shall be ordered and determined by the Ministry of Finance.

Article XVII. The President and the Vice President shall hold office for a period of five years; the Directors for four years; and the Auditors for three years; and they are eligible for reëlection.

The President and the Vice President during their terms of office shall not engage in any other business, except in an Exchange Bank or in connection with currency matters. The Directors and the Auditors during their terms of office shall not act as officials of other Banks or Corporations.

Article XVIII. The shareholders' General Meetings shall be of two kinds, as follows:

a. Ordinary Meetings.

b. Extraordinary Meetings.

Article XIX. The ordinary General Meetings of shareholders shall be called by the President, and shall convene once a year at the place of location of the General Office.

Article XX. When the President considers that there are very important matters to be discussed, he may call an Extraordinary General Meeting of the shareholders.

Article XXI. If all the Directors, or all the Auditors, or fifty or more of the members of the General Meeting of shareholders, holding one per cent or more of the total number of shares on account of an important matter, ask for it, the President shall convene an Extraordinary Meeting of the shareholders.

Article XXII. The shareholders' General Meeting having adjourned, within sixty days, reckoned from the time of the convening of the Meeting, lists of the shareholders having ten shares or more, acquired from time to time, shall be drawn up; and such shareholders shall have the status of delegates to the Meetings, and may then engage in discussion.

Article XXIII. In the General Meeting of shareholders, the delegates shall have one vote for each ten shares. For those holding a hundred shares or more, for each additional fifty shares one vote.

Article XXIV. When the delegates to the General Meeting of the shareholders, for some reason cannot attend, alternates may be sent to attend only with the standing of delegates. No one alternate shall have the power to cast more than ten votes.

Article XXV. The subjects that shall be reported upon and the form in which they shall be made by the central bank, the branch banks and their correspondents shall be decided by the Minister of Finance in answer to the petition of the central bank.

Article XXVI. The Minister of Finance, if he considers that in the conduct of the Bank's affairs these rules, and the regulations of the Bank are being violated, or that such conduct of affairs is not profitable to the government, he shall have discretionary powers in regard thereto.

Article XXVII. The Minister of Finance shall depute an Inspector to look after all the affairs of the Bank of China.

Article XXVIII. The Bank of China shall draw up detailed regulations in accordance with the meaning of these rules. They shall be decided upon by the shareholders' General Meeting, and approved by the Minister of Finance. Any alteration or addition to these rules, or the rescinding of any of them, shall conform to the same method.

Article XXIX. These regulations as affecting shareholders are in effect from the time that 10,000 shares shall have been taken up.

Article XXX. These regulations shall be in force from the date of their promulgation.

On July 15, 1913, Acting Minister of Finance, Liang Shih-yi, promised that the Taching Bank Notes to the amount of ₮54,194 held by the Standard Oil Co. would be redeemed by the Bank of China. The Standard Oil Co. called at the bank several times without result and was compelled to resort to aid from the American Consul, E. T. Williams.

APPENDIX D

A Memorial

(Translated)

(*Petition for Permission to Found a Communication Bank*)

(Communicated from the Grand Council; The Memorial received this day from Your Board indicating the intention to create a Bank of Communications in order that profits may be recovered, and the supplemental memorial requesting that Li Ching-chʻu and others be appointed to fill the posts of President, etc., of the said Bank of Communications, have both received Imperial sanction and we make this announcement to Your Board that action may be taken accordingly.)

Memorial submitted December 8, 1907, by Chʻen-pi, President of the Board of Posts and Communications; Wu Chʻung-hsi, Senior Vice President of the Board; Yü Shih-mei, Junior Vice President of the Board (absent on special mission); and Kuo Tseng-shin, Acting Junior Vice President of the Board.

Chʻen-pi, President of the Board of Posts and Communications, and others, reverently submit this Memorial praying sanction to establish a Bank of Communications, which shall be the means of uniting under one control steamship lines, railways, telegraphs, and postal facilities, and of recovering certain profits.

The principal aim before my Board is to promote the prosperity of the facilities for transportation and intercommunication under its control, and to effect the recovery of certain profits. The functions of the proposed Bank will be, for instance, to negotiate loans for the construction of railways and the retention on deposit and disbursement of funds. Heretofore the funds of different projects have been kept in separate deposits in strict segregation. While one would have a superabundance of capital another would suffer from lack of funds; it has been impossible to relieve the need of one quarter from the superfluity of another. Moreover, in the transfer of money from Europe to Asia and *vice versa* the interests concerned have not been able to act for themselves; and a loss from exchange has clearly made itself felt. In the various ports, a crowd of banks have striven to advance their individual interests. Although the Board of Finance has founded a bank, its condition is not such as to enable it to compete successfully with all the others. The necessity naturally arises, therefore, for the creation of a bank of combined mercantile and government capital, of wide connections, to furnish assistance in the midst of these conditions.

The profits to be derived from the four sorts of activity under the control of the Board are susceptible of great increase; but without security public confidence is not easy to enlist in loans, and even where security exists much difficulty is to be anticipated. In view of the intention to redeem the Peking-Hankow Railway the need for money becomes still greater. The floating of bond issues and the selling of shares requires a central authority to control the incoming and outgoing funds. In anticipation of the redemption of the railway line, bonds and shares must be disposed of; and for this purpose a Bank is required. Without a Bank, these operations must be undertaken directly by the Board of Posts and Communications; and not only would this be inconsistent with the functions of the Board, but the Board would experience the difficulty of not being in vital connection with the banks. Many and fundamental difficulties present themselves.

Eastern and Western nations all permit the establishment of banks, without regard to the private or government character of their capital, to the number of over a hundred in each large city and town; but all are governed by laws enacted by a central banking authority and are carried on in conjunction with, not in opposition to, a central bank. The more numerous the bankers of a country, the more widespread are its financial transactions, and national and popular interests derive their individual benefit therefrom.

Many requests have been received of late from reputable Chinese capitalists that capital be collected and banks created in furtherance of trade, after the manner of Japanese banks, the hope being thus to retain profits that otherwise go to outsiders. Examination of the proposed action shows it to be important and desirable.

It is desired, therefore, that the Board of Posts, and Communications create a bank, a portion of the shares of which it shall take up, the bank to be formed under joint official and private auspices, capitalized at five million taels (₸5,000,000), six tenths to be provided by the Board, which latter portion shall be produced at once so that there may be funds for the immediate opening of the Bank.

The name of the bank shall be the Bank of Communications. Steamship lines, railways, telegraphs, and postal utilities shall hereafter make this Bank the place of deposit for their funds. In this way the Bank will make a lump deposit of the various scattered credits of the Board and will be vested with the responsibility of collecting these funds. In all its transactions it shall be guided by the laws of private commercial banks found everywhere in foreign countries.

It shall also be amenable to the Imperially sanctioned laws governing the "Commercial Bank" (*T'ung Shang Yin Hang*) the Szechwan "Chün Ch'uan Yuan Bank," and the Chekiang Railway Bank, authorized by the Board. But its character shall be different from that of the central bank.

In the manner of commercial banks and cash shops, it shall issue notes in exchange for silver dollars and bullion, thus permitting an extension of operations. When the Board of Finance shall promulgate laws relative to the maintenance of fixed reserves in support of notes issues and general banking laws, it shall, in common with the commercial banks of the different treaty ports, act in strict conformity therewith.

Hereafter, when the postal business becomes larger, the management of the postal money-order and postal savings banks departments will devolve solely upon this Board. Likewise, connections will have to be made whereby letters and money may be transported for Chinese living abroad. These operations becoming more easy, the confidence of the people will be increasingly strengthened.

In order that steamship lines, railways, telegraphs and the post office may be interconnected, the Bank must be relied upon as the connecting agent. The central bank will be able to avail itself of the railway stations, telegraph offices and savings department, which will all assist in spreading the use of the national currency to interior regions. The custom of the country districts and small towns of using silver sycee may thus be gradually eradicated. And the four forms of activity which will, as shown above, thus derive the benefits of interconnection will not be the only recipients of benefits arising from this interconnection.

The Memorialists, therefore, have selected from the laws of foreign commercial banks those adapted to China's requirements and have carefully embodied them in thirty-eight articles, which are now respectfully brought to the attention of the Throne, whose command is awaited. When this command is received, the Board will communicate with the provinces directing them speedily to prepare for the carrying out of these regulations. This will be of the greatest profit to the four lines of activity hereinbefore enumerated.

The reasons for the creating of a Bank of Communications are thus reverently submitted to the Empress Dowager and the Emperor for Their instructions.

Supplement

The creating of the Bank of Communications will entail many and diverse duties and capable officials should first of all be selected and appointed to attend to the requisite preparations. There is a certain Li Ching-chʻu, an acting Junior Under Secretary of the Board of Posts and Communications, and Taotai of the Chien Circuit in Szechwan, who is energetic, of good ability and experienced in the transaction of financial business, who is, moreover, always engaged in this sort of investigation and is, therefore, possessed of more than an ordinary stock of knowledge on this subject. He should be appointed President of the Bank.

