

H. H. K'UNG AND HIS MONETARY POLICY FOR RESISTANCE AGAINST JAPANESE INVASION (1933-1938)

By

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I. A Brief Introduction of H. H. K'ung and His Achievements in Financial and Monetary Matters

H. H. K'ung (K'ung Hsiang-hsi 孔祥熙, 1880-1967), courtesy name yung-chih (庸之), literary name tzu-yuan (子淵), was born at Taiku, Shansi (山西太谷). The K'ung family, originally rooted at the Chufu district of Shantung (山東曲阜), were regarded as lineal descendants of Confucius. The family moved to Shansi in the late Ming dynasty. His grandfather, K'ung Ching-ling (孔慶麟), laid the foundation of the family fortune by establishing and successfully managing remitting shops (piao-hao 票號) centered in Shansi. His business spread rapidly throughout the country, and even had branches in Annam and Japan (Meng Tien-cheng, 1969, pp. 1-2). At the time, there were no modern banks in China, so Shansi remitting shops also worked like modern banks and the K'ungs became very wealthy capitalists. K'ung's father, K'ung Fan-tz'u (孔繁慈), the third son of K'ung Ching-ling, succeeded the family enterprise and maintained its prosperity in Shansi¹.

In the turn of the century, domestic remitting business was gradually replaced by modern banking institutions. So the K'ungs started to convert their business into variety stores and began to look elsewhere for big financial gains. They

obtained from the British Asiatic Petroleum Company its general agency in Shansi, established the Hsiang-chi Company (祥記公司), and handled shipments and sales of petroleum products, as well as candles, dye stuffs, and related imports (Yu Liang, 1958, pp. 3-7). H. H. K'ung not only inherited the great family enterprise but also the superb talent of running the family business.

When H. H. K'ung was seven years old, he began to study at the village school which had been established and supported by his father. In 1890, H. H. K'ung attended the Hwa-mei Primary School (華美公學) at Taiku which was established by Dr. Charles Tenney, a member of the American Board of Commissioners for Foreign Missions. He was taught English and the basics of a Western education. He converted to Christianity then.

From 1896 to 1900, H. H. K'ung studied at North China Union College (潞河學院), which was under the jurisdiction of the Tungchow (通州) Church near Peking. After the coup d'état of 1911, disappointed at the late Ch'ing Reform Movement, he, with more than ten classmates, organized the Wen-yu hui (文友會), a secret society which supported the republican revolutionary efforts of Dr. Sun Yat-sen.

Graduated from North China Union College, K'ung left China to study in the United States in 1901. He entered Oberlin College in Ohio, majoring in physics and chemistry and minoring in social sciences. In 1904, he met Dr. Sun Yat-sen in Cleveland Ohio, who was then travelling in the United States (Chiang Yung-ching, 1985, p. 1, Note 1 of p. 15). He told Sun that he would be engaged in education and industry in the future. The following year, he began studying mineralogy at Yale University, where he took an M.A. degree in 1907.²

Returning to Taiku, H. H. K'ung established the Ming-hsien School (銘賢學堂) or the Oberlin Shansi Memorial School, providing both primary and secondary education. Although he maintained an active interest in the family business, K'ung became the president of the school and devoted much of his time and attention to the affairs of the school. In the Republican Revolution of 1911, he was appointed Commander-in-Chief of the militia of Shansi Province's central circuit (山西中路民軍總司令) which was commanded by Yen Hsi-shan (閻錫山). Yen led the anti-Manchuria uprising in Shansi then. K'ung served in the militia for a while and became a close friend to Yen for many years to follow. In August

In April 1932, H. H. K'ung was appointed commissioner to Europe. He was secretly ordered to look for foreign aids for the development of an adequate national defense system in China. In Italy, Mussolini agreed to sell airplanes and to send experts to China to strengthen the Chinese air force. These negotiations resulted in the establishment of the Central Aviation Academy (中央航空學校) and an aircraft factory, laying the foundation for China's aviation industry. Then he made arrangements for procuring arms and engaging military advisers from Germany. He met with financial experts in England to discuss economic reform measures for China (Howard L. Boorman, 1967, II: 265).

After returning to China in April 1933, H. H. K'ung was appointed governor of the Central Bank of China. In November, he became Vice Premier and Minister of Finance concurrently. Since then, he handled the nation's financial and monetary affairs for eleven years (Chiang Yung-ching, 1986, p. 2). He immediately began work on a comprehensive program designed to improve national finance. He abolished varieties of local taxes and surcharges since 1934. In November 1935, he declared the monetary reform to abandon the silver standard in favor of managed paper currency. Later on, the Legal Tender Policy was put into effect and thus helped to unify the currency of the nation.

In 1936, he initiated the collection of income tax, leading to an increase in national revenue. During the Sian Incident of December of 1936, he made every effort to negotiate with concerned parties and to stabilize the situation and to realize the release of Chiang Kai-shek (Chang Yu-fa, 1981, I:22).

In April 1937, H. H. K'ung was sent abroad as a special envoy of the National Government, leading a delegation of more than thirty people to England to participate in the coronation of King George VI. Meanwhile, he had another important mission during this trip, i.e., the procurement of war materials and financial aids from Europe and the United States. As it came out, he was able to procure a great number of arms and weapons from Germany and Czechoslovakia, and some loans from the United States, the Great Britain and France.³ By the time he returned to China in October, the War of Resistance against Japan had been going on for several months.

In January of 1938, H. H. K'ung was appointed Premier (the President of the Executive Yuan). In the following year, Chiang Kai-shek took office as

of 1912, Dr. Sun Yat-sen travelled to Taiyuan, where he met K'ung the second time.

From 1913 to 1915, K'ung was in Tokyo as general secretary of the Chinese YMCA in Japan. As Dr. Sun Yat-sen sought refuge there after the failure of the Second Revolution of 1913, he helped Dr. Sun to resist Yuan Shih-kai and to found Chung-hua ko-ming tang (Chinese Revolutionary Party 中華革命黨). At the same time, he met Soong Ai-ling (宋藹齡), the eldest daughter of Charles Jones Soong (宋嘉樹) and English secretary of Dr. Sun then. In 1914, he married her. Soong Ai-ling's sisters, Ch'ing-ling (慶齡) and Mei-ling (美齡), later became the wives of Dr. Sun Yat-sen and Chiang Kai-shek respectively. So K'ung became Sun's and Chiang's brother-in-law.

