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Fishing in Troubled Water: Savings Business in China during the 1920s-30s

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I. Introduction: why interest rate didn't matter?

The Great Depression in 1929 did not hit China immediately because of Chinese currency was based in silver rather than in gold which most of the countries including Europe, America, and Japan based in gold standard. It was not until 1931 China began to suffer from the huge inflow of silver.¹ The fluctuation of silver, gold, securities, and government bonds, drew a lot of attention to the Shanghai capital market. Speculators hedged silver against gold or stocked land or bought/sold foreign exchange. As shown in the table 1, the price of silver in the world market dropped continuously from 1928 to 1931 and then rose from 1931 to 1935. The price of gold rose continuously from 1928 to 1931 and dropped from 1931 to 1935. The index of stock reached its highest at 1932 and lowest at 1935 whereas the index of bond reached its highest at 1935 and lowest at 1932. There created too many chances for speculating.

Table 1: Figures of Shanghai capital market, 1927-1936.

| Year | Daily interest rate % | Silver price at London @ounce in pence | Silver price at New York @ounce in US\$ | Gold price in Shanghai in CN\$ | Index number of stock (end of July 1931 = 100) | Index number of bond (end of July 1931 = 100) |
|-------------|------------------------------|---|--|---------------------------------------|---|--|
|-------------|------------------------------|---|--|---------------------------------------|---|--|

¹ Tai-Kuang Ho & Cheng-Chung Lai, "A silver lifeboat, not silver fetters: why and how the silver standard insulated China from the 1929 Great Depression," in *Journal of Applied Econometrics*, 31 (2016), pp. 403-419.

| | | | | | | |
|------|-------|-------|--------|----------|-------|-------|
| 1927 | 7.70 | 26.63 | 0.5668 | 520.10 | | |
| 1928 | 13.40 | 26.75 | 0.5849 | 497.30 | | |
| 1929 | 14.90 | 24.47 | 0.5331 | 541.30 | | |
| 1930 | 6.70 | 17.66 | 0.3846 | 766.90 | | |
| 1931 | 13.30 | 14.59 | 0.2901 | 1,018.00 | | |
| 1932 | 11.10 | 17.84 | 0.2749 | 1,008.70 | 79.21 | 61.71 |
| 1933 | 5.70 | 18.15 | 0.3501 | 901.19 | 71.46 | 78.39 |
| 1934 | 9.20 | 21.20 | 0.4817 | 967.87 | 65.31 | 97.92 |
| 1935 | 14.10 | 28.96 | 0.6432 | 920.37 | 57.11 | 98.25 |
| 1936 | 8.20 | 20.06 | 0.4510 | 1,143.79 | 57.65 | 90.70 |

Sources: *Statistical Abstract of the Republic of China 1940* (Chungking: Directorate of Statistics, 1940), p. 128; *Shanghai qianzhuan shiliao* (Materials of the Shanghai native banks) (Shanghai: Shanghai renmin chubanshe, 1960), pp. 628-9; Kong Min (comp.), *Nankai jingji zhisu ziliao huibian* (Collected materials of Nankai economic index number) (Beijing: Chinese Academy of Social Science Press, 1988), pp. 486-7.

Interest rate usually acted as an indicator of the cost of money and trend for inflation/deflation. It also helped the investor to judge the risk of investment.² The interest rate of Shanghai fluctuated greatly between 1927 and 1936. For example, from 1927 to 28, increased 74%; 1929-30, decreased 55%; 1930-31, increased 98.5%; 1932-33, decreased 42.3%; 1933-34, increased 61.4%; 1934-35, increased 53.2%; 1935-36, decreased 41.8%. So, it is not necessarily the drop of the interest rate echoed the constraint of the gold, securities and bonds market. For this reason, the rate of interest had not been a good indicator for investors to make investment. It is better to say, speculators did not really care much about the fluctuation of the interest rate, supposing the loss in the interest rate could be covered from the revenue of the speculation.

This paper discusses how savings institutions in China survived even at a time when interest rate dropped drastically, and how lottery savings became a major competition point for most of the banking institutions in China. This paper will argue

² Sidney Homer & Richard Sylla, *A History of Interest Rate* (Hoboken, N.J.: John Wiley & Sons, 2005).

why savings banking in Shanghai survived even in the time of the world depression, during the 1920s and 30s.

II. The French lottery savings in China

When interest rate did not act as a factor in the competition among the banking institutions, bankers then had to look for an alternative way to absorb capital from the market. Lottery savings was not introduced in China until 1912. The International Savings Society (hereafter abbreviated as ISS) was founded by a French Jean Beudin in Shanghai.³ The lottery savings launched by ISS rapidly spread all over China. By 1935, it had successfully absorbed a huge amount of 0.2 billion dollars. This aroused the interest of imitation and then competition. Starting from the mid of the 1920s, the Chinese government organized the Central Savings Society and enforced the postal savings in order to eliminate the influences made by the ISS.