Chou Kʻe-chʻang, an expectant Taotai of Shantung, and called to the Board of Posts and Communications for service, is talented in financial matters and has the confidence of the commercial class. He has already been successfully occupied in Szechwan in the starting of the Chün Chʻuan Yuan Commercial-Official Bank. He should be appointed Vice President of the Bank of Communications.

A bank of this sort serves to unify the management of steamship lines, railways, telegraphs, and postal utilities and to give flexibility to business operations. Thus it becomes necessary to study commercial conditions, so that response may be made to requirements; commercial methods must be imitated; and the faults of official procedure avoided. This is of primary importance. Only thus may business be stimulated and lost profit regained. If the Imperial sanction is given to these suggestions, the above-named officers will at once be directed to commence preparations and bring the project to a stage of satisfactory advancement.

This Supplement is reverently appended to the Memorial.

Regulations compared and correctness vouched for by T'ung-lin.

Compared and correctness vouched for the second time by T'ang Hao-chen.

Old Regulations of the Bank of Communications

Regulations drawn up by the President and other officers of the Board of Posts and Communications and approved by the Throne in the Imperial Rescript of December 8, 1907.

Article I. The Bank of Communications shall be conducted solely on the lines of a commercial bank. The Board of Posts and Communications will own therein, but only in the proportion of four tenths to six tenths taken up by the public. The laws of commerce as approved by the Throne shall be observed in the management of the Bank.

Article II. The Bank is founded with the object of facilitating communication and of stimulating the development of steamship lines, railways, telegraph lines and postal facilities.

Article III. When the Board of Finance enacts laws with regard to notes and fixed reserves and promulgates them to the banks, this Bank shall be bound by them equally with any other bank.

Article IV. This Bank shall be controlled by any law enacted and promulgated by the Board of Finance for the government of Banks.

Article V. When the Peking-Hankow Railway is redeemed, it shall be the duty of the Bank to manage the deposit and the transfer of the funds required therefor, to furnish quotations of the price of English gold, and to purchase in advance the French money needed.

Article VI. When the regulations pertaining thereto are drawn up and have the Imperial sanction, it shall be the duty of the Bank to have control of all bond issues and issues of interest-bearing certificates in connection with the redemption of the line.

Article VII. All steamship, railway, telegraph, and postal officers under the immediate control of the Board of Posts and Communications shall, in all that relates to the depositing or transfer of funds, or to the raising of public loans, make use of the Bank of Communications. Whether the Bank shall perform these services for private concerns shall be left to its discretion.

Article VIII. Beginning with those provinces through which railroads run, the Bank of Communications shall establish its central and branch offices and afterwards extend them to the various ports in succession. The capital of the Bank shall be collected in Chinese government currency and in silver sycee of a quality everywhere current.

Article IX. In receiving in deposit the funds of steamship lines, railways, telegraph lines and postal facilities, the Bank shall be guided by the usual rules of commercial procedure.

Article X. The Central Office shall be in Peking; for railways may be extended thence to Tientsin, Shanghai, Hankow, Amoy, Chinkiang, and Canton, where branches of the Bank will be established first, or arrangements be made with reliable banks to act as agents, as a due consideration of the circumstances shall at the time show to be advantageous. Afterwards branches, or agencies, shall be established at other ports on the routes of railway extension.

Article XI. After the Bank shall have been organized, it is intended, as a careful examination of circumstances shall warrant, to establish branches in distant ports and foreign countries, or to make arrangements with Chinese residing abroad to act as agents.

Article XII. Any money offered to the Bank as deposits, as payment for shares, or to be transferred, shall, after the universal custom of foreign banks, be received without any inquiry being addressed to the offerer as to its origin, whatever the class to which the said person may belong. Funds on deposit in the Bank shall be under the protection of the Bank, and no official may, without holding documentary proof of his having funds on deposit, make use of his official position to force the Bank to permit him to make an examination of its accounts in regard to any sum of money, whatever the association or doubts attaching to the same. To permit such action would be to lessen the confidence reposed in the Bank by the public.

Article XIII. The Bank of Communications is to be conducted by government officials and merchants in coöperation; and no Board, province, nor local official may borrow money, even for official use, without adequate security, lest the people lose confidence in the Bank.

Article XIV. The exclusive functions of the Bank shall be to receive in deposit and transmit money, to buy and sell gold and silver bullion, to serve as a clearing house for the transactions of various corporations and to transmit the resultant funds, to negotiate and discount commercial paper, and to do a safe deposit business. Aside from the above, in regard to those operations not clearly specified and in respect to operations forbidden to it, it shall be governed by the rules regulating the conduct of foreign and Chinese commercial banks.

Article XV. When the Bank is first organized each of its officials and employees will have his individual duties, which he must perform to the best of his abilities without hope of special reward. In financial transactions, each will have peculiar responsibilities. But, the operations of business being complex and manifold, a fixed set of regulations must be drawn up for their guidance in the performance of the above duties. Detailed regulations will be elaborated by the President and the Vice President of the Bank, and after being submitted for approval, shall be promulgated to the branch banks for uniform observance.

Article XVI. The capital subscribed by officials and private persons shall draw interest at the rate of six per cent per annum. The books shall be made up semi-annually, and the entire year's accounts annually. After the regular interest is deducted, if there remains any clear profit the said remainder shall in part be retained as a reserve fund, in part disbursed as gratuities, and the rest distributed as extra dividends, regard being paid to the date of buying the shares.

Article XVII. The Bank shall follow the example of the banks of Peking and the provinces and foreign banks and issue notes, which shall be of the following denominations of silver currency $100, $50, $10, $5, and $1, five denominations in all. It shall also issue notes expressed in silver of the quality and weights obtaining in the locality where the notes are to be issued. It shall also issue different kinds of certified checks and other commercial paper. But the Bank may not issue national paper currency. At any time that the Board of Finance assumes the exclusive right to issue notes, the above issues shall be recalled, the Bank of Communications being in respect of this disability like any other bank.

Officers of the Bank

Article XVIII. The Central Office of the Bank shall be in Peking. In the Central Office shall be a President (*Tsung-li*), a Vice President (*Hsieh-li*), and an Associate Vice President (*Pang-li*), who shall constitute a Board of Control (*Tsung kuan li ch'u*). The Associate Vice President shall be the officer in control of railways, in order that there may be mutual profit and unity of action.

Article XIX. In the Central Bank and in each of the branch banks, a Director (*Tsung-pan*) shall be appointed and likewise a Subdirector (*Fu-pan*), should it be advisable, who shall devote themselves solely to the management of their respective branch banks and whose authority shall be under that of the President and the Vice President.

Article XX. The President and the Vice President of the Bank shall be under the authority of the President and the Vice Presidents of the Board of Posts and Communications.

Article XXI. The President, the Vice President, the Directors, and the Subdirectors shall be qualified by special courses of study in finance, or shall have studied the subject abroad, or they shall have held responsible offices in banks, or have been successful in the management of lesser banks. A list of candidates for these positions shall be prepared by the Board of Control and submitted to the Board of Posts and Communications for approval ; and from the names on this list, the ones elected by the largest shareholders shall become the Directors and the Subdirectors of the branch banks.

Article XXII. The Director and the Subdirector shall have exclusive control of their branch banks, but they shall be obliged to have the accounts and all the affairs of the branch ready for the inspection of an Inspector (*Chi cha yuan*), dispatched by the Bank of Communications, said Inspector and the Vice President and the President all having the responsibility of supervising the affairs of the branch banks.

Article XXIII. When, according to the provisions of Article XXI, the Directors and the Subdirectors shall have been elected from a list of candidates prepared by the Board of Control and approved by the Boards of Posts and Communications, they shall, after the commercial custom, arrange their articles of agreement with the President and the Vice President and also the amount of their cash deposit and of their bond from a recognized firm. They shall then serve a probationary term, during which term the President, or the Vice President, or the Inspector, shall personally inspect their accounts and records; and if anything unsatisfactory is discovered, they shall request that according to the method described a new official be chosen to take his place.

Article XXIV. When the Director and the Subdirector of the central or of a branch bank have been elected and have made the necessary agreement as detailed above, this agreement shall be taken as evidence that they can act in accordance with the rules of the branch bank and are entitled to all the profits and immunities of their position; but they are also subject to the disabilities and penalties thereof.

Article XXV. Quarterly accounts of business and financial transactions shall be submitted to the Board of Posts and Communications by the Bank, and annual reports to the Board of Finance. The former Board may also inspect the accounts of the Bank whenever it desires to do so; but aside from this, the business transactions of the Bank are not liable to interference on the part of government officials.