In 1915, K'ung returned to Taiku. He managed Ming-hsien School and prospered family business concurrently until 1922. In 1922 and 1923, he assisted Wang Cheng-ting (王正廷) to negotiate with Japan in Shangtung and with Russia in Manchuria. In 1923, Dr. Sun Yat-sen established a government at Canton and was elected as Ta-yuan-shuai (大元帥). In the following year, K'ung went to Canton at his request. K'ung served as a channel of communication with such north China leaders as Chang Tso-lin (張作霖), Feng Yu-hsiang (馮玉祥) and Yen Hsi-shan. K'ung presented Feng with a calligraphic copy of Dr. Sun's *Chien-kuo ta-kang* (建國大綱 *An Outline of National Reconstruction*), and Feng recorded this event as a memorable one in his diary (Howard L. Boorman, 1967, II: 265).

In the winter of 1926, he was appointed as director of the Kwangtung Provincial Finance Department and Acting Minister of Finance in the National Government at Canton. During the period of the Northern Expedition, H. H. K'ung supported Chiang to a great extent. And during the split between Nanking and Wuhan, Chiang gave K'ung the job of seeking collaboration with Feng Yu-hsiang and Yen Hsi-shan. K'ung brought them into Chiang's camp and finally his political prominence rose (Kuo Jung-sheng, 1980, p. 61). When the National Government was inaugurated at Nanking in 1928, K'ung was appointed Commissioner of the Government and Minister of Industry and Commerce concurrently. K'ung continued to hold office after the Ministry of Industry and Commerce was merged with the Ministry of Agriculture and Mining in 1930 to form the Ministry of Industries (實業部). He resigned the position in the following year.

the Premier, and K'ung became the vice Premier and continued to serve as his surrogate until the autumn of 1944. Meanwhile, K'ung maintained his post as the Minister of Finance and the governor of the Central Bank of China concurrently. His achievements during the war time included the establishment of a better financial system, the creation of monopoly enterprises and the issuance of bonds (Chang Yu-fa, 1981, pp. 22-23).

In June of 1944, H. H. K'ung went to the United States as head of the Chinese delegation to the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire. The chief purpose of his journey was to seek foreign aids. In November of the same year, he resigned the post of Finance Minister. In May of 1945, he also gave up the post of vice Premier. In July he returned to China and resigned as Governor of the Central Bank of China. In 1945, before the Chinese Communists reached a critical stage, he moved to the United States for medical treatment. In 1962, he came to Taiwan, but returned to the United States in 1966, where he died in 1967 at the age of 88. President Chiang Kai-shek published a citation to honor his death ("The Order of Citations," XIII: 8200-8201), and wrote a brief biography for him too.

In modern China, it is common that the president cites the person who has made great contributions to the country. But for the president to write a biography for the person is a rare thing. The honor rendered to him by President Chiang was a strong affirmation of K'ung contribution to the country.

The above brief biography showed that H. H. K'ung was born of a distinguished family. His grandfather was noted for his outstanding financial ability. His ancestors managed remitting shops spreading all over the country and abroad (Meng Tien-cheng, 1969, p. 3; Wu Hsiang-hsiang, 1985, p. 19). He was educated in a missionary school and was thus well connected to the church. During the Boxer Uprising of 1900, he used personal and family influences to shelter Western missionaries in Shansi. Later, when he arrived at Peking, where Li Hung-chang was negotiating with the Allied Forces that had occupied Peking, through his friendship with the Western missionaries, K'ung helped Li to reduce part of the demands made by the Allied Forces (Howard L. Boorman, 1967, II: 269).

His education in the United States from 1901 to 1907 not only earned for himself a master's degree but also made him better informed about the Western

countries. In 1937, he was awarded with the honorary degree of the Doctor of Philosophy from Yale University and Berlin Industry University of Germany. His good connections with the church and the Western countries facilitated him greatly in handling foreign affairs. Furthermore, he was also well related to north China military leaders such as Chang Tso-lin, Feng Yu-hsiang and Yen Hsi-shan. Above all, he was brother-in-law to Dr. Sun Yat-sen, Chiang Kai-shek, and T. V. Soong (宋子文). Such relationships no doubt must have played a very important role in his career and life.

From the Revolution of 1911, when he began devoting himself to the national revolution and construction, to June 1945, when he retired from the political arena, he had had many great achievements. Especially after 1933, he was burdened with the task of financial and monetary renovations. His achievements in this area were well recognized. Words of praise were often uttered by celebrities. The following are some examples.

1. On November 1, 1943, a celebration in honor of H. H. K'ung's tenth anniversary as Minister of Finance was held in Chungking. Laudatory messages came from Chiang Kai-shek, the Chairman of the National Government, and from such eminent Westerners as the United States's Secretary of War, Henry L. Stimson. Such leading Chinese newspapers as the *Ta Kung Pao* (大公報), which had once criticized K'ung's policies and actions, praised his achievements sincerely later (Howard L. Boorman, 1967, II: 268).

2. When H. H. K'ung died, Chiang Kai-shek wrote "A Brief Biography of Mr. H. H. K'ung" himself, pointing out that "the twenty years from the time of Northern Expedition in 1926 to 1946, after the victory of the War of Resistance against Japan, were years when the National Government was encountering with great difficulty and suffering a multitude of setbacks; he (K'ung) held a variety of important appointments in the areas of administration, finance, and economics, and made outstanding contributions in all of them." (Chiang Kai-shek, 1967, p. 3)

3. The Presidential citation also praised K'ung in the following words: After the Northern Expedition, he had assumed the posts of the Minister of Industries, the Minister of Industry and Commerce, the Commissioner of the National Government, the governor of the Central Bank of China, the Vice Premier, the Minister

of Finance, and the Premier. His achievements were many and great, the most noteworthy being the renovation and unification of the financial and monetary system. During the eight long years of the War of Resistance against Japan, we had had no deficiency in military and common livelihood. His achievements and contributions will be remembered forever (Chiang Kai-shek, "The Order of Citations," XII: 8200).

