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CHAPTER 1: INTRODUCTION

Transfers of goods and ideas at ever increasing speed are hallmarks of the modern globalized economy. Goods originally brought cultures in contact. By land and by sea, in orderly exchanges and through deception and violence, products moved about the world. This process connected societies in the premodern East and West. Across the globe, people gradually became aware of the existence of different material cultures, foods and traditions. The movements of goods, and their bearers, affected imaginations and altered societies. Initially a trickle, the traffic was diverse in scope, ranging from the humble potato carried from colonial Peru to fine porcelain exported from imperial China. Over centuries it grew into the torrent that is modern international trade. The transcultural effects of this movement of goods are well known and have received much scholarly attention.¹

The flow of ideas has received less attention. The economic significance of ideas is well recognized in the modern world, shrunken as it has been through improvements in the speed of communications, travel, and the shipment of goods. Rights in ideas are challenging physical goods for primacy in market valuation. “Intellectual property” constitutes a great part of the value of leading companies in many nations today. Ideas developed elsewhere have profound influence worldwide, in disparate fields such as medicine, telecommunications, entertainment, manufacturing, computers, law and banking. The flow of ideas is now comparable in importance to the flow of goods.

Great debates have been joined concerning innovation and the movement of ideas, especially from West to East. Specific conditions which favored scientific and technological development in the West in and after the fifteenth century have been noted,² as has the failure of Eastern science to continue the strong creative pace it demonstrated through the fourteenth and fifteenth centuries.³ Some of the facts that figure in these debates provided intellectual cover for nineteenth century imperialism, and as such the subject matter is sensitive. Western pretensions to innovative superiority have proven especially controversial in the areas of business and finance. The stern treatment of Asian nations by Western creditors in the 1997 Asian financial crisis sparked anger, and the apparent unraveling of parts of the Western financial model in the cycle of international economic crises that began in 2007 has left that model much discredited in the East.⁴

Some of these sharply contrasted and simply expressed notions of the spread and influence of ideas may simply reflect the present inadequate state of study of the subject matter. Our understanding of the transit of ideas between East and West is limited,⁵ in contrast to the abundant attention that has been paid to the movement of goods, both practical and artistic in character. While the tangible is by its nature more obvious than the intangible, it was not physical goods alone that traveled in the past.

1A. Subject and Framework

This study examines one example of the international flow of ideas. It considers a Chinese idea that came to New York State at a moment of banking and currency crisis in the early nineteenth century. A practice used by the Qing government to
regulate monopolized business inspired the first American bank deposit insurance statute, the Safety Fund Act of 1829. Joshua Forman, a respected former judge and legislator, told the New York legislature that:

“The propriety of making the banks liable for each other was suggested by the regulation of the Hong merchants in Canton, where a number of men, each acting separately, have by the grant of the government the exclusive right of trading with foreigners, and are all made liable for the debts of each in case of failure. The case of our banks is very similar; they enjoy in common the exclusive right of making a paper currency for the people of the state, and by the same rule should in common be answerable for that paper. This abstractly just principle, which has stood the test of experience for seventy years, and under which the bond of a Hong merchant has acquired a credit over the whole world, not exceeded by that of any other security, modified and adapted to the milder features of our republican institutions, constitutes the basis of the system.”

The New York statute became the basis in turn for national bank deposit insurance in the United States, implemented in 1933. Bank deposit insurance has since spread worldwide, and is now found in about one hundred nations. The progress of this “American” innovation was notably slow in Asia until very recent years, having been adopted, for example, by Taiwan but still not in China.

While this early transplant of a Chinese idea to the United States of America has received slight attention as a footnote to U.S. banking history, its full history has never previously been examined. This work is the first study of the origins and experience of the Chinese idea of collective financial responsibility at Canton and of its adoption and transplantation in the United States during the years through 1933. It seeks to answer several questions about this transplant. First, was the Chinese idea of collective legal responsibility for debt accurately transmitted to the New York legislature in 1829? Second, was the actual experience of the guaranty system at Canton accurately transmitted to the New York legislature in 1829? Third, do either the Chinese idea of collective legal responsibility for debt or the experience of the guaranty system that was enforced at Canton offer lessons for contemporary bank deposit insurance? In addition, with respect to the history of collective guaranty at Canton during the years 1780-1842, it asks: Who won, who lost, and why?