Article XXVI. When any very important action with regard to financial transactions involving large sums is to be taken by the Head Office, its Director and its Subdirector must first consult with the President and the Vice President; and if the action contemplated will affect the branch banks, they shall be consulted by telegraph. With these exceptions, the Director and the Subdirector may conjointly decide all questions; and the accountants shall record the transactions seriatim. But if record is not kept of all their actions, the Bank of Communications shall not be held responsible therefor. Each branch bank must exercise all care within the regulations to insure against financial losses; but if on account of war or other unavoidable evils, or their attendant circumstances, the branch bank is subjected to heavy losses, remedial measures must be taken. When the affairs of any branch bank shall unavoidably be attended with loss, the Director and the Subdirector shall consult with each other as to measures; and if the loss is incurred in the legitimate business, the reserve fund shall at first be made use of to make good the deficiency in interest and capital. The true facts of the case shall be accurately ascertained, and a second unification and complete accounting shall be made.

Article XXVII. The employees of the branch bank may not be engaged in any outside business, neither can they open on their own part any branch bank. An employee may, however, continue to engage in a business which he was in when he became connected with the branch bank. No such business concern may borrow money from the branch bank, nor may it be guaranty for any other person in obtaining a loan from the branch bank. This does not preclude his engaging in cash transactions with the branch bank.

Issue of Shares

Article XXVIII. The capital of the Bank of Communications shall be Tls.5,000,000 issued in 50,000 shares of the par value of Kuping Tls.100.00. The Board of Posts and Communications shall take up 20,000 shares, the remainder being placed on the market for sale to any person whatsoever. When the business of the Bank justifies it, the capital shall be increased by 50,000 shares; but this shall be done in the judgment of the officers of the Bank and of the largest shareholders, after being sanctioned by the Board of Posts and Communications.

Article XXIX. The Bank of Communications shall be a limited liability company; and the shareholders shall not be assessed, as any deficit in the funds of the Bank does not involve the shareholders. When new shares are issued, they shall be offered to the old shareholders; and only those not taken up by them shall be put on the public market.

Article XXX. When shares are bought, only a quarter of the price shall be paid in; and the other three quarters shall be payable on demand in installments, when business requires.

Careful record shall be kept of the names and places of origin of the shareholders. Foreigners may not acquire shares, nor may shares be sold or mortgaged to foreigners, nor to Chinese who have acquired foreign citizenship.

Article XXXI. Two months' notice must be given before any portion of the remaining three quarters of the price of the shares may be demanded from the purchasers. If the amount called for is not paid on the date set, a fine of one tenth of the amount due shall be added; and an extension of two months may be granted: but if after this extension has elapsed the money is not paid in, the shares may be sold to some one else and the money advanced by the original purchaser returned to him, less the amount of the fine and the expenses of the resale. But if the money advanced by the original purchaser does not cover these amounts, the additional sum required to do so must also be demanded of him. In case the shareholder lives in another province or abroad, two additional months may be allowed him for second payment; but otherwise the procedure will be as detailed above.

Article XXXII. Since the Bank is a limited liability concern whose capital is drawn from both official and private sources, there can be no difference in the way the two sorts of shares are treated. The shares may not be returned to the Bank before the time set therefor, nor may shares serve as security for loans from the Bank. If a private owner of a share wishes to sell or otherwise transfer it to another party, he shall petition the Bank for its approval; and the Bank will thereupon direct the holder of the share to forward the document by which the transaction is made, together with the share certificate, to the Bank for entry in the complete record book and for countersignature in the spaces provided therefor by the officials of the Bank. If this proof does not accompany the share certificate, no person producing the same unsupported by it and claiming to be the holder of the share in question will be acknowledged as such. Only the names registered will be recognized as the names of shareholders.

Article XXXIII. When the Bank is started, its business will not be large in volume; and there will be no immediate need for a large capital. Even if all the private shares are not taken up, no special means need be used to hasten the process. When the working of the Bank becomes productive of results, additional capital may be sought.

Article XXXIV. The officials of the Bank shall have a meeting or consultation at least once a month, and oftener if required; but in such cases notice of an extraordinary meeting must be sent to the Board of Control, whose instructions in the matter shall be obeyed.

Article XXXV. A quorum at a meeting of shareholders shall consist of half of the shareholders of the Bank (provided half of the shares are represented), and half of the officers of the Bank. If a quorum is lacking, the date of the meeting shall be changed. But if the members present, although not constituting a quorum, decide the proposed action admissible, said action may be temporarily decided upon by securing a majority vote of those present. Those shareholders who do not attend a meeting have no right to object to anything done thereat. Until complete rules are devised, it shall conform in regard to all points not covered by the Bank's own rules to the rules for meetings of corporations included in the commercial laws drawn up by the Board of Agriculture, Industries, and Commerce and approved by the Throne.

Article XXXVI. The Board of Posts and Communications, having taken up 20,000 shares, will be the largest shareholder and shall have the prerogative of appointing the President and Vice President of the Bank. The principal shareholders shall elect four representatives (*tung-shih*), who shall keep watch of the officials of the Board of Control. The President shall be chairman of the shareholders' meetings and shall cast the deciding vote in case of a tie. In case of the absence of the President, his place shall be taken by the Vice President. The shareholders shall likewise elect two representatives (*chien-shih*) to keep watch over the actions of the officials of each of the branch banks, but they need not remain constantly at the said branch banks. With this exception all the employees of each local branch shall be appointed by its Director.

Article XXXVII. The four shareholders' representatives in Peking must individually own at least one hundred shares, and the shareholders' representatives at the branch banks must own at least forty shares each. The Head Office representatives must receive the confirmation of the Board of Posts and Communications before taking office, but the local representatives need only be elected.

Article XXXVIII. It will be necessary, as occasion arises, to alter these regulations and to supplement them in more detail. If these changes and additions are not inconsistent with the regulations, they may be printed and promulgated.

New regulations were petitioned for by the shareholders in 1914. They pointed out that the regulations were based on a Memorial of the Ching dynasty and consequently unsuitable for a Republican institution. (*P. D. N. March 19, 1914.*)

APPENDIX E

New Regulations of the Bank of Communications

(*Peking Daily News, April 26, 1914. Promulgated April 7, 1914*)

Article I. The Bank of Communications shall be a corporation of limited liabilities.

Article II. The Bank of Communications shall establish its headquarters in Peking. In the important commercial centers within and without the country it shall establish branch firms or offices or enter into agreements with other banks to act as agents or exchange drafts. But the establishment or abolition of branch firms or offices and the entering into or cancellation of agreements with other banks to act as agents or exchange drafts shall be decided at a meeting of officeholders of the Bank and reported to the Ministries of Finance and Communications for reference.

Article III. The total capital of the Bank of Communications shall be ten million Kuping Taels, to be divided into one hundred thousand shares of ₮100 each. With the exception of forty thousand shares, which had been subscribed by the former Ministry of Posts and Communications for the promotion of facilities of communication and which are utilized as original capital, the remaining sixty thousand shares shall be purchased and taken up by the general public.

The increase or reduction of the capital of the Bank of Communications shall be decided at a general meeting of shareholders and submitted to the Ministries of Finance and Communications for their approval.

The capital of the Bank of Communications was originally fixed in Kuping Taels, but when the currency system is promulgated and enforced, the capital shall be reduced to the value of the new currency in compliance with the currency regulations; and the difference in favour of or against the shareholder shall be refunded to, or made good by, him as the case may be.

Article IV. The Bank of Communications shall be granted a charter of thirty years commencing from the date of the promulgation of these regulations, but an application may be made to the Ministry of Finance for an extension of the charter when a resolution has been passed at a general meeting of shareholders and approved by the Ministry of Communications.

Article V. In the share-scripts of the Bank of Communications shall be inserted the names of the shareholders. The right of sale, purchase, and transfer shall be determined in a separate set of regulations, but the owners of the shares are limited to nationals of the Republic of China.

Article VI. The nature of business to be transacted by the Bank of Communications is as follows:

1. Exchange and advances against documents in and out of the country.
2. All kinds of deposits and savings.
3. All kinds of loans.
4. Money notes of the national treasury and commercial bills of good credit payable at a fixed period after sight.
5. Exchange of foreign bills and purchase and sale of gold and silver bullion.
6. Collecting all kinds of money notes and managing valuable properties.
7. Other business which should be transacted by exchange banks and industrial banks.

Article VII. The Bank of Communications shall take charge of the special accounts of the national treasury.

Article VIII. When intrusted by the government, the Bank of Communications may exercise the control of different treasuries.

Article IX. When intrusted by the government, the Bank of Communications may have the special control of funds outside the country and act as agents for other matters.

Article X. The Bank of Communications shall not transact any business beyond what is mentioned in the foregoing four articles.

Article XI. The Bank of Communications shall not acquire by purchase immovable property, shares, merchandise, etc., but this shall not be applicable to the following conditions:

1. Land and property necessary for the purpose of the business.
2. When the creditors hand out such properties to be sold in settlement of debts or when a judicial court decides that the Bank should take possession of such properties.

Article XII. The Bank of Communications shall not acquire by purchase, or make loan on security of, its own shares; but this shall not be applicable to cases in which debtors by reason of delay or insolvency deposit these shares as security or give them up for the discharge of their debts.