The most important of K'ung's financial undertakings was the monetary reform.⁴ Words of applause on this matter are easily found. Here we can also give three examples.

1. Chiang Kai-shek pointed out in *China's Destiny* (中國之命運) that after the establishment of the National Government, the unification of the currency and the implementation of the Legal Tender Policy had invariably laid the foundation for national unification and independence, enabling the National Government to resist resolutely against the Japanese militarily and economically (Chiang Kai-shek, 1950, pp. 120–121).

2. K. P. Ch'en (Ch'en Kuang-fu 陳光甫), the banker and the head of the Chinese Silver Mission who negotiated with the United States regarding the silver purchases of 1936 and economic aids to China, remarked, "The success of the War of Resistance against Japan was completely dependent on the legal tender. Without the legal tender, success was impossible." (K. P. Chen, 1947, p. 36).

3. A Japanese once said, "Without the Legal Tender Policy of 1935, China could never have resisted against the Japanese successfully." (Tai Ming-li, 1947, p. 111).

The success of the monetary policy, which resulted in a wholesome finance, was the greatest contribution K'ung has made to the National Government and the War of Resistance.

Although H. H. K'ung stayed in his post as the Minister of Finance for a total of eleven years, the present study does not mean to cover his monetary policy during the eleven years. Instead, the present paper deals with his policy only from the time he became the Minister of Finance in November 1933 to October 1938 when the Japanese Army occupied Wuchang and Hankow, which was generally considered a turning point in the Second Sino-Japanese War. There are two reasons. First, this study is limited in its space. Second, and the more

important, after October 1938, China suffered greatly from the War, her coastal area and the area along the Yangtze River lost to the Japanese, her sea transportation abroad blocked completely, inflation resulted and national finance ruined. At that time, no monetary policy, no matter how good it was, could get its way across. As a matter of fact, the monetary policy K'ung carried out from 1933 to 1983 was important enough to deserve a careful study in its own right.

II. The Monetary Policy and Its Implementation before the Marco Polo Bridge Incident (1933-1937)

On September 18, 1931, the Mukden Incident broke out, and shortly later the Japanese army took over the Manchuria. On March 9, 1932, the puppet state of Manchukuo (滿洲國) was created, and Japan was increasing her invasion into China. China, at that time, full of internal riots and in financial and monetary difficulties for a long time, did not dare to stand up against the Japanese. The National Government had to first enforce its military power so as to quell internal rebels and to stabilize the interior, and then to expel foreign invasions. Before doing so, the nation's finance and economy had to be restored and developed. On November 1, 1933, K'ung assumed the post of the Minister of Finance. He felt that to establish a sound and safe financial and monetary system, China needed to have a good currency and banking system (K'ung, 1939b, p. 254). So he immediately worked on the problem. We shall discuss his work in two areas. They are currency and banking.

A. On Currency

In 1911, after the Wuchang Revolution, the Republic was established. But the Republic was very weak, both politically and financially. Russia, seeing this, immediately took Mongolia. And China was unable to fight back. Realizing the problem, Dr. Sun Yat-sen called the attention of the people to start a monetary revolution, proposing the use of managed paper money and an efficient currency system to solve the nation-wide problem for waging a war against the Russians. In 1918, Dr. Sun again emphasized the monetary revolution, especially the aboli-

tion of the metal money and the adoption of paper money. The proposal later became the blueprint of the National Government's monetary policy (Cho, 1986, pp. 217–227). In 1931, the Mukden Incident broke out, and some leaders of the Nationalist party, e.g., Ts'ai Yuan-pei, Chang Chi, and others, at once referred to Dr. Sun's monetary reform plan (Cho, 1985, I: 163–165). K'ung was Dr. Sun's faithful comrade. As he served as the Minister of Finance, the Japanese invasion was on its way. The situation was very much like the one Dr. Sun faced a few years ago. So he decided to abolish metal money and adopt paper money.

1. The continuation of unifying silver standard currency. The National Government implemented the policy of “the abolition of the sycee (tael) and the adoption of the national silver dollar” (廢兩改元) and published “The Silver Standard Dollar Coinage Regulations,” (銀本位幣鑄造條例) specifying that all incomes and expenditures, public or private, and all transactions use the silver dollar. Although the silver standard system had been established, all kinds of silver coins were in circulation as usual. When K'ung first assumed the position of the Minister of Finance, he was devoted to the unification of the silver standard currency. He had urged the Central Mint to increase their production quantities in order to meet the demands of the banks. The Central Mint was to produce Type B silver bars with 88 percent fineness (Cho, 1985, I:170). Meanwhile, all silver firms (yin-lu) and all houses of assayance (kung-ku chu 公估局) were ordered to cease operation (*Financial Gazettes*, 92:48). In this way, the silver ingots minted privately by people disappeared from the market. The disappearance of this very old unit of money simplified the monetary system, which was henceforth based on the silver dollar.

2. The imposition of the silver export duty and the equalization charge. For the sake of helping the silver mine interests, the United States implemented in 1933 a policy to deliberately raise the price of silver. “The Silver Purchase Act of 1934” had even greater impact on the silver price. During the years 1933 and 1934, the price of silver abroad was speedily accelerating. Chinese silver was thus out-flowing in great amount. Between July and mid-October of 1934, the silver dollars exported reached a total of 200 million. With such a great amount of silver export, China, a silver-standard country, was in a great economic catastrophe. Deflation resulted and caused difficulties for business and industry. Under such circumstances,

K'ung had to gather experts and financial leaders, and representatives of foreign banks as well to discuss measures for dealing with the matter. On October 15, the collecting of the silver export duty and equalization charges started (The Department of Economic Research, 1937, pp. 8-9). This would make silver export profitless and prevent silver from further out-flowing.