Consideration of the foregoing questions has required analysis of certain topics which have not previously been considered on their own. This is the first study of the collective guaranty of debt that was enforced between 1780 and 1842. It is the first study of the development and implementation of the regulations that constituted the Canton System from 1684 to 1842, and also the first study to set that system in the national Chinese context and to consider it as an operating system. Also new is the analysis of the debt collection rules that were made available to foreigners under the Canton System, and how they worked. The methodology of this study required the analysis of every instance in which hong failure resulted in a call on the collective guaranty, both as to the circumstances of the original underlying debt and creditor interests and as to the draw on the guaranty fund and its consequences.
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Debt, and various modes of guaranty of debt, individual and collective, are concepts of ancient origin. Guaranty systems, collective guarantees and early forms of proto-insurance are not exclusive to imperial China. They have existed in numerous places around the world at various points at time, sometimes with long pedigrees, as for example in ancient Rome and the Middle East. This study simply examines the course of one such idea as it traveled and was transformed as it went from China to the United States and then across the world. Other similar ideas have existed at other places and times and may indeed be relevant to certain adoptions of deposit insurance in providing a historical, cultural and legal context to such adoptions. These are nevertheless outside the scope of this work.

This first chapter introduces the reception of a Chinese idea by the State of New York in the context of parallel financial crises which occurred in the year 1829. Chapters Two and Three address, respectively, why and then how the system of collective financial guaranty that was enforced at Canton was developed. Chapters Four through Seven examine the Chinese system of unlimited financial guaranty as it operated at Canton during the eventful years 1780 to 1842. Chapter Eight traces the development of the idea in the United States, as it progressed from a state law guaranty program to national deposit insurance during the years 1829 to 1933. Chapter Nine provides a brief sketch of the international history of bank deposit insurance since 1933, and is followed by an Epilogue, numbered as Chapter Ten.

The “hong merchants” were the small group of Chinese merchants who were licensed by the Qing government to trade with Western merchants at Canton on a monopoly basis. The system of enforced unlimited collective guaranty of individual private debt is referred to in this study as the “Canton Guaranty System.” This concept is distinct from, but also was a key part of, the “Canton System,” a term which refers to the rules by which the Qing government managed the monopolized maritime trade between Canton and the West. The Canton System evolved gradually through rules set down starting in the early 1700s, first formalized on imperial approval in 1760. The Canton Guaranty System began in 1780 as an amendment, imposed over hong merchant resistance, to trading rules that were otherwise long in existence.

The experience of bank deposit insurance is relatively young, and so is its history. There is an enormous literature on various aspects of the sometimes troubled history of deposit insurance in the United States, but no full length history as of yet. While the quality of this material is typically quite high, a great part of it has been written as part of a debate that has run for over eighty years about the propriety of and reforms to the deposit insurance system of the United States. Much of the rest is framed as technical analysis of banking issues, presenting history in tandem with mathematical formulae. Generally speaking, this is a banking literature, written by people concerned about banking for consideration by others with comparable interests. The Chinese origin of bank deposit insurance is well recognized in this literature, but the topic has received almost no further comment. To the extent the idea has been addressed, a complete accuracy of transmission to New York State has been assumed, as well as a total success in operation at Canton. Writing in 1957, during what is now recognized to have been a period of calm in the American history of bank deposit insurance, banking historian Bray Hammond stated that “[t]he sorry consummation of the [New York Safety] Fund was not the
fault of the principle underlying it, which the Chinese had applied with so much
more success than the hasty New Yorkers.”