Article XIII. With the special permission of the government, the Bank of Communications may issue bank notes. This shall be done in compliance with the bank-note regulations determined by the Ministry of Finance, but the Bank shall have to submit the form, number and time limit to the Ministry of Finance for approval.

Article XIV. The Bank of Communications shall have from five to eleven Directors to be elected at a general meeting of shareholders representing upwards of two hundred shares each and reported to the Ministries of Finance and Communications for reference. The term of office shall be four years. At the expiration of the term the Directors may be reëlected and serve a further term.

Article XV. The Bank of Communications shall have one Chief Manager, one Assistant Manager, and one Deputy Manager. The Chief Manager and the Assistant Manager shall be elected at general meetings of shareholders of upwards of four hundred shares each and upwards of three hundred shares each respectively and reported through the Ministry of Communications to the Ministry of Finance for reference. The term of office shall be five years. At the expiration of the term, the Chief Manager may be reëlected and serve a further term. The Deputy Manager shall be the Chief of the Railway Bureau and shall be appointed by the Ministry of Communications.

Article XVI. The responsibilities and power of the Chief, Assistant, and Deputy Managers and Directors of the Bank of Communications shall be determined in a separate set of regulations.

Article XVII. The Bank of Communications shall convene an annual general meeting of shareholders in the district of its headquarters. In the event of a special head affair, the Bank may call an extraordinary general meeting of shareholders. The regulations relating to general meetings of shareholders shall be determined separately.

Article XVIII. At general meeting of shareholders, a shareholder in possession of ten shares shall be entitled to one vote. A shareholder shall be entitled to an additional vote for every subsequent fifty shares above one hundred shares.

Article XIX. Out of the annual net profit from the business, the Bank of Communications shall set aside at least ten per cent as a reserve fund.

Article XX. The Bank of Communications shall submit for information of the Ministries of Finance and Communications reports on the accounts of its business.

Article XXI. If the Bank of Communications commits a breach of any of these regulations, the Ministry of Finance may stop it.

Article XXII. The Bank of Communications shall comply with the spirit of these regulations by carefully amending its original regulations and forwarding them through the Ministry of Communications to the Ministry of Finance for reference.

Article XXIII. These regulations shall take effect from the date of promulgation.

APPENDIX F

First Report

Financial Statement of the Hupu Bank

For the First Fifteen Months

From September, 1905—31st Year of Kwang Hsu, to December, 1906—32d Year

Peking, Tientsin, Hankow, Shanghai branches:

Total profits carried over		₮385,986.92
Deduct:		
For buildings	₮15,501.94	
Undivided profits	20,333.78	
Surplus	36,100.35	71,936.07
		₮314,050.85

20% upon ₮314,050.14 distributed to managers and officers of branches as bonuses, or ₮62,810.17.

10% of this balance after taking out costs of building, undivided profits, and surplus to Head Office.

₮31,405.10 divided into 10 shares:

- 1½ shares to Board of Finance
- 1 share to Inspector
- 6 shares to Governors of branches as bonus
- 1½ shares to Officers of Head Office

Rest of ₮219,834.99 divided among stockholders, public and private. Bank had only ₮700,000 capital paid in until November 7. The last installment drew no dividends. About 30 per cent dividend distributed as above to old and new shareholders.

SECOND REPORT

Financial Statement of the Hupu Bank

(April 4 of the 34th Year)

(*Accounts Closed January, 1907, Kwang Hsu*)

Peking, Tientsin, Shanghai, Hankow, Chinan, Chang Chia Ko, Fengtien—seven branches. Total earnings of

Total earnings of Bank		₮901,463.88
Undivided profits	₮96,956.64	96,956.64
Balance		₮804,507.24
Surplus		80,233.33
		₮724,273.91
20 per cent Managers and Officers of branches as bonus	₮144,854.78	
10 per cent Head Office	72,427.39	
1½ Fanyin		
1 Inspector		
6 Governors and Officers of branches		
1½ Officers of Head Office		
70 per cent or	₮506,991.74	₮724,273.91
		₮000,000.00

These reports were before the increase of capital stock.

Only 40,000 shares

Dividend, 12.667 per cent.

Surplus (held by branches probably for various reserves; not sent to Peking)	₮28,800.45

THIRD REPORT

Financial Statement of the Ta Ching Bank

For the Chinese Year January to December, 1908

(*34th Year of Kwang Hsu*)

Head office gained	₮397,831.265
Tientsin	183,159.332
Shanghai	258,822.230
Hankow	122,728.466
Chinan	23,639.221
Chiang Chia Ko	21,419.364
Fengtien	126,302.91
	₮1,133,902.788

The above gains includes last year's undivided profits ₮96,715.91, but this is

Yinkow	₮314,377.724
Kowloon	23,313.260
Chungching	40,955.201
	₮1,512,548.739
Net earnings	₮1,512,548.739
Undivided profits	21,336.621
	₮1,491,212.118
According to new rule of Board of Finance, must take 20 per cent as surplus	₮298,242.425
	₮1,192,969.693
According to contract, 20 per cent goes to Managers, Governors, and Officers of different branches	₮238,593.939

10 per cent to Head Office	₮119,296.969
1½ Fanyin	
1 Inspector	
6 Governor, Vice Governor and Managers	
1½ Employees	
₮835,078.785	.693

30 per cent to shareholders, old and new:

Old, 6 per cent guarantee
18 per cent dividend

New, 15 per cent including 6 per cent guaranteed.
Remainder, ₮16,402.766

Adding to old undivided profits
₮28,804.52 old
16,402.766 new
₮45,207.286 carried to next period

FOURTH REPORT

Financial Statement of the Ta Ching Bank

For the Chinese Year 1909

(*January to December, First Year Shen Tung*)

Head Office net earnings	₮369,126.69
Tientsin	185,565.19
Shanghai	163,387.935
Hankow	193,071.824
Chungching	200,344.11
Yinkow	98,726.41
Kowloon	92,473.142
Fengtien	79,298.025
Chang Chia Ko	12,909.848
Chinan	12,800.778

Includes also last year's undivided profits.

Besides above old branches, the following new branches were established last year:

Kuangchow (Canton?)	₮79,530.759
Kaifeng	46,575.400
Nanchang	38,518.929
Foochow	37,722.224
Chang Chuang	22,264.747
Hangchow	16,410.36

Above 16 branches made a total gain of		₮1,648,526.371
Undivided profits deducted by branches		123,026.371
		₮1,525,500.000
20 per cent for surplus		305,100
		₮1,220,400.000
20 per cent Managers and Governors of branches as bonus	₮244,080	
10 per cent Head Office as usual	122,040	
70 per cent dividends	854,280	₮1,220,400.000

Old shareholders 21 per cent including 6 per cent guarantee. New shareholders 13½ per cent including 6 per cent guarantee. Both old and new get ₮825,000.

₮29,280 remainder of undivided profits after deducting dividends.

Undivided profits last year	₮45,207.276
Total undivided profits held by Head Office	74,487.276

Besides above branches, some other branches were established this year; made no profits and hence are not included:

Taiyuan
Wuhu
Hunan
Shansi
Yünnan, etc.

FIFTH REPORT

Financial Statement of the Ta Ching Bank

For the Chinese Year—1910

January to December, 1910 (Second Year of Shen Tung)

Head Office earned		₮399,715.46
Tientsin		150,036.05
Shanghai		100,642.922
Hankow		131,082.803
Chinan		19,859.343
Chang Chia Ko		6,140.434
Fengtien		13,285.05
Yinkow		94,821.62
Kowloon		68,889.698
Chungching		130,416.87
Kuanchow (Canton?)		72,366.304
Foochow		29,178.383
Hangchow		24,154.001
Nanchang		33,704.822
Kaifeng		75,213.84
Changchuang		73,492.188
Wuhu		6,264.706
Changsha		45,325.52
Taiyuan		8,846.21
Yünnan		13,000.00
		₮1,189,216.224
Above 20 branches totaled		
		₮1,189,216.224
Branches deduct as undivided profits		87,716.224
		₮1,001,500.000
20 per cent surplus		200,300.000
		₮801,200.000
20 per cent Governors and Managers	₮160,240	
100 per cent Head Office, etc.	80,120	
70 per cent Dividends	560,840	₮801,200.000

New and old shareholders get 13 per cent (regulations said that after two or three years old and new should receive same).

₮74,487.276 last year's balance of undivided profits

This year, profits are insufficient for dividend; and the undivided profits were used.

₮602,834.751 total dividends this year.

₮32,492.525 undivided profits this year held by Head Office.

APPENDIX G

Hupu Bank Dividends

Gains	*Dividends, etc.*	*Amount Divided*	*Divided Rate*	*Surplus or Subscribed*
31st to 32d Kwang Hsu	219,834.99	219,834.99	old 6%+15.2%	
33d Kwang Hsu	506,991.746	478,191.296	old 6%+24%	28,800.45
			new 6%+9%	
34th Kwang Hsu	835,078.785	818,676.009	old 6%+28%	16,402.776
			new 6%+7.5%	
1st Shen Tung	854,280.	825,000.000	old 6%+15%	29,280.000
			new 6%+7%	
2d Shen Tung	560,800.	602,834.751	old 6%+7%	0,000.000

APPENDIX H

Partial List of Governors of Central Bank

*From Founding in 1904**

Chang Yun-yen, Governor till Revolution (?).

