

A Politically Centralized State with Decentralized Currencies?

A monetary exploration of China's Song Dynasty (960-1279 AD)



Zoey Ziyue Shen z.shen19@lse.ac.uk | Department of Economic History at London School of Economics

Historical Background and Highlights

In contrast to the West in the Great Divergence debate, Imperial China is often linked to centralization, with the Song dynasty standing out as a key period in this discussion. Known for economic strength but military weakness, the Song pioneered the world's first paper currency, often hailed as a marker of its dynamic market economy. However, beneath this celebrated innovation lay a complex monetary system where multiple currencies coexisted.

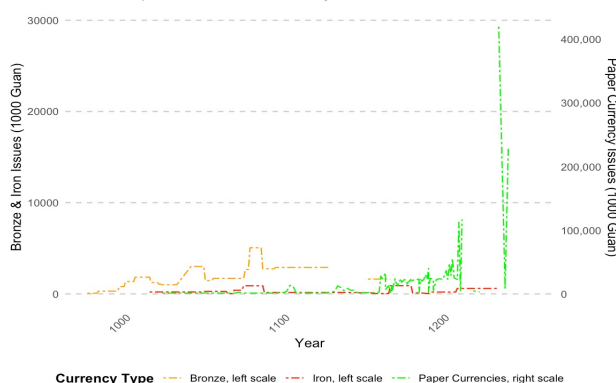
This study examines how these currencies functioned together and how monetary decentralization emerged within the centralized Song state. While the central court exhibited control over metallic coins, it struggled to regulate paper notes whose values were maintained by the credibility of issuers as opposed to their intrinsic values. These currencies coexisted by serving distinct monetary functions in trade and fiscal collection across different regions of the state.

What does monetary decentralization imply?

It stands in direct contrast to a central bank-controlled monetary system. To understand its implications, a counterintuitive perspective is useful: with central state unable to exert full control over currencies, multiple institutions issue currency, restraining state's monetary capacity in fiscal collection and trade dynamics. This raises fundamentally interesting questions: How would tax collection be structured? How would trade operate in a multi-currency environment? And how could the state finance debts without direct control over currency issuance?

How many different currencies were used, and what roles did they play? A story of copper, iron, paper, silver, and more...?

Annual Bronze, Iron, and Paper Currency Issues, 976-1255
Comparison of different currency issuance trends over time



The Song state employed a diverse monetary system, utilizing copper coins, iron coins, paper currency, silver, cloth, and grain for trade and fiscal transactions. However, only copper, iron, and paper currencies had significant issuance records and fulfilled all monetary functions. A reconstruction of the issues composition reveals several key findings:

- **Copper Coins** – The most widely used principal currency, serving both market and fiscal functions nationwide. Though used consistently throughout the Song dynasty, the majority of issues were concentrated in the Northern Song period (960–1127).
- **Iron Coins** – Persistently issued but in significantly lower quantities than copper coins. Their circulation was restricted to designated iron currency zones, where they were accepted for both trade and taxation.
- **Paper Currency** – Experienced exponential growth in the Southern Song era (1127–1279), surpassing metallic coins in total issuance. Over ten distinct paper notes existed, varying by issuer, region and currency base. While all functioned as market currency, not all were accepted for fiscal payments.
- **Silver, cloth, and grain** were primarily used as fiscal currencies under the in-kind tax system but played a limited role in market transactions.
- **Gresham's Law** applied as the less valuable paper notes and iron coins phased out the precious copper coins.

How did the central court lose its tight grip over currencies?

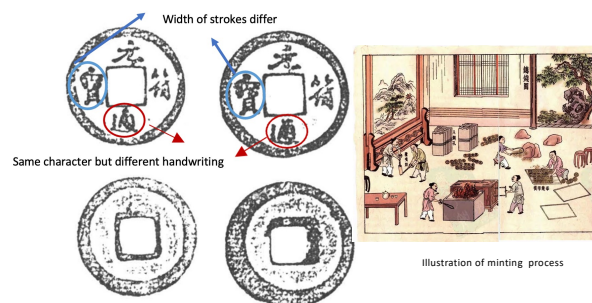
960 AD 1127 AD 1279 AD

Northern Song

Copper coins: centralization in principle, decentralization in empirics

The Northern Song era was marked by the widespread use of copper coins as the national currency, with the state exerting control over their uniform shape and raw materials. However, a closer examination of numismatic evidence and coinage procedures reveals notable inconsistencies that paved the way for decentralization to emerge in the Southern Song era.

- Variations in script, positioning, and handwriting, as seen in the provided example, suggest a decentralized aspect to production.
- To understand these discrepancies, it is essential to revisit the coinage process. The Ministry of Construction (*Gongbu*) supplied standardized molds to regional mints, which then created their own frames based on these templates. This system of distribution and replication introduced regional variations.
- Differences in craftsmanship among mints further contributed to inconsistencies in quality and detail, contributing to the variability that arose during the coin production process.



A reproduction of paper currency, Xiaochao

Southern Song

Iron and paper currencies: regionalization entails decentralization

The Southern Song era saw the dominance of paper notes and iron coins, both exhibiting strong regional characteristics.

- Unlike copper coins, which functioned as a national currency, iron coins were intentionally restricted to designated regional zones. These zones, primarily along the state's borders, were primarily overseen by provincial administrators. In fact, coins of different currency zones were often designed to differ from each other in styles for separating use.
- My analysis on policy memos reveals that many paper notes were introduced by local officials, with the central court playing a passive role in approving their issuance, remaining largely detached from committing itself to maintain their values. This bottom-up approach led to region-specific notes and inconsistent issuance practices across the state, leading to a situation where central coordination was hardly possible for a state in the Medieval period.

Iron Currency Zones in Southern Song