This lack of attention may reflect, in part, objective difficulties in accessing
source materials. Much of the Chinese history and experience of collective financial
liability was kept hidden from contemporaries. The ethnic Manchu Imperial
Household Department (neiwufu), the employer of the Hoppo who directly
supervised the Canton trade, the manager of several highly profitable businesses
monopolized by the Chinese state for the benefit of the imperial court, and the
recipient of a large part of the receipts of the Canton maritime customs, was largely
invisible to the Chinese people. In the words of Chang Te-ch’ang, its affairs were
kept secret, “almost a shrouded mystery.” Our knowledge of this and other key
Manchu administrative institutions has been and continues to be greatly advanced
by modern work with Chinese archival sources by scholars such as Chang, Preston
Torbert, and others, but much remains to be known.

The Western experience of the Canton trade and the operation of the collective
guaranty was also largely kept secret from contemporaries. The foreign traders
were engaged in a high value, long-distance intensely competitive trade. They were
compulsive diarists of the business they did, maintaining detailed current records
and reporting to and corresponding with others about such affairs. These records
were proprietary and highly confidential when they were made. They were never
shared with competitors, and the China traders certainly avoided public attention.
Edward Delano, a clerk with the American firm of Russell & Co., thus wrote his
brother in 1841: “If you think of ‘putting into print’ – my remarks &c. upon men and
things in general and China in particular, I may be under the disagreeable necessity
of discontinuing my remarks relative thereto – for be it known unto you that the
Americans who write home and have their letters published – are severely – (I mean
their letters) criticized – and the small community of true blooded Yankees resident
here, enabling them to discern the author without much difficulty.”

In addition, the passage of centuries has exacted a heavy toll on the trade records
that were kept. Private Chinese records of the Canton trade have been almost
entirely lost, along with the great part of the records kept by Qing officials,
casualties of fires, wars and domestic disruption. As a consequence, the history of
hong merchants is written primarily with information drawn from Western records.
While much of the Western records have also been lost, staggering amounts yet
survive, in repositories scattered across the world. The volume and diffusion of
these records, alone, pose substantial challenges to scholarship. One consequence
of the state of surviving primary source material is that our knowledge of the
activities of the hong merchants is fragmentary. They are seen as if in freeze frame
photography, caught at given moments in particular transactions about which little
else may be known. They are also seen from the standpoint of the records
themselves, that is to say, in the light of the purpose for which records were
required to be kept and maintained. Much information survives about crisis points,
such as demands for the payment of defaulted debt and the exercise of guaranty
rights, and less about the precise circumstances under which the obligations at issue
in a given crisis had come to exist.

As many of these records are devoted to problems arising in the trade, such as
loans past due or failures to perform as agreed, our knowledge of the hong
merchants therefore focuses primarily on the expense side of the hong merchant ledgers. No hong firm records have been found. With not a great deal more than fragments of transaction records from which inferences may be drawn, scholars have been left to make rough estimates of hong firm profit.\textsuperscript{16} This understanding is at least two steps removed from the trade in which these Chinese merchants were engaged--both by the passage of time and by the fact that it typically comes from non-Chinese sources. As a result, in this study, care has been taken to distinguish between sources which show specific experiences and sources which just say that things happened or are otherwise conclusory. The transactions and obligations at issue under the Canton Guaranty System were accounted for in the silver currency in which the trade was done, i.e., dollars (Spanish) or taels (Chinese ounce). There was inflation during the period of this study, but it was at a modest level.\textsuperscript{17}

1B. Previous Research

Generations of scholars have accepted the challenge posed by all of the scattered source materials left by the participants in the Canton trade. Patient research and the responsible reporting of that work has begun to dispel the nostalgic and often counterfactual fog that has too long obscured the history of Western trade with China. Hosea Ballou Morse opened up the records of the British EIC in his Chronicles of the East India Company Trading to China, 1635-1834, published in five volumes between 1926 and 1929.\textsuperscript{18} Louis Dermigny delved into French sources, producing the equally monumental La Chine et L’Occident: Le Commerce A Canton Au XVIIIe Siècle 1719-1833, published in four volumes in 1964.\textsuperscript{19} Jack Wills and Leonard Blussé have both brought forward large amounts of information from Dutch records, in numerous published works. Jacques M. Downs, who examined the scattered and bulky records of China traders from the United States, published his invaluable The Golden Ghetto: The American Commercial Community at Canton and the Shaping of American China Policy, 1784-1844 in 1997.\textsuperscript{20} The work of these and many other scholars has improved our understanding of the actual conduct of the Western side of the trade.