Jui Feng, Vice Governor (for one year).

Chen Chin-t'ao, Vice Governor (from 1906 till Revolution).

Yeh Ching-kwei, Governor.
(Left office November, 1911, *Peking Daily News.*)

Chang Yun-yen, Acting Governor.
(February 14, 1911, *Peking Daily News.*)

Wu Ting-chang, Governor.
(June 7, 1912, *Peking Daily News.*)

Sun To-sun, Governor.
(Left to become Tutuh of Anhwei, *Peking Daily News*, August 20, 1912.)

Tang Shuan, Governor.
(*Peking Daily News*, August 20, 1912.)

Ching Pang-ping, Governor.
(September 2, 1912, *Peking Daily News.*)

Sun Tao-sheng, Governor.
(*Peking Daily News*, February 18, 1913.)

Chow Tze-chi, Governor.
(By Presidential Mandate, August 21, 1913.)

Tang Shui, Acting Governor, later Governor.
(*Peking Daily News*, September 19 and December 5, 1913, and June 5, 1914. Was concurrently Vice Minister of Finance during part of this period.)

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*Dates given are not dates of appointment.

Sah Fu-mou, Governor.

(August 1, 1914, *Peking Daily News.*)

Li Shih-hwei, Governor.

(Appointed in spring of 1915, *Peking Gazette*, April 22, 1916.)

Chen Wei, Vice Governor.

(In July, 1915, had held this office about two years.)

Chao Chun-nien, Associate Governor.

(*Peking Daily News*, March 21, 1915. Special office created to improve exchange facilities in provinces based on Dr. Jenks's recommendations.)

Chow Tze-chi, Director General.

(An office specially created by Yuan to milk the Bank of its cash reserves. *Peking Gazette*, April 22, 1916.)

Sah Fu-mou, Governor.

(*Peking Gazette*, April 22, 1916, to succeed Li Shih-hwai.)

Hsu Eu Yuan, Governor, in 1917.

This list indicates that the banks enjoyed much more stable management before the Revolution than thereafter. During twenty months in 1912, 1913, and 1914, China had five premiers. These changes naturally affected the management of the Bank.

The Bank of Communications has always been dominated by the Chiao Tung Clique, and its personnel has been more stable.

APPENDIX I

Miscellaneous Notes on Treasury Methods

(*Supplementary to Chapter VII*)

August 1, 1910.

Provincial Treasuries have been instructed to report directly to the Tuchi Pu (Board of Finance) in all matters of importance relating to national and provincial finance.—*Peking Daily News.*

October 13, 1910.

Chekiang Bank has failed, tying up thirteen and one half millions of Customs funds.—*Peking Daily News.*

September 19 and 23, 1913.

As the Treasury Bureau of the Ministry of Finance and the Treasury Department of the Bank of China "transact business of the same nature," Premier Hsiung Hsi-ling has arranged for an amalgamation of the two organs. There has been much friction between these organs. The Treasury Bureau was an intermediary through which funds went to the Bank of China and *sometimes* to the Bank of Communications. The Treasury Bureau had formed the pleasant little habit of overdrawing its amount every now and then. The Treasury Department of the Bank of China simply received deposits from the Bureau and honored checks drawn by the Ministry of Finance.—*Peking Daily News.*

November 8, 1913.

Failure of one of leading banks at Lanchow with large amount of administrative funds.—*North China Herald.*

December 10, 1913.

Cabinet has decided that, though the civil governor will control the revenue and expenditure of his province, the national commissioners of finance shall have charge of the local tax, provincial loans, preparation of provincial budget, etc. The provincial bank will be the provincial treasury.—*Peking Daily News*.

December 27, 1913.

Some time ago the government established a National Taxation Bureau "to get funds."—*Peking Daily News*.

January 22, 1914.

The Bureaus of Currency, of Treasury, and of Law have been amalgamated into the Bureau of Public Finance under the charge of Mr. Hsu En-yuan. There will be five sections in the amalgamated organ—administration, documents, banking, national treasury, and public loans. The chiefs of these sections have been appointed.—*Peking Daily News*.

April 6, 1914.

Following measures regarding official payments were decided upon at the Financial Conference:

1. Administrational funds of any official department should be deposited in the Bank of China. Nonobservance of this rule will make the offenders liable for punishment.

2. Any payment under $100 should be signed by the Treasury and then paid from the Bank of China.

3. If the sum is more than $100, it should be signed by the officer in charge.

4. The Head Office and the Treasury should keep an account of the salaries of all the officers, and give them each a check with which to draw their salary from the Bank.

5. Interest on official deposits should be three per cent.

6. The Ministry of Communications and its subordinate departments shall do the same, except that the funds should be deposited in the Bank of Communications.—*Peking Daily News*.

June 10, 1914.

Revenue formerly came through the Taxation Preparation Bureau with offices in provinces. These are now abolished. Branches of national bank to be used.—*Peking Daily News.*

June 25, 1915.

The plan of placing the treasury directly under control of the president is now under discussion.

APPENDIX J

Abstract of Assets and Liabilities, Bank of China

December 31, 1914

(*Taken from the "Annual Report"*)

Assets

Capital Uncalled	$50,000,000.00
Fixed Loans	12,389,947.56
Short-Term Loans	36,498,052.61
Bills Discounted	1,079,796,50
Government Securities and Sundry Investments	7,139,218.10
Bank Premises, Furniture, etc.	1,805,635.23
Reserve Against Notes in Circulation	16,398,178.71
Cash on Hand	10,970,391.98
	$136,281,220.69

Liabilities

Capital Subscribed	$60,000,000.00
Reserve Fund	113,068.95
Balance carried forward from last year	9,567.60
Fixed Deposits	8,909,379.57
Current Deposits	49,482,306.13
Notes in Circulation	16,398,178.71
Net Profit for the Year	1,368,719.73
	$136,281,220.69

Profit and Loss Account, Bank of China

December 31, 1914

(*Taken from the "Annual Report"*)

Loss

General Expenses	$1,157,720.88
Depreciation of Bank Premises, Furniture, etc.	124,479.11
Sundry Losses	8,506.13
Net Profit for the Year	1,368,719.73
	$2,659,425.85

Profit

Exchange	$1,265,863.17
Interest	1,232,635.59
Discount	63,790.61
Miscellaneous	97,136.48
	$2,659,425.85

Present Writer's Comments on Foregoing Statements

Note that the balance sheet is arranged by some one not familiar with the best accounting practice. (1) The assets should be arranged in the order in which they will be converted into cash; and the liabilities should be arranged in the order in which they must be paid. (2) Accounting authorities are generally opposed to inflating the assets by including among them unsubscribed capital stock, here termed "Capital Uncalled." (3) The fact that the balance contains no record of interest accumulated upon either its securities receivable or upon its securities payable is a strong indication that the methods of determining the losses and gains of the Bank are slipshod in the extreme. (4) Such items are "Fixed Loans," "Government Securities and Sundry Investments," and "Reserve Fund" transgress the accounting axiom, that "accounts should be self-descriptive." One is perfectly justified in suspecting that "Fixed Loans" means long-time mortgages and that "Government Securities and Sundry Investments" consist mostly of stocks, real estate, and government bonds, valued arbitrarily to appear well on the balance sheet and to enable large dividends to be declared. Stocks and bonds obviously should not be held by a commercial bank except as collateral security upon short-time notes; mortgages are to be avoided by such an institution; and real estate investments, except in bank premises, should never be made. If the Bank has been guiltless in these respects, its accounting methods should avoid the appearance of guilt.

Observe that, as shown by the balance sheet, the "Reserve against Notes in Circulation" is 100 per cent of the "Notes in Circulation." This does not mean that the Bank holds $16,398,178.71 in cash as reserve against its notes. It means rather that the issue department is separated from the banking department, as has been done in the Bank of England since the passage of Peel's Act in 1844. This matter is discussed further in the chapter on "Policies and Methods of the Bank of China." Probably half of the so-called reserve is in securities of various kinds, and possibly none of it consists of cash. Here again, the balance sheet creates suspicion rather than confidence.

Is the cash reserve against fixed and current deposits adequate? Much depends upon what constitutes "fixed deposits." If all deposits running for three months or more are "fixed," a ten per cent reserve against fixed deposits should ordinarily be adequate; though this rate of reserve may be inadequate in China, where a large proportion of the fixed deposits may fall due upon one of the quarterly settlement days in vogue for ages in the business community there. The likelihood of a renewal of deposits maturing shortly before a settlement day is small. In other words, fixed deposits, by definition, become "current" as they near maturity; and the fact needs careful attention.

