

# Comment on:

“The Rise and Fall of Paper Money in Yuan China,  
1260-1368”

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# A common refrain ...

- “Your economics doesn’t work here.”

# This paper

- Economics **does** work in explaining Yuan, China, 1260-1368
- Professor Wu uses novel data to:
  - Explore the emergence and eventual decline of silver-based and fiat paper currency, issued under the Mongol-ruled Yuan dynasty.
  - Enrich our understanding of macroeconomics by examining a distinct institutional and cultural setting.

# This paper's major findings

1. Paper money was a successful regime for an extended period in Yuan, China.
2. When fiscal demands surged, rulers sometimes used the over-issuance of paper money to fund those expenditures.
3. Over-issuance undermined the silver and fiat standards.
  - These results hold when civil wars triggered fiscal spending.
  - But not when other conflicts, natural disasters, or imperial grants did.

# My remarks

1. Advocate for:
  - Viewing over-issuance in a broad public finance context.
  - Researching the economic ramifications of over-issuance.
2. This approach raises questions about:
  - Yuan China.
  - The applicability to current challenges in China.

# Public Finance

Seigniorage is one revenue source.

# Seigniorage predates Yuan China

- Cassius Dio's Roman History (233 AD)
  - Emperor Caracalla introduced a new coin to pay for his wars, declaring it was worth 2 denarii; but it only contained slightly more silver than 1 denarii.
  - This caused social discontent and inflation.
  - Many such examples during the Roman Empire (albeit not based on paper).
- **Aside question:**
  - Debasement did not occur in Ancient Athens.
  - Why?

# Public Finance: Other Taxes:

**These were used by Rome, Mongols, and many others:**

- Taxation: land, wealth, etc.
- Tribute/Plunder/Taxes: Conquered territories.
- Forced requisitions, seizures, and expropriations.
- “Unpaid” labor.



# Public Finance: Other Taxes:

## Questions:

1. What induced Yuan, China to use seigniorage—rather than boosting revenues from these other sources?
2. Sometimes they did, sometimes not. Why?
3. How do these reasons compare to other regimes across space and time?

# Public Finance: Debt

- Debt can smooth the impact of expenditure surges.
  - Potentially reducing reliance on the inefficient revenue sources.
- Long history:
  - Liquid sovereign bond markets are relatively recent and rare.
  - However, voluntary and involuntary loans from wealthy families were common historically, including (I think) in Yuan, China.

# Public Finance: Debt

## Questions:

- Was debt employed during fiscal stresses in Yuan, China?
- Why did it fail to prevent the over-issuance of paper money?

# Benefits of money

... and the ramifications of debasement

# Benefits of well-functioning money

Lowers transaction costs and price uncertainty

- Extends the market
- Fosters specialization
- Encourages productivity improvements and welfare improvements.

# Benefits of well-functioning money

## Questions about Yuan, China:

1. Is there evidence that stable(a) silver-backed and fiat paper money had these effects?
2. Is there evidence that over-issuance harmed the economy by reducing the functioning of paper money?
3. Did the importance of money shape public finance deliberations when fiscal expenditure demands arose?

# China today

Does assessing Yuan China have implications for today?

# Current challenges in China

- Modern China also faces fiscal challenges.
  - Infrastructure, military, social welfare, etc.
  - Significant real estate failures.
  - Local government financing vehicles have significant debts.
  - The looming fiscal demands of a rapidly aging population.
- Revenue
  - Various direct taxes: VAT, corporate taxes, etc.
  - Some financial repression via SOBs, SOEs, and other credits.
  - From my limited understanding, monetization is not important.



# Question about Yuan and Current China?

- Are there distinct lessons from Yuan China for China today?
- I ask because there is considerable evidence about the causes and consequences of monetization from:
  - Cross-country evidence over the last 50 years.
  - Case-studies over the last 200 years.
- Thus, Wu's study demonstrates the consistency of economic theory in a different institutional setting, does it offer distinctive lessons for China today?

# Conclusions

- Going forward, I would benefit from Professor Wu teaching me more about:
  - How a broader approach to public finance informs the choices made in Yuan, China.
  - The implications of changing the effectiveness of the medium of exchange altered economic behavior in Yuan, China.
  - Whether there are lessons for modern China, beyond confirming modern evidence on over-issuance.