3. The implementation of the Legal Tender Policy (法幣政策). Since the early twentieth century, various kinds of paper money circulated in China, and issuance was not unified. Besides, the money, issued either by modern banks or traditional money shops, was not backed by sufficient reserve funds, nor in fixed amount; while that issued by foreign banks greatly encroached upon the rights and the interests of China. The Ch'ing and the Republic governments had tried many times to unify the currency, but in vain. When the National Government was founded at Nanking, it also tried to unify the issuance of the currency (Cho, 1986, pp. 222-224).

On the other hand, since the imposition of the silver export tax, silver did not flow out publicly, but still underground smuggling was rampant. The Ministry of Finance had several times taken measures against such smuggling; but because of the long coast line, it was hard to exterminate. The whole country was facing deflation and depression, causing nationwide panic. If such situations persisted, the nation would go bankrupt. After a careful examination of the situations abroad and at home, K'ung decided to implement the Legal Tender Policy. The policy had four major points:

a. The unification of issuance. Only the banknotes issued by the Central Bank of China, the Bank of China, and the Bank of Communications were legal tender, i.e., the Chinese National Currency (CNC). Other banks should stop issuing and their currency which was already circulating should be replaced by the legal tender gradually.

b. The establishment of the Currency Reserve Board. The Board would be in charge of the issuance of the legal tender, the management of the currency reserve, and the partial take-over of other banks' issuance. The purpose was to centralize reserve.

c. All public and private incomes and expenditures were paid in the legal tender. The use of silver dollars or bullions for currency purposes was prohibited.

Also, other forms of silver dollars or silver bullions should be exchanged by the legal tender. Silver would then be owned by the government only, and smuggling of silver would stop.

d. The Central Bank of China, the Bank of China, and the Bank of Communications could buy and sell foreign exchange in unlimited quantities for the purpose of stabilizing the exchange rate of the legal tender. Foreign trade and the people's livelihood would thus be improved. Later, the Farmers' Bank of China would help to recover rural economy. This bank would later issue its own banknotes which would be circulating along with the ones issued by the three banks mentioned above (Young, 1971, pp. 484—485).

Since the implementation of the Legal Tender Policy on November 4, 1935, foreign exchange stabilized and national economy prospered. In order to further consolidate finance and to protect the legal tender, the Ministry of Finance promulgated three regulations about the legal tender in May 1936, stipulating that the reserve should be based on the amount of gold and silver and foreign exchange, among which silver would make 25 percent. Hence, our national currency remained independent and unaffected by the fluctuations of foreign currency (The Department of Economic Research, p. 13). China's traditional subsidiary coins were very confusing, not only causing trouble to people but also presenting obstacles to the unification of currency. After a careful analysis of the problem, a thorough study of foreign systems, and a calculating survey of national livelihood, it was proposed that the decimal system be adopted and a plan for the improvement of subsidiary coins be drawn. Meanwhile the government sent persons to the United States to supervise the making of the minting plates of subsidiary coins at the Philadelphia Mint. As the Legal Tender Policy was under way, the government also announced the regulations of subsidiary coins on January 11, 1936 (Cho, 1985, I: 240—242). The Ministry of Finance superintended the Central Mint to intensify the minting of coins according to the regulations. It was also decided that the new coins would be publicized by the Central Bank on February 10.

4. The adjustments of currency in other provinces.

a. Szechwan: There were two mints—Chengtu and Chungking—in Szechwan, and most of their silver coins were below legal tender fineness. As to the banknotes issued by their local banks, the value was even more unstable due to

inadequate reserve, causing frequent runs on the bank and constant shifts on the exchange rates. Such conditions greatly hampered the development of the economy of Szechwan. In order to secure finance and unify the currency of the province, the central government published in September 1935 some means to adjust its local currency. First, 30 million dollars of Szechwan financial regulation banknotes were issued for a loan from the Central Bank to recall local currency. Second, all public and private exchanges would be paid in the currency issued by the Central Bank of China, and 10 dollars of the local banknotes was returned with 8 dollars of central banknotes. Because the silver coins circulating in Szechwan differed greatly in fineness, they would be exchanged by the Central Bank notes according to "the Brief Regulation for the Exchange of Miscellaneous Coins and Silver," (Cho, 1985, I:221-222) i.e., the value of the coins would be decided by their fineness.

b. Kwangtung: Both Kwangtung and Kwangsi were used to their silver dimes. When the central government started the Legal Tender Policy, Kwangtung did not follow the example, but instead, continued to use the notes issued by their provincial and city banks which had rather deficient reserve and poor credit. In 1936, the Ministry of Finance established a branch of the Currency Reserve Board at Canton. A committee with financial leaders and economic experts was also organized to study and improve the currency of Kwangtung. The committee concluded that they must first strengthen the reserve and then secure credit and exchange rates. The central government then used the consolidated taxes as funds to issue bonds totalling 120 million dollars for the improvement of Kwangtung currency. While the bank accounts were being examined, two tentative methods were drawn, stating that the notes issued by the Kwangtung and Canton Banks could keep on circulating, but in taxation they should be discounted according to the rate of the day, but not more than 5 percent. This being done, the Kwangtung notes became stable. The exchange rate between the note and the legal tender was then fixed at 1 to 0.44. In August of 1937, four regulations were further published, stipulating that all money matters of Kwangtung, public or private, all transactions, and all contracts should be paid in the legal tender. As a result, Kwangtung currency established its credit in no time (K'ung's "Financial Report", 1939a; Cho, 1986, pp. 375-376).

c. Kwangsi: Having seen the effects of what the central government did to Kwangtung currency, Kwangsi provincial government also requested the central government to adjust its currency. Kwangsi currency was taken care of in very much the same way as Kwangtung currency was. First, the exchange rate between the legal tender and the local currency had to be secured. Then, measures were drawn such that the Central Bank, the Bank of China, the Bank of Communications, and the Farmers' Bank of China would each share the "balance exchange rate funds" 6 million dollars, and would entrust their branch banks in Kwangtung to debit so as to balance the exchange rate which was two dollars of Kwangsi currency equaling to one dollar of the legal tender. Furthermore, the reserve in Kwangsi Bank was legitimated and enriched in much the same way as was done in Kwangtung, with the salt revenue collected in Kwangsi as funds to issue bonds 17 million dollars to help adjust the currency there. Therefore, the Kwangsi branch of the Currency Reserve Board was also established to take care of all the reserve, the currency, the printing plates, and the files. The exchange rate of two Kwangsi dollars to one dollar of the legal tender was also put in effect on December 1, 1937 (K'ung's "Financial Report", 1939a; Cho, 1986, pp. 376-377).

