

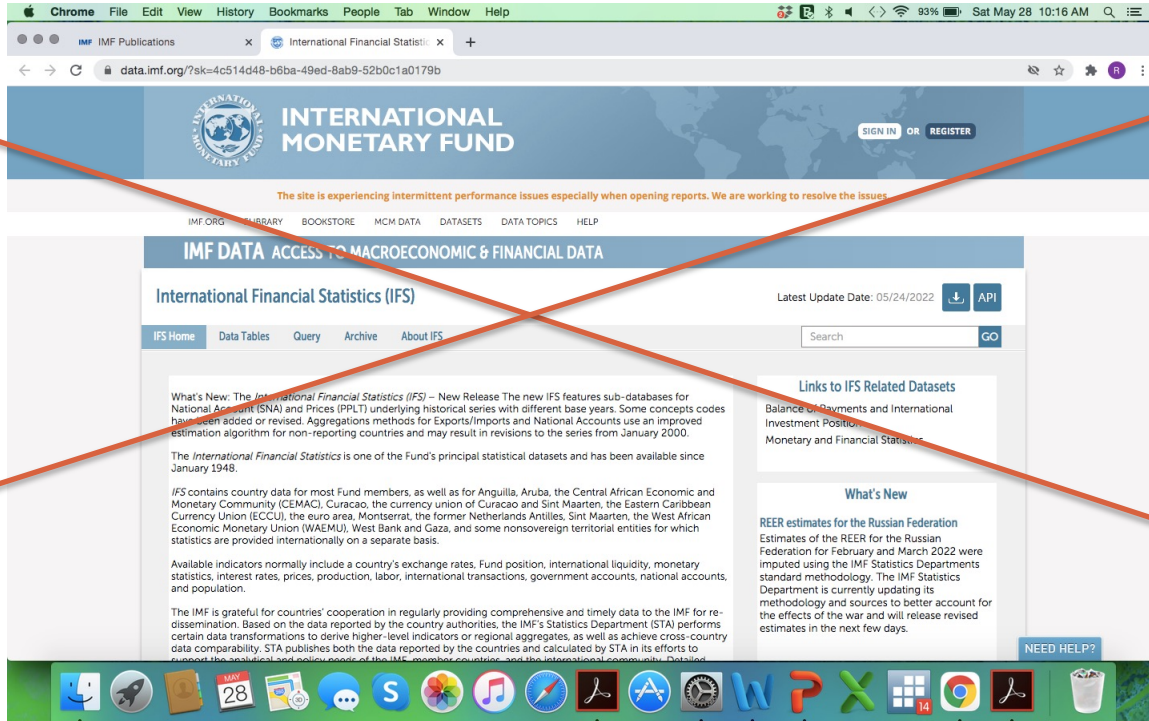
**Comments on**  
**Matthew Lowenstein's**  
**Paper Money in the Late Qing and Early Republic**

Ross Levine

# The paper's findings and contributions

1. **History:** Widespread use of privately issued paper money (PIPM) between about 1800 and 1920.
  - Ends debate?
2. **Economics:** Acceptance of PIPM relied on:
  - a. A legal system that treated paper money as a debt contract and enforced it.
  - b. Privately-organized institutions that screened and monitored issuers.
    - Considerable evidence that the law and privately organized institutions combined to foster widespread use paper money for over a century.
3. **Political Science:** PIPM & private institutions co-evolved with trade; Not created by the state or statute.
  - Haber, Elis, and Horrillo on economic and political systems
  - Keyssar (2000): voting rights & economics; McCraw (1984): regulation & commerce; Rakov (1996): U.S. constitution; Starr (2004): media & politics.

# How does Matthew make these contributions?



# How does Matthew make these contributions?

- Literature: Novels religious tracts, memorials, etc.
- Illustrative details on the operation of the law.
  - Treatment of paper money as debt with unlimited liability.
  - Details on bankruptcy cases.
- Illustrative details of operation of private, self-regulating institutions
  - Screening and monitoring
  - The development of liquidity provision mechanisms
  - Spread of such institutions across China
- Tracing the precise route of paper money and digging into the technology of printing paper money.

# Question 1: Why didn't Qing monopolize paper money?

- Song dynasty (960-1279): State monopolizes paper money and over issues.
- Yuan 1271-1368): Ditto.
- Ming (1368-1644): Ditto.
- Qing (1644-1912): Not Ditto.
  - PIPM succeeds
  - Taiping rebellion (1850-65)
    - State over issues paper money, discontinued by 1861.
    - PIPM continues to flourish

- What differed in the Qing dynasty relative to Song, Yuan, & Ming dynasties?
- Why didn't the state issue (over issue paper money) for a century?
- Relevant for the economic and political economy contributions

## Question 2: Why did it work?

- Qing (1644-1912): PIPM with a sound legal system and private self-regulations works for a century.

### Paper's answer:

- The state provided a sound legal system.
- The state did not intervene (for reasons associated with the first question).
- Markets flourished.
- An answer likely to elicit sympathy among many here.

## Question 2: Why did it work?

- Qing (1644-1912): PIPM with a sound legal system and private self-regulations works for a century.

But, just to dig a bit:

- If I understand correctly, Shanxi banks and merchants had a close connection with the Qing authorities. Banks even helped the imperial court collect taxes.
  - When they appealed to authorities to resolve their disputes in ways that supported PIPM, does this illustrate a sound, objective legal system, or the political connections of a powerful constituency?
- Or is it misguided to think of a sound, objective legal system outside of politics?

## Question 3: Did it work?

“They restricted membership to local firms of impeccable creditworthiness. Only a firm of sufficient capitalization and sterling reputation—the latter earned either by its own track record or that of its investors and managers—would be accepted into the association.”

- Did local segmentation inhibit the formation of national capital markets?
- Could the private self-regulatory institutions that allowed PIPM to function efficiently at a local level scale to support a national capital market?



## Question 4: What changed in the 20<sup>th</sup> century?

- Republican (1912-1949) period:
  - PIPM continues and only starts to change around 1920
  - By 1935, unified, state issued fiat currency
- Did state have a greater need for revenues? What political changes allowed the state to eliminate PIPM?
- Did bank failures lead to a growing distrust of PIPM and the effectiveness private self-regulatory institutions? If so, why did these institutions fail?
- Did market exchanges evolve in ways that made private self-regulatory entities ineffective? Was the change to state issued paper money a natural part of the co-evolution of finance and trade?

# Conclusions

- I learned lots from reading the chapter!
- I would like to read the rest of the book.
- Perhaps, other chapters answer some my questions.