

UNDERSTANDING THE RISE AND FALL OF PAPER MONEY IN YUAN CHINA, 1260-1368¹

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Abstract

Yuan China (1271 to 1361) was the first minority-led dynasty that ruled the entire Chinese empire which brought profound influences on China's culture, economy, and politics.² While the arrival of Mongols was often regarded as a disturbance of China's economic revolution since the Song dynasty (960-1271), they brought territorial unification of China proper in north and south after a century's split caused by warfare. Besides this, by introducing silver-convertible paper money, Mongols combined their long traditions of using silver as media of exchange with China's existing paper money regime and enabled China to depart from a bronze coin's economy into a silver backed paper money economy (Von Glahn 1996 p.58.).

Yuan is the first political regime in history that pegged paper money to precious metal and is the first that deployed the fiat money as the sole legal tender.³ On the basis of a wealth of printed primary sources, this paper studies the evolution of Yuan's monetary regime, examines the relationship between paper money issues and the government's fiscal constraints, investigate test factors that correlated over-issuance.

Drawing on new archival data on money issues, imperial grants, and prices, we show that in a first stage, a silver standard consolidated the Chinese currency market. But persistent fiscal pressures eventually compelled rulers to ease the monetary standard, and as expectations changed, a pure fiat standard was adopted. We show the role that military pressure played in generating fiscal demands which led to over-issuance and reject imperial grants in triggering the overissue of paper money. Moreover, our study reveals that pegging to silver effectively regulated Yuan's paper money issuance. However, persistent fiscal constraints compelled Yuan rulers to gradually abandoned silver convertibility, which quickly resulted in the over

² Mongols are not the first ethnic-minority group that dominated China but they are the one that controlled both North and South China proper and subjugated Chinese to Mongol political and social dominion. Before Mongols, an ethnic minority Xianbei from the northern frontier steppe controlled Northern China and established Northern and Southern Dynasties (386–589). Emperors of two following dynasties Sui (581-618) and Tang (618-907) descended from hybrid Chinese-Xianbei.

³ Here worth mentioning that, although copper coins were prohibited by the government through most of the time, evidence from archeological sites shows copper coins were used by commoners from time to time, especially in the last two decades of Yuan's regime. In 1309, two types of copper coin, known as *Zhida Tongbao* and *Dayuan Tongbao*, were issued along with the third paper money, *Zhidachao*. However, in less than two years, these three currencies were abolished altogether with the first paper money, *Zhongtongchao* and second paper money, *Zhiyuanchao*, reissued. Besides this, in 1350, when the fourth as well as the last paper money *Zhizhengchao*, was announced, a new copper coin, *Zhizheng Tongbao*, was issued. Because of the hyperinflation, *Zhizheng Tongbao* and copper coins which issued by previous dynasties, were preferred by people to paper money.

issuance and subsequent devaluation and the paper money had to be re-issued four times with the new ones to replace the old ones. By the time the Ming regime toppled Yuan in 1368, paper money was virtually worthless, and towns and cities were resorting to a barter economy.