B. On Banking

1. The revision of the charter of the Central Bank of China. The Central Bank of China was the only national bank responsible for the management of nationwide finance. The Ministry of Finance had once proclaimed, during the Legal Tender Policy, to organize the bank so that it would remain detached and serve as the bank of banks. Before long, the revision was under way. In January of 1936, the Ministry rewrote the seventh article of the original charter. The new regulation stated that the commercial share be increased to 60 percent (The Ministry of Finance, 1952, VIII: 55-58). Later experts were invited to go over the revision, and the revision was turned over to the Central Political Meeting of KMT to be resolved. It was later called the Principle of Central Reserve Bank. Based on the principle, the Ministry drew the draft of the charter of the Central Reserve Bank with sixty-two articles in it. The draft was then submitted to the government for resolution, but due to the Sino-Japanese War, its publication was detained (K'ung's "Financial Report", 1939a).

2. The increase of capital in special chartered banks—the Banks of China and the Bank of Communications. Ever since the two banks were entrusted with foreign exchange business and with the responsibility for fostering the growth of domestic industry, they became more important every day. Their charters were revised and published, and their business began to grow. In March 1935, in order to adjust finance to help commerce and industry, the Ministry decided to increase the government capital of the Bank of China to 15 million (the total capital of the Bank reached 40 million then), and increase that of the Bank of Communications 10 million (the total then became 20 million) (The Department of Economic Research, pp. 48–54). With plentiful capital as such, the two banks were able to assist the Central Bank of China in implementing the Legal Tender Policy and in stabilizing national finance.

3. The reorganization of the Farmers' Bank of China. In 1933, the headquarters of the National Army for the Campaign against the Communists in Honan, Hupeh and Anhwei insitituted the Four-Province Agricultural Bank (Honan, Hupeh, Anhwei, Kiangsi). Before long, they had had substantial achievements. Realizing the necessity to rectify agricultural finance in other provinces, the Ministry expanded the bank, augmented its capital to 10 million dollars and reorganized it as the Farmers' Bank of China. In 1935, the regulations of the bank were drawn and submitted to the central government for resolution and publication. Since the bank played a very important role in helping the recovery of agricultural economy and the promotion and improvement of productions and sales, the Ministry further granted it right to issue currencies to circulate along with the legal tender. The bank was also ordered to use 50 million dollars to give loans for land mortgage and other loans. Six regulations concerning loans were outlined, with special emphasis on relieving the owner-farmers by giving them low interest rates for loans. Furthermore, the bank was to continually pay attention to distant areas so that nationwide agricultural reconstruction was effected soon (K'ung's "Financial Report", 1939a; Chang Kia-ngau, pp. 161–162).

In sum, as K'ung served as the Minister of Finance, he deeply understood the trouble the nation faced and the inevitable war between China and Japan. In order to be prepared for the war and to save the country from being ruined, K'ung was determined to carry out a management policy, including the develop-

ment of managed money and of a national banking system centered about the Central Bank of China. As K'ung was a mild person, his reform of the monetary system and of the banking organization was also taken up in a mild manner. On the one hand, he first unified the silver coin, and then performed the Legal Tender Policy. On the other hand, he first solidified the Central Bank of China, and then effectively controlled the special chartered banks. His efforts in the first four years had laid some foundation for China's monetary reform and had enabled the National Government to control the nation's banks and monetary affairs, and finally to stand up and fight against Japan, a militarily and economically powerful nation then. China was finally able to erase the shame of the Mukden Incident of 1931.

III. The Monetary Policy and Its Implementation after the Marco Polo Bridge Incident (1937-1938)

On July 7, 1937, the Marco Polo Bridge Incident broke out. At the moment, H. H. K'ung was visiting the United States and was to visit the United Kingdom, France, Germany and Italy later. When he returned to Shanghai, it was October 18. The situation was very dangerous then, and people became very panicky because the monetary market fluctuated. In order to stabilize the situation, the Ministry of Finance called in financial leaders, experts and scholars of the country to work out a feasible policy. The draft of the policy was then sent to H. H. K'ung for suggestions and approval (Kuo, 19, p. 137). After K'ung returned to Shanghai, he personally took part in policy-making. The following measures were published during this emergency state to stabilize finance, to prevent capita from out-flowing, to aid military expenditures, and to maintain agricultural, industrial, and commercial productions. The measures had greatly assisted the government in the War of Resistance.

1. Promulgating Measures to Stabilize the Money Market

Since the Marco Polo Bridge Incident and the Battle of Shanghai (August 13, 1937), the whole nation was terribly shaken. The banks and money

shops (native banks) found it difficult to collect all the payments due. Meanwhile, people kept on going to the banks to withdraw money from their accounts, creating a shortage in the money market. At that time, the Ministry of Finance invited monetary and financial experts to discuss the matter and to devise measures to stabilize the money market. On August 15, 1937, seven measures were published and put into practice (The Ministry of Finance, 1943, XI: 287–288). The main purpose of the measures was to limit unnecessary expenses and to prevent capital from going abroad. In this way, the money market was stabilized and the people's livelihood was provided. It was decided that within a week only 5% of each current account could be withdrawn and not to exceed 150 dollars. As the money market turned stable, it was amended that accounts below 300 dollars could be exempted and would not be confined by the weekly limit of 5%. But as to emergency payments in relieving commerce, industry, or military matters, they were paid as requested so that the stabilizing of the money market would not interfere with the proper use of the capital and would promote the development of resources in the hinterland (K'ung's "Financial Report", 1939a).