The history of the Chinese side of the trade has also been transformed through the work of generations of scholars. This process has been especially arduous, as so many of the original Chinese records have been lost. The work began with Henri Cordier, a French academic whose career started as a clerk with Russell & Co. in Shanghai. Cordier’s pioneering article, “Les Marchands Hanistes de Canton,” was published one hundred and ten years ago in 1902.\textsuperscript{21} Liang Jiabin, a Chinese scholar whose grandfather had been a hong merchant, devoted much of his career to disentangling their history. Liang wrote the History of the Thirteen Hongs of Canton (Guangdong Shisan Hang Kao), an important source which was published in two editions in Chinese, the first in 1937 and a revised edition in 1960.\textsuperscript{22} Ann Bolbach White produced the first history of the hong merchants in a Western language, “The Hong Merchants of Canton,” her 1967 University of Pennsylvania doctoral dissertation. White synthesized Western and Chinese source material, including records of the imperial court in Beijing. Her work stands as a useful introduction to hong merchant history.\textsuperscript{23} Dilip Kumar Basu followed with “Asian Merchants and Western Trade : A Comparative Study of Calcutta and Canton 1800-1840,” a doctoral dissertation completed at the University of California, Berkeley, in 1975. Basu’s work remains the leading analysis of the vital trade that was
conducted between Calcutta and Canton. It is also a key hong merchant work, both for the archival materials Basu brought to the topic and his understanding of the business problems the hong merchants faced.24

Hong merchant scholarship has taken enormous strides since these works were prepared. Two studies, published in the 1990s, began the process of opening up hong merchant history in such a manner that events that occurred between 1683 and 1843 can begin to be understood in meaningful individual detail. Kuo-tung Anthony Ch’en completed The Insolvency of the Chinese Hong Merchants 1760-1843 as his Yale University doctoral dissertation in December 1989, and the work was published in 1990. Noting that prior studies had been particularly weak on this topic, Ch’en examined hong merchant insolvency, which he called “the characteristic phenomenon of the history of the Hong merchants.”25 Ch’en’s work includes individual histories of many but not all of the hong firms. The year 1997 saw the publication of Weng Eang Cheong’s Hong Merchants of Canton: Chinese Merchants in Sino-Western Trade 1684-1798.26 The fact-rich Cheong volume is a historical study of the evolution of the hong merchant guild between 1683 and 1798. With the appearance of the Ch’en and Cheong works, hong merchant scholarship had generated studies comparable in depth and quality to the work produced by leading scholars of the Western side of the trade. Neither study attempts a regulatory or legal analysis of the Canton System, or of the collective guaranty of debt that was enforced at Canton between 1780 and 1842. The two works ask different questions about distinct but overlapping historical periods. While they contain considerable information about the subject matter of this study, that information is found in varied contexts throughout the pages of these volumes.

Like computer science, modern hong merchant scholarship has shown an ability to process large amounts of data at substantially higher levels of detail at regular intervals. The knowledge of the 1970s was greatly improved upon in the 1990s, and this process is recurring. The hackneyed old notion of unitary hongs doing a strictly individualized business under exotic trading names in accordance with the dictates of all-powerful Western firms is falling away. The work of Paul A. Van Dyke, notably The Canton Trade: Life and Enterprise on the China Coast, 1700-1845 (2005)27 and Merchants of Canton and Macao: Politics and Strategies in Eighteenth-Century Chinese Trade (2011),28 offers a view of a more complicated hong merchant world. This understanding shows hong merchants conducting substantial trade unconnected with their business with the West, illuminates shifting alliances among and competition between hong merchant families, and shows that the hong merchants traded variously on their own, in joint ventures, and in partnerships. Each of these elements can be found in the work of Ch’en and Cheong, and in some of the earlier studies as well, but an integrated picture is now coming together. As a result, the hong merchants are coming to be seen less as idiosyncratic curiosities of “Old Canton” and instead to be understood in the context of the larger Chinese trading world in which they did business. The present study seeks to continue these trends in recent scholarship by examining the regulatory and business experience of the regime of collective liability for foreign debt at Canton and placing it in an international context.