Who is Jean Beudin? This man is said to have marked a revolution in the savings banking business in China. In 1929, his name was marked in *Men of Shanghai and North China* (1933) as follows:

Born November 25, 1880, in Paris, Member, Shanghai Club, Circle Sportif Francaio, Shanghai Race Club, Sporting Club (Paris). A resident of Shanghai for 25 years, Mr. Beudin is now Managing Director of two of the most important corporations in the city and was an organizer and founder of both of them. The International savings Society, a financial institution of vast resources, was established September 6, 1912, and the Assurance Franco-Asiatique, an insurance company was launched April 6, 1918. Both have been very successful. Mr. Beudin was educated at the Ecole des Hantes Etudes Commerciale, Bachelor of Sciences. He arrived in Shanghai on September 6, 1908, and until 1913, when the

³ The research of International savings Society is missing from the studies of French banking in China. See Hubert Bonin, "The French banks' activity in the Pacific area of Asia," in Olive Checkland, Shizuya Nishimura & Norio Tamaki (eds.), *Pacific Banking, 1859-1959: East meets West* (Basingstoke: Macmillan, 1994), pp. 61-74; Hubert Bonin, "French banking in Hong Kong: from the 1860s to the 1950s," in Shizuya Nishimura, Toshio Suzuki, and Ranald C. Michie (eds.), *The Origins of International Banking in Asia: The Nineteenth and Twentieth Centuries* (Oxford: Oxford University Press, 2012), pp. 124-144.

International Savings Society was started, was a partner in the firm Cohen & J. Beudin. He had military service with the 16th Regiment of Colonial Infantry. He is a chevalier of the login Honor.⁴

As according to the annual business reports, ISS used to make its reserve by investing in municipal loans and debentures, Chinese government bonds, shares, real estate, and loans to savings depositors. In 1918, ISS met with its competitor the Sino-French Savings Society (in French as Société Anonyme Chinoise de Capitalisation L'Epargne Franco-Chinoise), whose headquarters was located in Tianjin. However, eight years later, it was sold to its Chinese partners.

Table 2: International Savings Society (unit: CN\$)

| Year | Number of depositors | Investing capital | Profit |
|------|----------------------|-------------------|---------|
| 1928 | 80,659 | 30,566,937 | 290,000 |
| 1929 | 91,989 | 38,816,540 | 325,000 |
| 1930 | 106,669 | 51,794,640 | 340,053 |
| 1931 | 113,219 | 59,520,026 | 713,746 |
| 1932 | 115,979 | 66,566,886 | 743,484 |
| 1933 | 124,799 | 79,497,103 | 813,484 |

Sources: Shanghai Municipal Archives Q275-1-1820.

Since lottery savings became so popular during that time, Chinese merchants didn't lose any chances to compete with their rivals. Firstly, in 1921, Huang Chujiu (1872-1931) opened the Shanghai Day & Night Bank inside his amusement park in Shanghai called 'dashijie' (Big Big World), which was built in 1917. This bank was regarded as revolutionary since travelers of the park especially of wage workers, could easily save their money after work. In return, the bank had promoted the park by giving its depositors free admission tickets as incentive bonus. As shown by table 3, savings plan holders would receive the tickets which varied according to the amount and duration of the savings. Secondly, in order to counter balance the ever expanding ISS and the Sino-French Savings Society, four major Chinese commercial banks unified together to form the Joint Savings Society of the Yien Yieh, Kincheng, Continental, China & South Sea

⁴ George F. Nellisted (ed.), *Men of Shanghai and North China* (Shanghai: The Orient Press, 1933), p. 29.

Banks in 1923. The lottery savings as initiated by the ISS was greatly welcome by Chinese for two reasons: quick to accumulate wealth and obtaining incentive bonus.⁵

Table 3: Terms of the savings plans offered by the Shanghai Day & Night Bank in 1920s (unit: CN\$)

| Plans | Amount of savings | Duration | Interest | Bonus of BBW admission ticket |
|-------|-------------------|----------------------------|-------------------|-------------------------------|
| A | 100 (one-off) | 1 month (starting) | 10% monthly | 2 per month |
| B | 5 per month | 3 yrs/ 6yrs/ 9yrs | 30/ 166/ 452 | 3 per month |
| C | 50 (one-off) | 1 yr/ 2yrs/ 3 yrs | - | 3/ 6 /7 per month |
| D | 500 (one-off) | 1 yr/ 2yrs/ 3 yrs/ 5yrs | 50/ 120/ 200/ 400 | 20 per month |