2. Handling Discounts and Loaning in the Hinterland

The purpose of stabilizing the money market had been made evident already. Meanwhile, in order to activate finance in the hinterland so as to further the development of agriculture, mining, industry and commerce and to promote the anti-Japanese combat ability, it was decided that the four banks—the Central Bank of China, the Bank of China, the Bank of Communications, and the Farmers' Bank of China—would set up a joint office to take care of the monetary matter in various places. The office was first set at Shanghai. In December 1937, it was moved to Hankow as the National army moved there, and in the autumn of 1938, it was moved to Chungking along with the National Government. Besides, some 50 branch offices were also to be set up at various places where the four banks had branch offices for the same purpose (K'ung's "Financial Report", 1939a). This being done, the money market was activated and the circulation of capital was accelerated. In order to meet the demands of the wartime, measures for discounts and loans in the hinterland were also drawn, stipulating the four banks to establish discount and loaning committees at important sites (The Ministry of

Finance, 1943, XI: 331–332; K'ung, 1939b, p. 254). A total of 19 such committees were later installed to handle the discount and loaning matters. More than 30 kinds of agricultural, industrial and mining products were decided as items of mortgage so that the average commercial banks would help to improve the situation (The Department General of the Four Large Government Banks League, pp. 123–129).

3. Stipulating Measures to Handle Monetary Affairs All Over the Country

After the breakout of the War of Resistance, the battle began to spread far and wide. Each province and region was in different situations and different measures should also be adopted. In February 1939, the matter was taken up. Some monetary and financial experts were gathered to discuss and plan on the matter. It was decided then that the whole country should be divided into four districts in terms of monetary affairs:

- A. the area occupied by the Japanese,
- B. the area nearby the Japanese occupation,
- C. the district away from the Japanese occupation,
- D. the district responsible for national recovery (K'ung's "Financial Report", 1939a).

Each district was to have its own way to take care of its own problems. It was also decided that the four large government banks raised funds in advance so as enough amount of paper money could be deposited in each district for emergency (K'ung, 1939b, p. 261). It was further stipulated that the local banks would frequently report about their situations so as to prevent the enemy's conspiratorial acts and to stabilize the money market. By so doing, the economic developments of the hinterland districts were promoted and national recovery was expected.

4. Collecting Gold and Silver and Attracting Capital from Overseas Chinese

After the Legal Tender Policy was put into effect, there were measures to collect silver dollars and bullions as a way to centralize reserve and to enhance the confidence of the legal tender (Cho, 1985, I: 221–222). When the War of

Resistance against Japan broke out, in order to increase reserve for the legal tender, another regulation about the exchange of gold for the legal tender was drawn and executed so that gold could be adequately collected (The Ministry of Finance, 1952, VII: 26). In the spring of 1938, the four large government banks were urged to establish a gold collecting office. The office would send personnel to districts nearby the war area to collect the gold treasured by the common people in their houses. In October, another measure was decided to collect gold and silver coins (K'ung's "Financial Report", 1939a). The measure was later put into effect. Positively, it covered:

A. The four banks were responsible for collecting gold and silver by setting up an office especially designed for the task.

B. Other banks were given permission to use gold as reserve to cash from the four government banks.

C. The four government banks' Gold and Silver Exchange Office would send personnel to gold producing areas to collect gold ore.

D. The handling fees for the exchange of the silver coins were raised.

And negatively, it included:

A. Strict measures were made to prevent gold smuggling and to inspect passengers going to the occupied districts.

B. The rules preventing the circulation of other coins were emphasized again (K'ung's "Financial Report", 1939a).

Another purpose of collecting silver was to sell silver abroad and to exchange foreign currency assets which would add to the legal tender's reserve. According to Authur Young, the financial advisor to China from 1929 to 1947, the silver sold in 1937-38 was as follows:

Table: Silver Sales (July 1937–Dec. 1938)

Date of agreement	Amount		Price	Net Proceeds
	Contracted (oz)	Delivered (oz)	U.S. cent (per oz)	
July 10, 1937	62,000,000	62,514,710	45.0	US\$ 28,131,620
Nov. 3, 1937	50,000,000	50,000,000	45.0	22,500,000
Dec. 2, 1937	50,000,000	50,000,000	45.0	22,500,000
Feb. 25, 1938	20,000,000	20,000,000	45.0	9,000,000
	30,000,000	30,000,000	43.0	12,900,000
May 12, 1938	50,000,000	50,000,000	43.0	21,500,000
July 1938	50,000,000	50,000,000	43.0	21,500,000
Sept. 29, 1938	19,500,000	19,500,000	43.0	8,400,000
Oct.–Dec. 1938	39,200,000	39,200,000	43.0	16,856,000
Total	370,700,000	371,214,710		163,287,620

(Young, 1965, p. 368, Table 65)

According to the table, the amount sold to the United States during the year was near 70% of the total sold since the beginning of the Legal Tender Policy (1934–1941), 550, 453, 761 ounces, US\$ 251,585,570 (Young, 1965, p. 368). The assets gained in such good sales not only added the reserve of the legal tender, but also established good credit for the legal tender, greatly improving the finance of the country during the war time.

On the other hand, the money orders sent by the overseas Chinese to their families was also found to increase the reserve greatly. Therefore, it was decided that the government should think up methods to attract capital from the overseas Chinese. First, the Ministry of Finance ordered that the Central Bank and the Bank of China set up branches abroad and requested foreign banks to accept drafts. Later, the Ministry also advised the two banks, together with the Fukien Provincial Bank and Kwangtung Provincial Bank and the overseas Chinese remitting shops

and Postal Savings Bureau, to organize an overseas Chinese remittance collect and exchange network. The network could easily solve the problem of the overseas Chinese who, during the war time, found it hard to send money back to their families. The provincial banks, the post offices, and the network could help them out. As a result, the capital of overseas Chinese could be collected (The Department General of the Four Large Government Banks League, pp. 107–111).