Ten per cent of the fixed deposits is $890,937.96. Deducting this from the total "Cash on Hand," we have a balance of $10,079,454.02 for a reserve against the "Current Deposits" of $49,482,306.13. This is a reserve of 20.5 per cent. Note that nearly all of the remaining 80 per cent of funds received from current depositors have been invested in "Short-Term Loans" amounting to $36,498,052.61. The writer ventures the opinion, therefore, that the reserve would be reasonably safe, if China were as free from political panics as it is from business panics. But, under the actual circumstances, a cash reserve of 20.5 per cent is meager, if sufficient. Political panics in China are peculiar, however, in that they have in several instances actually benefited one group of financial interests, the foreign banks. During these panics depositors remove their funds from Chinese banks; and the foreign banks are thus placed in a position to rediscount the paper of the Chinese banks that are being "run." Money is rarely tight in such panics; and purely commercial panics are uncommon in China, the Rubber Boom being the only serious case that might be placed in this class. In short, the Bank of China could convert into cash most of its $36,000,000 of "Short-Term Loans" in the event of a political panic; unless perchance this sum consists mostly of nonnegotiable notes held in security against loans to the government for "deficits in the budget."

The "Reserve Fund" on the credit side of the balance sheet was created according to the provisions of Article VII of the Regulations approved in April 15, 1913. [See Appendix "C."] It is credited with ten per cent of the annual net profits of the Bank and may be drawn upon only to make up impairments of capital and to "equalize" dividends. Assumably it will not be drawn upon for dividends, except when the annual profits are insufficient to pay a six per cent dividend since this is the rate guaranteed by the regulations of the Ta Ching Bank. The regulations of the Bank of China, however, do not guarantee any rate of dividend.

Probably "Balance carried forward from last year" is undivided profits. Dividends rarely being declared in fractions of one per cent, such balances are common in corporate balance sheets.

The "Profit and Loss Account," also, is subject to criticisms from the point of view of accounting. For the purposes of comparison year by year, "General Expenses" and "Sundry Losses" should be broken up into classes of expense and of loss. "Miscellaneous" profits, $97,136.48, is too large an item to remain without explanation or itemization. The appropriation of the "Net Profit for the year" to reserve fund, dividend bonuses, and undivided profits should have been shown, if it was possible to do so.

Noting that the value of Bank Premises, Furniture, etc., is only $1,805,635.23, we may conclude that the depreciation shown in the second statement is too conservative. Estimating the $400,000 of the item is land, upon which no depreciation is figured, we find that the rate of depreciation upon the remaining $1,400,000 is about nine per cent. In other words, the Bank has provided for sufficient depreciation to replace its buildings, vaults, furniture, and equipment in eleven years. It is possible, however, that during the relatively bad years of 1912 and 1913, no depreciation was written off.

Note that the profits from "Exchange" slightly exceeded the profits from "Interests." This is a condition that could exist in no bank in a country with a uniform currency system, except perhaps in a bank specializing in foreign exchange. Probably only a very small part of the large profits from "Exchange" came from the sale of international exchange.

The small amount of revenue from "Discount" is due to the fact that trade acceptances are comparatively rare in China.

Deducting from the "Net Profit for the year" thirty per cent for bonuses and ten per cent for reserve fund, the Bank could still declare a dividend of eight per cent upon the "Capital Subscribed," $10,000,000. This rate would be more acceptable in certain other countries than in China ; though it will pass muster even there.

R. O. HALL.

APPENDIX K

Auditors' Report on Shanghai Branch of Bank of China

Two Months before the Moratorium

The Governor,

The Bank of China, Peking.

DEAR SIR:—In accordance with instructions received we beg to report that during the past week we have been making an investigation of the affairs of the Bank as shown in a Balance Sheet drawn up on March 4, 1916.

At the commencement we may say that all our requirements as investigators have been promptly and satisfactorily complied with.

Organization.—We report that in our opinion your organization is excellent. Full schedules have been supplied supporting the Balance Sheet items, in a manner entirely satisfactory, and we are confident that no other Bank could have done better. The accuracy of the schedules is commendable when the rapidity of their preparation is considered. Each schedule was very carefully investigated by us, and a very full comparison made with the actual books from which they were extracted.

Management.—This scarcely comes within the scope of our duties—but we are convinced that the management is sound and careful, because the organization of the staff is good, whilst we are satisfied that loans against security have been wisely and carefully made.

Bank Note Issue.—Bank Notes of Other Banks; Bank Notes of Branches; Silver in Treasury, in coin and sycee:—

These we investigated on Sunday, 12th instant, a very thorough check being made. We are satisfied that the notes, coins, and sycee said to have been in the Treasury on March 4, were in fact actually there.

Government Account.—It is very pleasing to report that there is no sign of abuse of privilege, and that instead of the government being overdrawn (as might possibly have been expected) we were glad to find that in fact the Bank had government funds in hand to the extent of $608,215.66 made up as under:

	Due to Bank	*Due by Bank*
Fixed loans—	$	$
Provincial Treasurer of Kiangsu	200,00	
Overdraft on current accounts — Ministry of Finance	685,551	
Interest paid on Government Bond under direction of Minister of Finance	160,000	
Temporary advances and sundry debtors—Ministry of Finance (Tls. 10)	14	
Special deposits Provincial revenue, taxes and salt gabelle		1,653,780
Balance due by Bank of China to the Government	608,215	
	$1,653,780	$1,653,780

Loans and Securities.—We have examined these very carefully, and have inspected the securities. We have been able to value certain of the securities ourselves, independently of the Bank, such as cotton (raw, yarn, and ginned), piece goods, wheat, silk, and rubber shares, and in each case there undoubtedly is a sound and safe margin.

In the case of loans against government bonds, where being a government bank one might expect you to be more liberal than other banks, we find the following loans (in dollars) so secured:

Loan	*Govt. Bonds Face Value*	*Market Value*	*Margin*	*Percentage*
93,243	141,000	98,700	5,456 about	6%
35,000	60,000	42,000	7,000	20%
25,000	40,000	28,000	3,000	12%
3,147	10,000	7,000	3,853 over	100%
2,800	5,425	3,797	997 about	35%

Property, Land, and Godowns.—These are valued in the balance sheet at $406,881.90, but we have seen a valuation made by Messrs. Atkinson and Dallas in 1911 valuing the properties at Tls. 325,801 at ex. 73 = $446,302.74 or a surplus of $39,420.81—and we understand the value of the property has increased since Messrs. Atkinson and Dallas made their valuation and could be readily sold—we have seen the title deeds with declarations of trust attached, and they are in order.

Investments: $73,754.85—These consist of:

	Face Value	*Market Value*	*Loss*
8% Military Bonds ..	$50,000	$40,000	$10,000
6% Internal Loan ..	28,175	19,722	8,453
Chin Hua Bonds ..	580	580	—
	$78,755	$60,302	$18,453

and they appear in the statement at their market value which is in order.

Amounts Due by Head Office, Branches, and Agencies.—As is usual in cases of this sort we have had to assume the accuracy of the figures submitted to us. The balances have, however, been carefully compared with the Shanghai books and agree therewith and we have no reason whatever for doubting their accuracy.

Cost of Bank Notes, $12,049.31.—This amount has been allowed to remain as an asset as we understand the cost is being refunded by the Head Office, and in any case it is an expense that quite properly can be written off over a number of years. The original cost of the notes was $26,684.71 (in 1914) and since then over 50 per cent has been written off.

In conclusion the position of the Bank is as follows:

Total Assets	$13,677,732.55
Less Liabilities	13,642,463.97
Liabilities at Shanghai Surplus of Assets over ..	$35,268.58

In addition to this surplus you have a secret reserve of at least $39,420.84 between what your godown property cost you and Messrs. Atkinson and Dallas's valuation of 1911. The Head Office balance includes the profits of Shanghai yearly transferred to Peking, that would otherwise appear as Reserves of the Shanghai Office in the balance sheet.

In short we consider the financial position of the Bank in Shanghai to be satisfactory.

Yours faithfully,

LOWE, BINGHAM & MATTHEWS.

Shanghai, March 16.

Bank of China, Shanghai Office

Statement of Affairs at March 4, 1916.

Liabilities

Due to the public and to government department.	$10,260.439
Bank notes in circulation. ..	3,382.024
Surplus of assets over liabilities at Shanghai.	35.268
	$13,677.732

Assets

Due by the public and by government department.		$3,507,068
Amounts due by Head Office, branches, and agencies ..		2,694,970
Cost of bank notes		12,049
Furniture		1,250
Property, land, and godowns, North Thibet Road, North Szechuen Road, and Soochow Creek (at cost) ..		406,881
Investments (reduced to market value)		60,302
Reserve against note issue—at Head Office, Peking (in accordance with statutes), 400,000 In Treasury Shanghai 2,982,024	$3,382,024	
Cash in Treasury Shanghai ..	3,064,926	
Deposits and current accounts with other Banks ..	548,259	6,995,209
		$13,677,732

Examined and found correct subject to our report of this date.