Boom years of modern Chinese banking came in the two decades of the 1920s-1930s. Savings banking was no exception. Chinese savings banks competed to each other to absorb savings from the city households on one hand and transform them as investment in the capital market on the other. During 1928-1934, Chinese bankers made huge profits from speculating in the government bonds, foreign exchange, gold and real properties. In order to promote savings, a wide range of publicity methods had been used to circulate ‘savings’ ideas to the middle and lower class of people such as advertising through the mass media, running an open competition in composing thrifty songs, and giving practicable souvenirs. Coincidentally, China’s urbanization and progress in public transport development, together with the rise of middle class and awareness of leisure life and feminism, all contributed to the rapid expansion of savings banking.

III. State intervention

After China was unified in 1927, the central government tried by great efforts to launch a series of monetary reforms including setting up of the Central Bank of China in 1928; implementation of new banking laws in 1928 and 1934 respectively; enforcing postal savings in 1929; abolishing lottery savings in 1934; nationalizing both Bank of China and Bank of Communications in 1935; and pushing off the new currency ‘fabi’

⁵ Cases of grievances and complaints can be seen from Wang Zhishen, *Wo de chuxu jihua* (My savings plan) (Shanghai: Hsin Hwa Savings Bank, 1934), pp. 63-64; 115-116; 118-119.

(legal tender) in 1935. The purpose of the reform was to strengthen the control of financial resources in order to cover the government deficit as caused by huge military expenditure.

Chinese postal savings was modeled on Austria. In 1908, China sent a mission to Austria, to study the postal savings industry of Europe. It was not until 1918, China had its first postal savings ordinance. As indicated by the table 4, during 1929-1931, there were drastic changes of postal savings agencies in China. Firstly, administration was completely separated with the post office in 1929. Secondly, both the number and the amount of savings increased. The number of postal savings agencies increased from 206 to 399 in 1930 and from 399 to 566 in 1931. The amount of savings had been increased by six million and ten million in 1930 and 1931 respectively.⁶ However, the foreign owned savings societies were still the major competitor to postal savings agencies.

Table 4: Amount of savings and number of postal savings banks (unit: CNS\$)

| Year | Number of postal savings bank | Amount of savings |
|-------|-------------------------------|-------------------|
| 1919 | 81 | 108,626.05 |
| 1920 | 219 | 754,029.65 |
| 1921 | 334 | 2,132,249.33 |
| 1922 | 334 | 3,444,929.71 |
| 1923 | 358 | 4,649,279.12 |
| 1924 | 340 | 5,815,408.76 |
| 1925 | 340 | 7,747,127.03 |
| 1926 | 345 | 9,515,521.83 |
| 1927 | 263 | 8,268,595.03 |
| 1928 | 206 | 8,747,047.56 |
| 1929 | 206 | 11,436,934.00 |
| 1930 | 399 | 17,899,215.49 |
| 1931 | 566 | 27,822,074.32 |
| 1932 | 583 | 25,808,851.67 |
| 1933* | 586 | 25,397,057.71 |

Notes: until June 1933

Sources: Wang Zhishen, *Zhongguo zhi chuxu yinhang shi (History of savings banks in China)*, (Shanghai: Hsin Hwa Savings Bank, 1934), pp. 229; 232-233.

IV. Concluding remarks

⁶ Wang Zhishen, *Zhongguo zhi chuxu yinhang shi (History of savings banks in China)*, pp. 217-232.

Lottery savings was widely spread all over China in the 1920s-30s. It was a great success by Jean Beudin who found a niche of business in the Chinese money market, for he fully understood the Chinese psychology of ‘savings against risk’ and ‘savings for incentive bonus.’ The two French institutions namely International Savings Society and Sino-French Savings Society which started in China in 1912 and 1918 respectively, had successfully attracted a huge number of Chinese depositors. Lottery as a technique for promoting savings, was proved successful in every parts of China.

The great success of the International Savings Society aroused imitation from its Chinese counterparts. Chinese businessman liked Huang Chujiu, who owned the first Chinese amusement park Big Big World, built the first 24 hours bank in China in 1917. Huang launched his lottery savings by giving admission ticket of his park as incentive to subscribers of the savings plan. Nevertheless, other Chinese savings banks followed suit, as to absorb capital as much as they could in a time of highly speculation in the capital market.

In order to strengthen the government’s financial position, lottery savings was asked by Chinese economist Ma Yinchu to abolish in 1934 but without success. Together with lottery savings societies, general savings societies constituted about one-fourth of the total savings of the country. The lottery savings continued until 1949 when the communist regime born.