5. Promulgating Measures to Centralize and Control Foreign Exchange

Many foreign countries had already controlled their foreign exchange. As the War of Resistance started, China was unable to follow the example of the foreign countries in controlling foreign exchange. Therefore, some gradual measures were adopted. First, limits were set on deposits and withdrawals so as to prevent capital from disappearing. Second, the Central Bank, the Bank of China, and the Bank of Communications were to discuss with foreign banks about measures for mutual assistance. Furthermore, they were to organize a commission to take care of related matters. Unfortunately, the Japanese deliberately tried to disintegrate such cooperation. In March 1938, they incited the quisling government in North China to organize a so-called Reserve Bank to issue its own currency to exchange the legal tender to collect foreign exchange. In order to take precautions against such acts, the Ministry of Finance promulgated three methods and six rules for purchasing foreign exchange on March 12, 1938. The Central Bank was appointed as the only bank to handle foreign exchange request matters. Only for proper reasons could foreign exchange be approved. This was the beginning of controlling foreign exchange for China. Meanwhile, the amount of the legal tender was strictly limited when being carried by people going abroad. The Custom Office was ordered to inspect the travellers carefully so as the enemy had no way to gain the legal tender to affect the financial situations of the nation (The Ministry of Finance, 1952, VII: 38–39). After the regulation for the request for foreign exchange was published, the request for foreign exchange in terms of import had been taken care of. In the same way, the request for foreign exchange concerning export should also be handled so that both complemented each other. Hence, the Ministry of Finance drew up measures about the request for foreign exchange in export. Besides, some regulations for the inspection of foreign ex-

change for export were also made up by related insititutions. After the regulations were published and executed, another measure about the types of foreign exchange in export was also published and executed. The measure was particularly concerned about the attraction of foreign exchange to balance international accounts. Later, in order to further encourage export businessmen and to protect the profits of manufacturers; another measure for maintaining production and promoting export was published, with the intention of lowering the cost of production and promoting the exportation of native products on the one hand, and regulating the price of native products to maintain their production on the other hand (The Ministry of Finance, 1952, VII: 40; 1943; XI: 280).

6. Publishing A Measure for the Improvement of Regional Financial Insititutions

The Ministry of Finance had already designed a way to maintain discounts and loans in farming areas. It was proposed that agricultural products were proper as items of mortgagage. As to mining and other industries, directly or indirectly related to the War of Resistance, no items of mortgagage were required so that production would continue. Later, as there was a greater demand for small notes among the common people, the Ministry asked the four banks to take care of the matter. But because of the vast territory of the nation, there was no adequate transportation to facilitate the improvement of inland finance. In order to have capital penetrate into the inland to develop economy there, it was necessary to find another way out. Consequently, the Ministry of Finance drew up an outline for the improvement of local financial institutions, on the basis of the resultion of Provisional National Congress of KMT, about the adjustment of inland finance and the cultivation of agriculture, industry, and so on to promote production (The Ministry of Finance, 1943, XI: 308–309). The outline was later put into effect. The financial institutions of each region could cash one-dollar notes and subsidiary coins by using only 20% of the legal tender and the rest could be either productive operational certificates, asset bonds, or storage receipts of products so that funds could flow into remote farming areas (K'ung, 1939b, pp. 260–261). Furthermore, in order to promote the policy, in June 1938, a meeting was held for the chairmen of the Bankers' Union of various places and the presidents of the provincial branches of the four government banks to discuss the im-

provement of regional financial institutions. During the meeting, K'ung gave some advice about how to proceed and then investigate the regulations made up about the receiving and the using of one-dollar notes and other subsidiary coins from the four banks and an outline about the process of receiving and using banknotes and other necessary forms (The Ministry of Finance, 1943, XI: 309-310)

7. Completing the Financial Network in the Southwest and the Northwest

Most of the nation's banks were located in the areas where transportation was convenient. In the inland, there were not sufficient banks. In order to develop inland economy, the Ministry of Finance had several times discussed the matter and finally decided that the four government banks should install branches or offices. The four banks followed the order and gradually had their branches or offices installed. During the War of Resistance, Szechwan, Yunna, Hunan, Kweichow, Kwangsi, Shensi, and Kansu had already become the bastion for national recovery. Naturally, there was urgent need for building a well-related network. In October, a discussion with the four banks led to the decision that the four banks would draw up an outline for a complete network. The outline stipulated that the four banks would take turns to install branch offices in the southwest provinces. Meanwhile, the Ministry also asked the provincial governments to increase the branches of the provincial banks, local banks and farmers' banks, suggesting that there should be at least one bank in each administrative district of each county so that banks would be common. Lately, the four banks, together with provincial and local banks, aggressively prepared for a complete financial network in the southwest and the northwest in the near future (The Department General of the Four Large Government Banks League, p. 353).

IV. Conclusion

Napoleon said that for battling, the first thing is money, the second thing is money, and third thing still is money. As the Governor of the Central Bank of China and the Minister of Finance, H. H. K'ung presided over the Republican Chinese finance and monetary affairs at the time when the nation was preparing

for and carrying out the War of Resistance against the Japanese. He paid the greatest attention to the improvement of financial and monetary affairs, and his achievements were also the greatest. Shortly before the War, he made possible the unification of silver standard currency, and the implementation of the Legal Tender Policy. The undertakings not only unified the nation's currency but also accelerated its modernization. Furthermore, they helped to prevent the silver from outflowing in great amount to avoid any economic depression and lessen the financial difficulty and lay the solid foundation for the Resistance War (Cho, 1986, pp. 400-411).

During the War, in order to support the armies in the front and to construct the rear, K'ung worked out plans to stabilize financial organizations, to control foreign exchange and to attract capital from overseas Chinese. The success of K'ung's monetary policy was especially well recognized by people at home and abroad. In the Third National Financial Conference, Chiang Kai-shek said, "We have stepped into the fourth year of the War of Resistance, but we do not have any financial worries internally. On the contrary, we are becoming steadier and stronger every day. You, as well as I, understand that the reason why we can sustain financially is that we have had a successful Legal Tender Policy." (Chiang Kai-shek, 1941, p. 10)

In 1943, the Minister of Military Affairs, Ho Ying-chin (何應欽), in honor of K'ung's tenth anniversary celebration, also pointed out, "When the war began, the enemy calculated that according to our economic and military strength at the time, we would only be able to hold up a year and a half at the most. They did not foresee that later on our finance would be unexpectedly strong. The Ministry of Finance, under Minister K'ung's planning, was able to supply the needs of the long War of Resistance with no fear of shortage, thereby stabilizing our military situation." (Kuo, 1980, p. 178)

Besides, foreigners were surprised that K'ung could have managed such an extraordinarily heavy and complicated task during the war. For example, Manuel Fox, an American Commissioner of the Sino-American-British Equalization Fund, said that K'ung's use of National Treasury money to supply 4 million officers and men with food and clothing, and at the same time to support the establishment of the rear base, was truly an unusually complex task. Further, with the

government budget increasing year by year, it was naturally very difficult to maintain the people's confidence in the legal tender. Even under these conditions, however, China continued paying its foreign debts as usual during the war. (Chiang Yung-ching, 1985, p.21)

Although these are not statistic figures, they are the words of authorities and thence they are evidence enough to ascertain K'ung's contributions.

