

# A Study on Private Money

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## Abstract

- We will examine the history of private money including the private banknotes in the United States and the ration coupons in China.
- We will then compare the Free Banking Era (1837 -1864) in the United States with the private money period in China (1950s -1990s) to identify the similarities and differences.

## Free Banking Era in the US

### ❖ History

- The charter of the Second Bank expired in 1836, which indicated the ending of the central banking in the U. S.
- Then in 1836, Michigan State first enacted the Free Banking Act, following by New York and Georgia in 1837. On the eve of the Civil War, over half the states already had free banking laws.
- The Free Banking Act reduced the liability for bankers to pass through the legislature and provided banks with the right of printing their own money – banknotes.



### ❖ Wildcat Banking

- Wildcat Banking, a kind of banking fraud, means bankers established banks in inaccessible locations "where the wildcats roamed." These banks purposely issued notes much more than what they planned to redeem, and the issuers then disappeared.

### ❖ The Ending of Free Banking Era

- As poor credit spread, the Free Banking Era was on the edge of collapse. A wave of bank failures ensued, eventually resulting in the Financial Panic of 1837.
- To curb the proliferation of financial panic, the government began to regulate the banking industry. In 1863 and 1864, the National Banking Acts were enacted, which established a system of national banks, and ended the chaotic Free Banking Era.

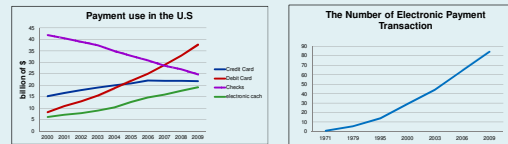
### ❖ Reflection on Free Banking Era

- Consumers benefited from the decentralized currency production because it led to less inflation and more economic stability.
- Most economists, however, have judged the experiment of free banking a failure.

## The Electronic Cash

- Electronic cash, or "e-cash," a newly emerged "private money", is a digital representation of money and may reside on a smart card or an electronic account. Using special readers, stored monetary value will be subtracted from the card on accounts when a purchase is made.

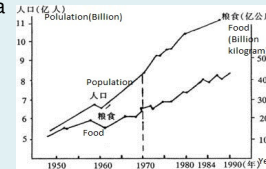
### ❖ Trend of Electronic Cash



## The Private Money in China - Rice Coupons (1950s-1990s)

### ❖ The Reason for Rice Coupons to Arise

- The ending of wars led to a great population explosion in 1949.
- The food production increased slowly due to natural disasters, unstable political environment, and the outdated technology.



### ❖ A Picture of Real Rice Coupon

#### Front



#### Back

- This grain coupon can be redeemed for any grains or grain-made products nationwide.
- Your purchases are constrained to certain types of supply that local food department provides.
- The face value of this coupon indicates the value of final food product.
- This coupon is non-transferable. It is invalid once modified. If it is lost, you cannot get a new one issued for any reason.



## Comparison between Private Money in the U.S. and China

### ❖ Similarities

- Wide range of private issuers
- Both types of the "private notes" worked as the medium of exchange in both countries
- A certain conversion ratio existed between private notes and fiat money

### ❖ Differences

	United States	China
<b>Redemption</b>	Legally redeemable to other currency	Illegally redeemable to other currency
<b>Reason to appear</b>	Responses to the destruction of the Second Bank of the United States	Severe shortage of supply and increasing demand for food after the China Civil War
<b>Reason to resign</b>	The National Banking Acts were enacted to curb the proliferation of financial panic	The stress of high demand and low supply for food was largely relieved

## Conclusions

- In this paper, we study two historical examples of private money, i.e. the banknotes in the United States, and the rice coupons in China, as well as a newly emerged type, the electronic cash.
- We try to fill the gap in the literature by mainly investigating the origination, circulation and withdrawal of rice coupons in China between the 1950s and the 1990s.
- We also try to gain deeper understanding of private money by comparing private money between the United States and China.



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