

The Invention of Paper Money

- 1 Paper money is an invention of the Song Dynasty in China in the 11th century CE, nearly 20 centuries after the earliest known use of metal coins. While paper money was certainly easier to carry in large amounts, using paper money had its risks: counterfeiting and inflation.



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Earliest Money

The earliest known form of money is also from China, a cast copper coin from the 11th century BCE, which was found in a Shang Dynasty tomb in China. Metal coins, whether made from copper, silver, gold, or other metals, have been used across the globe as units of trade and value. They have advantages—they are durable, difficult to counterfeit, and they hold intrinsic value. The big disadvantage? If you have very many of them, they get heavy. For a couple

thousand years after the coins were buried in that Shang tomb, however, merchants, traders, and customers in China had to put up with carrying coins, or with bartering goods for other goods directly. Copper coins were designed with square holes in the middle so that they could be carried on a string. For large transactions, traders calculated the price as the number of coin strings. It was workable, but an unwieldy system at best.

Paper Money Takes the Load Off

- 3 During the Tang Dynasty (618-907 CE), however, merchants began to leave those heavy strings of coins with a trustworthy agent, who would record how much money the merchant had on deposit on a piece of paper. The paper, a sort of promissory note, could then be traded for goods, and the seller could go to the agent and redeem the note for the strings of coins. With trade renewed along the Silk Road, this simplified cartage considerably. These privately produced promissory notes were still not true paper currency, however.

- 4 At the beginning of the Song Dynasty (960-1279 CE), the government licensed specific deposit shops where people could leave their coins and receive notes. In the 1100s, Song authorities decided to take direct control of this system, issuing the world's first proper, government-produced paper money. This money was called *jiaozi*.

Jiaozi under the Song

- The Song established factories to print paper money with woodblocks, using six colors of ink. The factories were located in Chengdu, Hangzhou, Huizhou, and Anqi, and each used different fiber mixes in their paper to discourage counterfeiting. Early notes expired after three years, and could only be used in particular regions of the Song Empire. In 1265, the Song government introduced a truly national currency, printed to a single standard, usable across the empire, and backed by silver or gold. It was available in denominations between one and one hundred strings of coins. This currency lasted only nine years, however, because the Song Dynasty tottered, falling to the Mongols in 1279.

Mongol Influence

- The Mongol Yuan Dynasty, founded by Kublai Khan (1215-1294), issued its own form of paper currency called *chao*; the Mongols brought it to Persia where it was called *djaou* or *djaw*. The Mongols also showed it to Marco Polo (1254-1324) during his 17-year-long stay in Kublai Khan's court, where he was amazed by the idea of government-backed currency. However, the paper money was not backed by gold or silver. The short-lived Yuan Dynasty printed increasing amounts of the currency, leading to runaway inflation. This problem was unresolved when the dynasty collapsed in 1368. Although the succeeding Ming Dynasty (1368-1644) also began by printing unbacked paper money, it suspended the program in 1450. For much of the Ming era, silver was the currency of choice, including tons of Mexican and Peruvian ingots brought to China by Spanish traders. Only in the last two, desperate years of Ming rule did the government print paper money, as it attempted to fend off the rebel Li Zicheng and his army. China did not print paper money again until the 1890s when the Qing Dynasty began producing *yuan*.

VOCABULARY:

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Counterfeiting: Falsificación

Cast: Fundido

Customers: Clientes

Buried: Enterrado

Bartering goods: Trueque de bienes

Load off: Quitar peso

Trustworthy: Confiable