This study also seeks to place the regulation of the hong merchants in the overall context of Qing regulation of businesses monopolized for the benefit of the imperial
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court. Hints of the importance of national regulation appear in the literature. Liang Jiabin quotes his grandfather -- the hong merchant Kinqua -- as having told him that “The licensed merchants of the hong system were much like the Salt Merchants.”

Liang -- and Kinqua -- are correct. The system under which the hong merchants were licensed and regulated is notably similar to the systems under which the Manchu Imperial Household Department (neiwufu) managed the monopolized salt and ginseng businesses for the benefit of the imperial Court in Beijing. Indeed, the subject matter of this study -- collective financial responsibility among merchants for debt -- itself appears to have been a neiwufu transplant to Canton. It was first imposed on the head merchants of the ginseng monopoly in Manchuria in 1739, as a mutual liability to pay the state the value of any deficiency in the quality or quantity of collected ginseng. The practice then continued, presumably having been judged a success. A little over a decade later, collective liability was introduced in a preliminary manner in three aspects of the Canton maritime customs during the 1752-59 administration of Hoppo Li Yongbiao, a neiwufu bondservant.

The 1829 reception of a Chinese idea by the American State of New York was thus one stage in a long chain of transplants. Traditional Chinese concepts of collective responsibility had been employed by the Imperial Household Department as part of its regulation of several businesses monopolized for the benefit of the Emperor. After having been tested in the ginseng administration, and applied in certain aspects of the administration of the hong merchants in the 1750s, collective liability for the foreign debt of individual hong merchants was imposed on the guild on a general basis in 1780. The idea traveled to New York State in 1829 where it was adapted and used as a basis of the first bank deposit insurance program, which operated from 1829 to 1866. Various American states subsequently adopted guaranty fund bank insurance, inspired by the New York example, which existed for different periods and with uniformly poor success over the following century. In 1933, bank deposit insurance was implemented on a national level in the United States, under a system that adopted from and improved upon the guaranty fund model that was introduced in New York in 1829. Explicit bank deposit insurance programs have since been adopted in over one hundred countries worldwide, all based upon but varying in degrees from the “American” model of 1933.

This originally Chinese idea has traveled far, through Manchu, American and other hands. It has been repeatedly adapted to local situations, and has been used by many different societies at different times and places. Its reception in the West was as part of a contemporary trend of interest in Chinese ideas. This trend has been described by scholars such as Donald Lach and Edwin Van Kley, in Asia in the Making of Europe (1993) and A. Owen Aldridge, in The Dragon and the Eagle: The Presence of China in the American Enlightenment (1993). This international chain of uses and adaptations of a legal idea also conforms with the concept of “legal transplants” that was introduced by the scholar Alan Watson in his 1974 book under that title. Drawing principally from his substantial knowledge of Roman law, Watson showed the wide influence and diffusion of transplanted legal ideas. Moved from one place to another, in whole or in part, understood or misunderstood, transplanted legal ideas have often thrived in their new home. Watson tells us that “A successful legal transplant -- like that of a human organ -- will grow in its new body, and become part of that new body just as the rule or institution would have continued to develop in its parent system.” Under this
criterion, this series of transplants achieved technical success at any number of stages of its journey across time and cultures.

The idea arrived in the United States in the context of parallel financial crises that occurred in the year 1829. At Canton, in China, the group of hong merchants who were licensed to conduct China’s maritime foreign trade was depleted in number, deep in debt, and experiencing difficulty recruiting new members. In the State of New York, in the United States of America, a series of bank failures had raised concerns about the trustworthiness of the paper currency the state permitted private banks to print and circulate. Each crisis was different, and each was addressed by the responsible local authorities. Although the world was closely bound by ties of international trade in 1829 and information was moving with increasing speed between East and West, news of these crises did not travel. Just as the crisis in New York was unknown in Canton, the crisis in Canton was likewise unknown in New York.