Two final points need to be mentioned. First, the monetary development of China started later than that of other countries. In unified countries such as the Great Britain and Japan, an edict of the central government was enough to change the metallic standard system into the paper money standard system. (Chao, 1955, pp. 81–82) But in China, it took a long time (1935–1942) to get it done, and to uniform the nation's currency. The problem was not with the plan, nor with the execution, but with the political situation. The completion of the Northern Expedition only brought the nation into a nominal unity. In reality, the central government was unable to get its orders through. So K'ung adopted a gradual reform under the special situation. With his personal wit and charm, his good temper and proper respect for others, he was adeptly successful in getting his work done. (Cho, 1986, pp. 380, 409)

Secondly, after the Legal Policy was carried out, the legal tender was the managed paper money. Such form of money frequently ran the risk of being inflated once the government deficits appeared and issuance increased. But in fact, the issuance of the legal tender before the War did not increase drastically. (Wang, 1981, p. 59) Even the rate of foreign exchange remained constant between 1935 and 1938 when Shanghai and Nanking were lost to the enemy. (Wu Tze-chu, 1957, pp. 153–154) During the War, because of the enormous military expenses, the loss of prosperous territory, the insufficiency of foreign aids, the reduction of customs, salt taxes, and miscellaneous taxes, the government was forced to increase the issuance of the legal tender to meet the needs of the time and to save the country. Thus the inflation of the legal tender during the War was not a direct result of the monetary system, but one of War. Such phenomenon occurred in other countries when wars arose. It was beyond anyone's control.

NOTES

1. It has long been considered that H. H. K'ung came from a distinguished and wealthy family — a heritage of the richest family in Shanai (Meng, 1969, p. 3; Kuo, 1980, p. 3); that his grandfather, K'ung Ching-lin was the financial leader of the nation (Meng, p. 3; Kuo, p. 3); that K'ung Ching-lin had bought Shan-chin-yuan Remitting Shops in Taiku (Meng, p. 3; Kuo, p. 2, Wu, p. 19); and that the Yi-ho-hsin Remitting Shops owned by the K'ungs had a branch shop in Japan which was the only shop doing remitting business between China and Japan (Kuo, p. 3; Wu Hsiang-hsiang, 1985, p. 19). But all these are mere speculations which can neither be proved by the history of Shansi Remitting Shops nor by *the Chinese Yearbooks* of the time. According to a Japanese investigation, the 32 richest capitalists in Shansi in the late Ch'ing period did not cover the Taiku K'ungs. The richest capitalist in Shansi was the Hous (侯家) who owned over seven million sycee taels and the richest in Taiku was the T'saos (曹家) who owned over six million sycee taels. (*The Chinese Yearbook*, Japan First Issue, 1912). It was said that K'ung Ch'ing-jen (孔慶仁), H. H. K'ung's great-grand uncle, was one of the creators of the Chih-chen-hsin Remitting Shop (志成信), but he owned 1/34 stock only (Wei Chu-hsien, 1944, pp. 50–52). So in no way can we say that the K'ungs were the richest family in Shansi or in Taiku, and K'ung Ching-lin could never be the financial leader of the nation then. Furthermore, the Shan-chin-yuan Remitting Shop was established by the Chus who had over three million sycee taels of wealth and was the fourth richest family in Shansi. Shan-chin-yuan had some branch shops in Peking, Tienhsin, Shanghai, Chungking, Yangchow, Hsuehchow, Hanchow, Shashih, Chenkiang, but not in Taiku (Chen Chi-tien, 1937, pp. 71, 99–107). There were enough records to prove that Shan-chin-yuan was owned by the Chus from the late Ch'ing to 1926 (Chen Chi-tien, 1937, p. 194; *The Chinese Yearbook*, Ta-ya Lou-wen Kai ed., 1919, p. 1269; Juan Hsiang et. al. ed., 1923, p. 813; Ta-ya Lou-wen Kai ed., 1926, p. 856). Still, it is doubtful whether Yi-ho-hsin Remitting Shop was the only shop which managed the remitting business between China and Japan. For Ho-sheng-yuan Remitting Shop had branch shops in Osaka and Kobe (Chen, 1937, p. 98). So the K'ung's Remitting Shop could not have been the only remitting shop between China and Japan.
In 1936, K'ung ordered Wei Chu-hsien, a researcher of the Central Bank of China, to investigate Shansi remitting shops. Wei published the History of Shansi Remitting Shops in 1944. He praised the K'ungs in the preface, but in the book he wrote nothing about them while describing the 21 eminent people of Shansi (Wei, 1944, pp. 140–172).
In sum, there is little evidence for people to claim that H. H. K'ung had a distinguished family background of wealth. Besides, H. H. K'ung himself seldom talked about his childhood and family wealth. So the matter is still open to question.
2. But Howard L. Boorman said that K'ung received an M.A. in economics (1967, II: 264).
3. The amount of the loans was unknown, but according to Kuo Jung-sheng, the loan from the United States was 15 million dollars, that from the Great Britain 7 million pounds,

and that from France 40 million francs. See Kuo Jung-sheng, 1980, pp. 122–136.

4. The subject matter has been taken up by the present writer in his paper "The National Government and the Monetary Reform." Refer to Historical Commission of the Central Committee of Kuomintang, ed., *Conference Series of Chinese History and Culture*, 1984, IV: 132–144.

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