LOWE, BINGHAM & MATTHEWS,
Auditors.

Shanghai, March 16, 1916.

NOTE:—Mr. J. E. Malchoir, a Danish subject, published a pamphlet criticizing this report so bitterly that libel proceedings were instituted against him by the Accounting Firm.—*Peking Gazette*, April 14, 1916.

APPENDIX L

Supplementary Notes

On Liang Shih-yi

January 14, 1909.

In the impeachment charges against Ch'en-pi, President of Board of Posts and Communications, the following statement is made:

"As for his (Ch'en-pi's) greatest fault, the profitless expenditure of government funds, it is to be observed that Liang Shih-yi (Director General of Railways) receives a monthly salary of 1,900 taels." This Board is regarded "as a mountain of copper and a mine of gold."—*Government Document.*

August 18, 1909.

Liang prominent in politics.—*Peking Daily News.*

January 7, 1910.

Liang interviews Dr. Morrison. Is still Director of Imperial Chinese Railway Administration.—*Peking Daily News.*

June 6, 1910.

Liang now Junior Deputy Vice President of Board of Posts and Communications.—*Peking Daily News.*

December 19, 1911.

Though only a vice minister, Liang is frequently called into Cabinet Meetings. Protest.—*Government Document.*

April, 1912.

During the Revolution of 1911, Liang raised funds by selling freight accommodations on government railways for months in advance, offering, of course, liberal rebates.—*Far Eastern Review.*

February 13, 1912.

Liang now Acting Minister of Communications.

March 29, 1912.

Liang declines appointment as Minister of Communications.—*Peking Daily News.*

June 8, 1912.

Liang busy fitting up the private quarters of President Yuan in War Office.

July 16, 1912.

Financial Council in President's Office comprises Liang, Mr. Hsiung Hsi-ling, and Mr. Wu Tiang-chʻang.—*Peking Daily News.*

August 22, 1912.

Liang now Chief of President's Secretarial Staff.

October 2 and 3, 1912.

Liang entertains two groups of foreign press reporters.—*Peking Daily News.*

January 24, 1913.

Has been decided in President's Office that hereafter all official and military salaries will be paid in bank notes of Bank of Communications and Bank of China (note order of banks and second note above).—*Peking Daily News.*

March 14, 1913.

Liang will represent President Yuan in posthumous procession of Empress Dowager.—*Peking Daily News.*

March 27, 1913.

Liang states to press that $23,000,000 of government loans will go to redeem depreciated notes in Canton (his city).—*Peking Daily News.*

May 12, 1913.

Liang appointed Acting Minister of Finance.—*Peking Daily News.*

June 25, 1913.

Liang agitating for an efficient Board of Audit!—*Peking Daily News.*

August 6, 1913.

Revolution against President Yuan in 1913 gave Liang practice in frenzied finance as Acting Minister of Finance. This served him in good stead in 1915 and 1916.

October 6, 1913.

Quoted from *London Times:*

Liang is "the man whose influence has been most powerful since the Revolution in instigating and guiding the policies of Yuan Shih-kai." "The smiling, inscrutable Cantonese" still remains modestly in the background. "To his music dance most of those who claim to sway the destinies of China's millions." In his policies he subtly mixes the modern and the ancient.—*Peking Daily News.*

November 25 and 27, 1913.

Native papers report hot message from Yuan when Liang refused to bring $1,000,000 from the Bank of Communications. Liang sends polite letter to *Gazette* flatly denying the matter.—"Entirely groundless."—*Peking Gazette.*

November 27, 1913.

Talk of making Liang Minister of Finance.—*Peking Gazette.*

December 6, 1913.

Liang decorated by President Yuan.—*Peking Daily News.*

February 26, 1914.

Liang helping Shansi Bankers to raise loan.—*Peking Daily News.*

May 2, 1914.

Liang refused appointment as Minister of Communications.—*Peking Gazette.*

May 4 and 5, 1914.

Mr. Liang Tung-yen (political enemy of Liang Shih-yi) appointed Minister of Communications. Liang Shih-yi made Director of Revenue Council (Shuiwuchu) at same time, an office subordinate to Minister of Communications. He will, nevertheless, remain in the President's Office.—*Peking Gazette.*

May 20, 1914.

"The apparent ousting of Liang Shih-yi and the Cantonese party by the military faction aroused many misgivings!"—*North China Herald.*

May 30, 1914.

Liang made President of Bank of Communications.—*North China Hearld.*

June 19, 1914.

The *Yahseya Pao* (a native paper) attacks Liang for being too influential and meddlesome. He can control the finance of the President's Office, repair and construct railroads, open banks, and organize joint companies with foreigners.—*Peking Gazette.*

July 1, 1914.

Liang enthusiastically elected President of Railway Association. Is suffering a blight under the administration of Mr. Liang Tung-yen.—*Peking Gazette.*

August 7 and 10, 1914.

Government has asked Liang to lend $1,000,000 for urgent expenditures, because of failure of Quintuple Group Loans.—*Peking Gazette.*

September 23, 1914.

Liang interviews Japanese Minister.—*Peking Daily News.*

September 28, 1914.

Liang serving as Director of Domestic Loan Bureau.—*Peking Gazette.*

January 20, 1915.

Liang dines with Japanese Minister.—*Peking Daily News.*

February 19, 1915.

Liang sends circulars to all organs under his control recommending that they purchase only Chinese goods. He has had the export duty on tea reduced.—*Peking Daily News.*

February 23, 1915.

Liang and Mr. Chow Tzu-chi attend opening of Hsin Hua Savings Bank.—*Peking Daily News.*

March 10, 1915.

Liang is urging that the Maritime Customs should use the dollar as a medium instead of the tael.—*Peking Daily News.*

July 17, 1915.

President Yuan praises Liang in official document. He worked for Yuan when the latter was Viceroy of Chihli province. Dealt with Manchus, together with General Chao Ping-chun, concerning abdication in 1911. "His post as Director of the Bank of Communications is a commercial one," says Yuan.—*Peking Daily News.*

September 25, 1915.

Rumor that Liang will become Minister of Finance.—*Peking Daily News.*

October 26, 1915.

Rumor that Liang will be appointed Prime Minister.—*Peking Daily News.*

January 27, 1916.

The following description was written by Mr. J. O. P. Bland in a British paper and quoted in the *Peking Daily News:*

"Face and figure of an Oriental Sancho Panza, with manners that verge on the uncouth and clothes that are persistently shabby."

"Speaks no language but his own, and has never traveled. In tireless work, he rivals Li Hung-chang."

"Pulling many of the strings of the machine which dispenses honors and rewards, places and perquisites."

"Liang surrounded himself, as Li Yuan-hung did, with a well-organized body of protégés and supporters distributed throughout the Peking administration; and despite many attacks from rival factions, his power and influence have steadily increased since his appointment, by Yuan's favor, to the Ministry of Communications in 1908. Amongst the literati he enjoys no small reputation as a scholar and a lover of Chinese art; but with Yuan his influence is the result of his resourceful initiative and administrative genius."

Mr. Putman Weale alludes to Liang as "a remarkable man, famous throughout the country as the most unscrupulous and adroit politician the Revolution had thrown up . . . gravely implicated in several assassinations."

Liang fled from Peking shortly after the death of Yuan, taking up his residence in Hongkong, under British government protection and beyond the reach of official retribution.

APPENDIX M

The Moratorium Order

(*Peking Gazette, May 13, 1916*)

KUO WU YUAN ORDER

No. 2

Since the outbreak of the war in Europe the gold market has been stagnant and commerce has consequently been on the decline. Owing to the internal troubles in our country, the means of livelihood of the people have become more restricted than ever. Our hearts are filled with sorrow when we ponder over prevailing conditions. A custom prevails in foreign countries for the notes of government banks to be rendered temporarily inconvertible, at a time of extraordinary financial stringency, and the withdrawal of deposits forbidden in order that the situation may be maintained and specie preserved and the various trades supplied with funds. Such an excellent device, being of far-reaching benefit, should speedily be copied by China.

The Ministries of Finance and Communications shall forthwith instruct the Bank of China and Bank of Communications that from the date orders are issued all payments in cash must be suspended whether for exchange of the banks' notes or cheques against funds deposited with the banks. This order shall come into force immediately and shall continue until the general situation becomes more settled. The banks shall seal up all the silver reserve and deposits now lying in their vaults and shall be responsible therefor.

As regards the local places in the provinces and special administrative areas where branches of the said banks exist, the

Chiang Chuns, Lieutenant Generals, and Governors shall order the local officials concerned to station adequate troops and police at the branch banks to see that this order be not violated by the said branch banks secretly exchanging notes or paying money to depositors. They should also exercise control to prevent disturbances.

Any official, merchant, soldier, or ordinary person refusing to accept the notes of these banks or to handle the same or who shall dispose of the same at rates below the face value, will be promptly punished in accordance with Article 9 of the Currency Law.