1C. The 1829 Crisis in the State of New York

The New York crisis was primarily about currency. As the early United States lacked domestic sources of silver, the nation depended on private bank notes and on imported silver coins for its money supply. The bulk of the money in circulation in 1829 was paper banknotes issued by private banks. There were no national banknotes, and would not be until 1863. Bank failures, which became more common as banks themselves became more common, caused immediate pain on the street. When a bank failed its banknotes failed as well. New York had experienced multiple bank failures in the late 1820s, despite various attempted reforms including the imposition of double liability on the shareholders of failed banks. While some muttered against the use of paper banknotes at all, they were a practical necessity given the shortage of silver and the rapidly developing nation’s voracious appetite for money. The critical issue became keeping the paper currency sound, i.e., assuring the ready convertibility of banknotes into coined silver or gold.

Individual states licensed private banks which in turn issued banknotes. Tested by early bank failures, the states developed differing approaches to supervision of the proliferating banks and their circulating paper. The leading states recognized both that a sound currency supported commerce, and that it would spur economic development. In the nineteenth century much of the business of America was focused on development -- of land, infrastructure, trade and manufacturing. That development required an adequate supply of sound money.

A banking crisis was looming when Martin Van Buren was sworn into office as Governor of the State of New York on 1 January 1829. Alarmed about the condition of the state’s banks, the legislature had denied all applications for either the issuance or renewal of bank charters in 1827 and again in 1828. The charters of the majority of New York’s banks were up for renewal within the next two or three years, and there was deep concern that some of these banks were in an unsafe condition.

At this juncture, Governor Van Buren was approached by Joshua Forman with a proposal for a bank deposit insurance program. Forman was a respected public figure with financial experience developed as a lawyer, merchant, judge, real estate developer (founder of the City of Syracuse), legislator, and proponent of public improvement projects, notably the Erie Canal of which he was an early advocate.
The Governor was impressed, and by the end of January 1829 he had submitted Forman’s proposal to the legislature as “worthy of your deliberate attention.”

The plan took its inspiration from the “regulation of the Hong merchants in Canton, where a number of men, each acting separately, have by the grant of the government the exclusive right of trading with foreigners, and are all made liable for the debts of each in case of failure.” According to Forman, the Canton Guaranty System had “stood the test of experience for seventy years” and had given the hong merchants rock solid credit worldwide. The promise to pay of a “Hong merchant ha[d] acquired a credit over the whole world, not exceeded by that of any other security.” The plan he proposed, which called both for deposit insurance and for public supervision of the insured banks, made rapid progress through the New York legislature. It was approved with amendments in March and was signed into law on 2 April 1829. Under the Safety Fund system, every bank chartered by the State of New York was required to remit one half percent of its paid-in capital to the Safety Fund annually until it had contributed a total of three percent of capital to the fund. If a bank failed, its assets would be liquidated and the Safety Fund would pay as much as was necessary to satisfy all claims against the failed bank.

1D. The Crisis in the Chinese Port of Canton: 1829

The year 1829 found the experiment with unlimited collective liability for foreign debt at Canton approaching its fiftieth anniversary under great stress. Since the early 1700s, the conduct of China’s maritime trade with the West had been vested in a small monopoly group known as the hong merchants. The Chinese government required the hong merchants to monitor foreign merchants and to collect taxes as a condition of their trading license. In addition to conducting an enormous import and export trade, these merchants also functioned as a bottom tier of the Chinese civil bureaucracy, serving as “quasi diplomats” (in the words of Weng Eang Cheong), mediating between restive Western traders and officials posted to Canton by the Qing government.

Success as a hong merchant thus required both: (1) strong skills as an export/import commodity trader; and (2) knowledge of and the ability to work within the regulatory constraints of the “Canton System,” the rules which governed China’s maritime trade with the West. The “Canton System” was thus similar to many regulated businesses of the present day. Knowledge of government regulations combined with the ability to work smoothly with sometimes demanding regulators could be every bit as important as skills in the stated line of business.

