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ASIAN MONETARY HISTORY REVISITED

INTRODUCTION TO THE NEW SERIES: UNCOMMON "COMMON SENSE"

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The common sense of modern times was not always "common" in the past. For example, if it is true that inflation is caused by an oversupply of money, a short supply of money must cause deflation. However logical that sounds, though, it has not been so uncommon in history that rising prices were recognized as being caused by a scarcity of currency. Even in the same period, a common idea prevailing in one historical area was not always common in another; rather, it sometimes appeared in quite the opposite direction. It is likely that the idea that a government gains from bad currencies, while traders appreciate good ones, is popular throughout the world. In the case of China, however, its dynasties sometimes intentionally issued high-quality coins without regard to their losses. East Asia shared the idea that cheap currency harms the state, while an expensive currency harms the people. This is in considerable contrast with a common image in other regions that authorities gained profits from seigniorage.

The most serious misunderstanding when discussing money is the belief that currency is current. In reality, currencies are far from being in constant circulation, and are indeed stagnant, more often than not. Currencies are intended to be exchanged, but they are in fact usually kept by their holders, wherever they might be, in purses, safes, or underground. Unlike the abstract image of money, currencies in history were actually not easily found on demand. Some currencies might be distributed well but assembled poorly, while others might be slowly distributed but assembled swiftly. That is why people created an assortment of currencies to fulfil a wide range of transactions. Thus, one money could do what another money could not, and vice versa. In this case, both monies could not be in a substitutive relationship but in a complementary one. An assortment of monies with a complementary relationship enabled traders to do what a single money was not able to do.

The proverb, "bad money drives out good" is so well known that people do not hesitate to call it (Gresham's) law. However, in history, good currencies rarely disappeared but continuously circulated with premiums against bad currencies. Only when one currency can do the same as another, in other words, when both currencies are substitutive, can an inferior drive out a finer. Without a fixed rate between the two currencies, the substitutive relationship could not be maintained. However, in spite of the regulations of authorities, monetary history is full of instances where actual rates diverted from official ones. Thus, good old coins did not retire from the stage but played a different role behind the scenes. Uncommon "common sense" like Gresham's law could be a law only if we neglect the real activities in actual market.

CURRENCIES NOT SUBSTITUTIVE BUT COMPLEMENTARY

Let us assume we have two currencies: silver and copper coins. Silver is convenient to use for large transactions and to carry over long distances, but is too expensive for ordinary people to use in their daily transactions. Meanwhile, copper coins are so cheap as to accommodate the trading of necessities among peasants and artisans, but they are too bulky for merchants to settle their business and too fractional for authorities to assemble when collecting taxes. Both are money, but their behaviours were not the same in the actual market. While copper coins were minted in China and the countries surrounding it when metallic coins were first used in the ancient period, silver became popular after the sixteenth century. Thinkers in East Asia at the time were not so impractical as to overlook the differences between the two.

In the middle of the seventeenth century, Huang Zongxi, a great Chinese Confucian, insisted on abolishing silver (and gold), or using only copper cash. He thought that the usage of silver enlarged the gap between rich and poor and made it easy for corrupt officials to accumulate bribes.[1] Though we can read the historical background between the lines, his arguments were so notional and ethical that they sounded impractical. Another Confucian in a neighbouring country submitted more detailed proposals on the same topic. Before Ogyū Sorai, a prominent Japanese Confucian, was allowed to be presented to the Shogun, Tokugawa Yoshimune, in 1727, he prepared a book in which he discussed contemporary political issues. He recognized that, unlike gold and silver, bulky copper cash did not return to the cities but stayed in the countryside. Thus he insisted that, though in principle the issuing of copper cash was the monopoly of the central government, domains should be allowed to mint coins locally to make up for their shortage in provincial cities.[2] This proposal was not derived from any abstract philosophy, but came about through his experience of living in the countryside before moving to the capital city. Though he cannot be called an economist in the modern sense, he realized that one currency circulated differently from another, and that some currencies are more stagnant than others.

Sorai also noted that there were not enough currencies to go around when prices were high. As mentioned above, the coupling of short-supply currencies and hiked prices had not been rare in Chinese literature. The lack of small denomination currencies in particular had been often recognized as causing prices to hike. That is why ordinary people, especially poor city dwellers, wanted a supply of currency sufficient to go around, even if inferior coins became dominant. Coins that were rather expensive meant nothing other than a poor supply of money. From another viewpoint, small denomination currencies had such a demand potential that they sometimes appreciated against big monies. The

1 Huang 1985, p. 38.

2 Ogyū 1978, pp. 133–46. Guillaume Carre brought this important essay to my attention.

appreciation of small monies in Asia was quite in contrast with medieval and early modern Europe where small change always depreciated.

Despite which appreciated or depreciated, silver could not substitute for copper coins. Their behaviours in the market were not the same and consequently the demand for them was different. Heterogeneous demands for money in the actual market were not neglected by contemporary philosophers, such as Sorai, but unfortunately they have been done so by modern scholars.

ORDER BEHIND CHAOS

There could be a disaggregated relationship not only between big money and small change, such as silver and copper cash, but also between a large denomination currency and another, and even among currencies with the same material such as silver. As Richard von Glahn makes clear in the following article, the silver dollar (the Carolus pesos) in particular had a premium against silver bullion in nineteenth-century China. At its peak, the premium soared to 30 percent greater than its equivalent in silver bullion. The point is that such overvaluation occurred only in the Jiangnan region, and it did not appear in other regions. This geographical limitation suggests a coupling of a particular currency and a trade circuit.

This overvaluation of the Carolus pesos is not an isolated phenomenon but merely the tip of an iceberg. The Mexican dollar and the Japanese dollar still continued to circulate with fluctuating rates against silver bullion in the early twentieth century. Such a competing relationship among silver coins could also be found in India and Africa. The appreciated circulation of the Maria Theresa dollar in the Red Sea region in particular shows a clear resemblance to the Chinese case. These cases indicate that the silver coins could not aggregate abstractly in terms of their intrinsic value, for a silver coin was in demand for a particular trade circuit, and sometimes the monetary demands of the circuit kept the exchange rate of a particular silver coin far removed from its commodity value. Unlike the abstract market in theory, the actual market in history consisted of various trade circuits which had separate demands for money.

The coexistence of currencies without fixed ratios appears to be chaotic. In fact, many observers, including modern western bankers who visited Asia and Africa, had described indigenous monetary systems as full of irrational disorders. However, a complicated appearance does not mean that the market really had no order. Traditional markets consisted of multiple layers rather than a single one. There, demands for money were so various that it was not easy for any party to synchronize them. Thus, keeping plural currencies with flexible exchange ratios was a suitable way to trade in the actual market. A complementary order existed behind intricate currency circuits.[3] Though it appeared to be lacking an institutional base in the modern sense, it was able to stabilize trade in contemporary terms.

Though the arguments above may sound negative towards current economic theories, I have no intention of denying that, with the simplified assumptions about a single

3 For currency circuits in China, see Kuroda 2005, pp. 103–26. For complementarity among monies, see Kuroda 2006.

currency circulating within a single-layer market, the social sciences have contributed to the analysis of social phenomena since the age of Adam Smith and David Ricardo. However, who can say confidently that economics in its founding period did not leave behind what is not common now but was still common and important then? This series, Asian Monetary History Revisited, aims to unearth what is crucial in discussing money but which has been neglected so far. Asian history is a reservoir full of monetary instances waiting for the attention of inquiring researchers.

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