At the same time the coöperation of the Chambers of Commerce should be secured with the view that united efforts may be maintained. The two banks are hereby ordered to submit immediately to the Ministry of Finance a detailed statement showing the number and value of the notes of each denomination already in circulation in order to check any excessive issue of the same. Let all strictly obey the order.

(*Signed*) TUAN CHI-JUI,

Secretary of State.

Dated May 12 of the 5th
Year of Min Kuo.

APPENDIX N

A Subsequent Notice Concerning the Moratorium

(Translation)

June 2, 1916,

State Department,

Thursday Night.

Some time ago owing to the unusual financial stringency, the Kuo Wu Yuan issued an order suspending all payment of specie against notes of the Bank of China and Bank of Communications. This is obviously a temporary measure and is different from the issue of inconvertible notes. We learn, however, that arising from the suspicion of the merchants and people several forms of evil have sprung up in this connection, calculated vitally to affect the future finance of the country. The Yuan has now been instructed to devise measures for the maintenance of the market. The notes of the two banks are factors on which the credit of the whole country relies. They are, therefore, as good as actual silver and absolutely guaranteed by the government. As soon as the financial market has improved, we guarantee that these notes shall be convertible into silver as per their face value. The merchants and people should, therefore, not entertain suspicion but continue to use the same so that these notes may continue to circulate and the national currency be respected. The various official organs are hereby created to give instructions to this effect so that all may abide by the same.—*Peking Gazette*, June 2, 1916.

APPENDIX O

List of Branches, Sub Branches, and Agencies of the Bank of China

December 31, 1914

(*Taken from the "Annual Report"*)

Kingchao (Metropolitan)	Chohsien (Chochow)	Pahsien (Pachow)
	Lutai	Peking
	Miyun	Sangfang
Chihli	Chihsien (Chichow)	Tientsin
	Lwanhsien (Lwanchow)	Tsanghsien (Tsangchow)
	Patingfu	Tsinghaihsien
	Tangshan	Yingtai (Shuntehfu)
Fengtien	Antung	Moukden
	Chinghsien (Chingchowfu)	Newchwang
	Dalny	Tiehling
Kirin	Changchun	
	Harbin	
	Kirin	
Heilungkiang	Tsitsihar	
Shantung	Chefoo	Tsingtau
	Chowtsun	Tsining
	Lintsinghsien (Lintsingchow)	Tenghsien
	Linyi (Lanshan)	Waiming (Wuting)
	Tsinan	Yitu (Tsingchowfu)
Shansi	Tayuan	
	Yuncheng	

Kweisui	Kweihwacheng (Kweihwating)	
	Changte	Lowanho
Honan	Chowkiakow	
	Kaifeng	Sinyangchow
	Hankow	
Hupeh	Ichang	
	Shasi	
	Anking	
Anhwei	Tatung	
	Wuhu	
Kiangsi	Nanchang	
	Chinkiang	Tsingkiangpu
Kiangsu	Nanking	Wusih
	Shanghai	Yangchow
	Soochow	
	Hangchow	Ningpo
	Huchowfu	Shaohingfu
Chekiang	Kashing	Wenchow
	Lanchi	
	Canton	Kiungchow
Kwangtung	Fatshan	Swatow
Fukien	Foochow	

APPENDIX P

Articles for the Association of the Shareholders of the Bank of China

Article I. This Association shall be organized by shareholders of the Bank of China with the object of deciding the business policy of the Bank.

Article II. There shall be nine representatives of the shareholders, six of whom shall be appointed by the government and three elected by individual shareholders, to represent the government and merchants' shares respectively.

Article III. Representatives of the government shares shall be nominated by the Ministry of Finance, and of individuals' shares by individual merchants.

Article IV. Any individual merchants' representative nominated shall be the holder of 100 shares; but this does not apply to the representative for government shares.

Article V. Sixty days before the promulgation of these regulations, shareholders shall register themselves; and any person possessing 10 or more shares shall become a voter.

Article VI. In the election of representatives 10 shares shall be entitled to a vote, and after 100 shares, every additional 30 shares to a vote.

Article VII. Those who have secured the largest number of votes shall be eligible as representatives.

Article VIII. The election shall take place in the local Head Office of the Bank of China.

Article IX. The voter shall write his name, age, address, etc., on the voting card, and similar particulars shall also be given after the name of the person voted for. All the votes, together with the bonds of the shareholders, shall be sent to the election office in Peking before the tenth of April.

Article X. On receipt of the above documents, the bonds shall be examined, sealed, and returned to the voters.

Article XI. The result of the election shall be published in the newspapers on the twentieth of April.

Article XII. The meeting of the shareholders' representatives shall take place on the first of May.

Article XIII. The Governor of the Bank of China shall be the Chairman, and the Vice Governor shall be the Vice Chairman of the shareholders' meetings.

Article XIV. No meeting shall be held if there is less than half of the total number or representatives. A majority vote shall decide all questions, and if each side has a similar number of votes, the Chairman shall have a casting vote.

Article XV. All discussions shall be confined to the subjects fixed in the program of the day.

Article XVI. The Governor of the Bank shall submit all resolutions passed at the meetings to the Minister of Finance for approval and execution.

Article XVII. The representatives of the merchants' shares shall be given traveling expenses and carriage allowance; but the representatives of the government shares shall only be allowed carriage allowance.

Article XVIII. This Association shall engage several "executive" officials and a manager to arrange the program of the day, and other affairs of the Association.

Article XIX. These regulations shall come into force from the day of their promulgation. (*Peking Daily News*, April 3, 1917.)

APPENDIX Q

Regulations Restricting the Issue of Paper Money

(*The regulations given below are almost identical to those enacted by the central government of China at various other times. See "Far Eastern Review," July 3 and 24, 1909; "Peking Gazette," November 17, 1913, August 4, 1914, and October 23, 1915; and "Peking Daily News," March 9, 1912, March 3, 1914, and February (?), 1917.*)

Article I. With the exception of the Banks of China, all official and private banks, exchange houses, etc., must comply with these regulations.

All printed or written notes of whatever amount bearing no name of the person payable nor the date of payment, or any note which can be exchanged for taels, dollars, or subsidiary coins when presented for payment, shall be regarded as paper money.

Article II. After promulgation of these regulations, all banks and exchanges which shall be established and all banks, etc., which at present have no paper money on the market shall not be allowed to issue notes hereafter.

Article III. In case where before the promulgation of these regulations special permission has been granted to any bank or exchange house by the government to issue paper money, it shall be allowed to continue to issue the same, but as soon as the period of license expires all its paper money should be withdrawn from the market.

With regard to those banks which obtained no special permission from the government, the amount of their paper money in the market shall not exceed the average amount of the last three months before the promulgation of these regulations, and no more notes shall be issued. At the same time the Ministry of Finance shall fix a date for them to recall all their notes from the market.

Article IV. When a bank issues notes according to the provisions made in Article III, it should have at least 50 per cent ready money as a reserve, and the other 50 per cent may be in Domestic Loans, Bonds, or other commercial bonds as a security for the rest of the reserve funds.

Should there be special circumstances requiring a deviation from the above rule, a petition should be sent to the Ministry of Finance for decision.

Article V. All banks issuing notes should submit monthly statements on the amount of their notes in the market and the amount reserve funds, to the Ministry of Finance or to the highest local official to be transmitted to the said Ministry.

Article VI. The Ministry of Finance may appoint officials or intrust any public organ to institute investigations on the amount of notes issued, the ready money as reserve funds, securities, and all other documents of the note-issuing banks.

Article VII. Any bank or exchange house violating the provisions made in Articles II–IV shall be fined any sum from $500 to $5,000, and have its right to issue notes canceled.

Article VIII. Any bank violating the provisions made in Article V, that is, failing to submit a monthly report or submitting a false one, shall be fined a sum between $50 and $500; and a bank refusing to be investigated as provided for in Article VI shall be fined a sum between $100 and $1,000.

Article IX. These regulations shall come into force from the date of their promulgation.

Peking Gazette, October 23, 1915.

VITA

(Required by the University.)

Ray Ovid Hall, born at Stephentown, New York, on August 9, 1891.

New York High Schools.

Normal Course Diploma from the Northampton (Mass.) Commercial College.

Certificate from the University of Lausanne, Switzerland.

Instructor in the School of Commerce, Robert College, Constantinople, 1909–12.

Lecturer on Economics and Industrial History, Cooper Union, New York, 1912–14.

Master's Diploma from Columbia University, 1914.

Appointed scholar in Sociology by Columbia University, 1914–15.

Principal in the Peking School of Commerce and Finance, China, 1914–17.

Engaged in business and in Public Accounting in New York City, 1917–19.

Drafting Officer of the Department of State, Washington, designated as Regional Economist on the Near East, June 15, 1919, to ——.

Author of several magazine articles on accounting, vocational education and business conditions in China.

Professor and Lecturer on "Trade With the Near East and Far East" and "Principles of International Trade" at the American University, 1920.