By 1829, the viability of the hong merchant monopoly was threatened. The volume of trade had soared since 1780, but so too had financial demands on the hong merchants individually and as a guild. Since 1780, the hong merchant body had been required to pay all the foreign debts of any member who became insolvent. The mechanism used for repayment was the Consoo Fund, maintained by the guild, which was to have been funded through a levy imposed on the trade (the hangyong), originally set in the amount of three percent (3%) but often collected in a higher amount. The original stated purpose of this tax was to fund the guaranty of foreign debts as well as other obligations due from the hong merchants to the Qing state. The burden of taxation on the hong merchants, both collective (hangyong) and direct (individual exactions) had since grown, driven both by...
mounting needs of the government in the difficult years of the early nineteenth century and by official venality. The high level of taxation had driven much legitimate trade -- in tea and other commodities -- outside the monopoly and into the hands of unlicensed “outside shopmen.” The outside shopmen offered sharply lower prices for quality staple goods, and arranged either to smuggle them onto purchasers' ships or to deliver the discounted goods through weak “junior” hongs (while bribing hong proprietors and customs officers to look the other way). This unlicensed competition reduced effective tax collections and had the effect of increasing the tax burden on the residual legal trade.

At one time, membership in the thirteen hongs had been seen as a path to riches. By 1829, however, the prospect of becoming a hong merchant had long lost attraction on the streets of Canton. The official trading license was expensive, came with a high risk of financial loss (and dreadful penalties after failure), offered little prospect of a reasonable return on investment, and, even if one succeeded against these odds, it had been impossible since at least 1815 to retire from the guild or to withdraw one’s capital.

As of 1829 the hong merchant body had dwindled to seven firms, of which only three were truly solvent. In that year, Governor-General Li Hongbin directed the hong merchants to recruit substantial people from among their friends. While the call produced some shaky recruits, it did not strengthen the hong merchant guild or arrest its decline. Individual hong merchant failures continued in the years that followed, and their debts continued to be shifted to the surviving hongs under the collective guaranty. Within thirteen years, the Canton System and the Canton Guaranty System were over, terminated by the treaties signed at the end of the First Anglo-Chinese (Opium) War of 1839-1842. Licensed “hong merchants” had no further role in the maritime foreign trade of the port of Canton. The total accrued liability for foreign debts of failed hong merchants as of 1842 was discharged with a lump sum payment of $3 million in cash delivered to the British consul at Canton on 23 July 1843.


2 Daniel Chirot, “The Rise of the West,” American Sociological Review, Vol. 50, pp. 181-195 (1985), p. 192 (“The contribution made by practical problems of navigation and trade should not be underemphasized as causes of the scientific revolution, but neither should the long preparation and search for rational solutions in the Western tradition. It was the unique combination of the two, combined with relative intellectual freedom in some European centers of learning, that distinguished the West from other potentially scientific civilizations.”).
3 Kent G. Deng, “Development and Its Deadlock in Imperial China, 221 b.c.–
David S. Landes, “Why Europe and the West? Why Not China?,” The Journal of
Economic Perspectives, Vol. 20, pp. 3-22 (2006), p. 21 (“Even so, the fact that
Western Europe caught up with and passed China, leaving it far behind, has
distressed numbers of Asia specialists. These have sought to exonerate China of the
sin of failure either by blaming Europe (the crimes of imperialism) or by denying
(delaying) the alleged Chinese shortfall, while stressing the many technological and
scientific contributions of Asia to European civilization.”); Justin Yifu Lin, “The
Needham Puzzle: Why the Industrial Revolution Did Not Originate in China,”
(“The question, then, is why the many gifted of China’s large population, with the
advantages of superior early achievement, did not make the transition to the new
methodology in the fourteenth, fifteenth, seventeenth, or eighteenth centuries. The
key to this problem lies in various factors that inhibited the growth of modern
science in China.”).

4 See, for example, Reg Little, “Confucian Reconstruction of Global Economics
and Finance,” Culture Mandala: Bulletin of the Centre for East-West Cultural &
financial innovation”).

5 The flow of ideas has received some treatment, in works such as Lach and Van
Kley’s Asia in the Making of Europe, Gordon’s When Asia was the World, A. Owen
Aldridge, The Dragon and the Eagle: The Presence of China in the American
Enlightenment (Detroit: Wayne State University Press, 1993) and Joanna Waley-
Cohen, The Sextants of Beijing: Global Currents in Chinese History (New York: W.
W. Norton & Co., 1999). There have also been a few studies of specific transits, such
as the transmission of Chinese concepts of collective responsibility to Russia by the
Mongols in the thirteenth century, Horace W. Dewey, “Russia’s Debt to the Mongols
in Suretyship and Collective Responsibility,” Comparative Studies in Society and
History, Vol. 30, pp. 249-270 (1988), and the influence of traditional Chinese
programs for the warehousing of agricultural surpluses on agricultural reform in
the United States in the 1930s. Derk Bodde, “Henry A. Wallace and the Ever-
the American Ever-Normal Granary may fairly be said to have taken not only its
name and part of its practice from its ancient Chinese prototype, but to share with
the latter much of its underlying philosophy.”). Bodde, who received his Leiden
doctorate in 1938 and was a leading scholar of Chinese law, closed the cited article
with an “Additional Note” concerning a similar surplus program that was instituted
in Prussia in the early 1700s, which he thought might reflect a Chinese influence
born of the enthusiasm for China shared among certain German thinkers of the era.
The author is grateful to Jonathan Goldstein for bringing the Bodde article to his
attention.

6 Martin Van Buren, The Message of His Excellency Gov. Van Buren on the
Subject of Banks; with the Plan Suggested to Place them Under Proper Regulations,
Secure the Public from Loss by Failure, and Furnish a Sound, Well Regulated
Currency; Made to the Assembly, January 26, 1829 (Albany, N.Y.: Croswell & Van
Benthuysen, 1829), p. 23.
The analysis contained in Chapter Eight merely dips an oar into this complicated history. Its purpose is simply to establish the context for parallels between historical guaranty experience and post-1933 deposit insurance experience which are noted in Chapter Nine. The histories of bank deposit insurance in each of the hundred plus nations which have implemented such programs to date, some fascinating, merit full studies in their own right. It is hoped that the present work, by exploring the Sino-American prehistory of all modern bank deposit insurance, may prove useful to the authors of such studies when they are prepared.


9 R. Randle Edwards, “Ch‘ing Legal Jurisdiction Over Foreigners,” pp. 222-269 in Jerome A. Cohen, R. Randle Edwards and Fu-mei Chang Chen, eds., Essays on China’s Legal Tradition (Princeton: Princeton Univ. Press, 1980), p. 244 (although many Chinese regulations and edicts were translated and known to the foreign traders, there were still many edicts “which were for official eyes only and were not transmitted to the foreigners.”).


The calculation of inflation over the period of this study is an extremely complicated subject, made the more difficult by occasional sharp year to year changes in domestic Chinese and imported agricultural and other commodity prices, and by shifts in the value of metal currency itself, notably copper. Marks, "Rice Prices," p. 68 ("The difficulty that the Chinese practice of converting copper prices into silver introduces is that the exchange ratio between copper and silver was constantly changing, although a complete time series is not available. While the official exchange rate was pegged at 1000 copper cash to one ounce of silver, during the eighteenth century the exchange rate ranged from about 700 to 1200 copper cash per ounce. What this meant is that if copper depreciated relative to silver, the copper price of one unit of rice increased while the silver price remained constant.").


27 Paul A. Van Dyke, The Canton Trade: Life and Enterprise on the China Coast, 1700-1845 (Hong Kong: Hong Kong Univ. Press, 2005).


29 Sung, “Study of the Thirteen Hongs,” pp. 78-9 and 31 (“the monopoly system of the Hong Merchants in fact also followed the monopoly system of the Salt Merchants.”).

30 The significance of the Mongols, of which the Manchu were a part, in the transmission of ideas has received some scholarly attention, and deserves further study. See Jack Weatherford, Genghis Khan and the Making of the Modern World (New York: Three Rivers Press, 2004); Bertold Spuler, The Mongols in History (New York: Praeger Publishers, 1971); Dewey, “Russia’s Debt to the Mongols.”
32 Aldridge, The Dragon and the Eagle, p. 268.