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ARTICLES

Peng Xinwei: China's Misesian Monetary Historian

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Peng Xinwei (1907–67) was a Chinese monetary historian and numismatist whose nine-hundred-page magnum opus, *Zhongguo huobi shi (A Monetary History of China)*, first published in 1954, pioneered a comprehensive study of numismatics, monetary history, and the history of economic thought in China. In reconstructing the history of Chinese money and Chinese monetary thought in the book, Peng relies on theories which are highly consistent with the economic thought of the Austrian school—especially the monetary theories of Carl Menger and Ludwig von Mises. This article aims to rediscover Peng's contributions, which deserve recognition by contemporary Austrian economists, and to provide evidence of the affinities between Peng and Austrian monetary theory.

Peng Xinwei (1907–67) was a Chinese monetary historian and numismatist whose nine-hundred-page magnum opus, *Zhongguo huobi shi* (*A Monetary History of China*), first published in 1954, pioneered a comprehensive study of numismatics, monetary history, and the history of economic thought in China. In 1994, sinologist Edward H. Kaplan translated the book into English and published it with Western Washington University (Peng 1994). This book remains one of the most crucial pieces of literature in the field. It is still considered relevant today by academics interested in ancient Chinese monetary history and even ancient Chinese economic history (Zhang 2010; Akashi 2021; Jeong 2018; Z. Liu 2021). It has also been praised in Western scholarship (Goetzmann 2016, 13, 159).

In reconstructing the history of Chinese money and Chinese monetary thought, Peng relies on theories which are highly consistent with the economic thought of the Austrian school—especially the monetary theories of Carl Menger and Ludwig von Mises. While it is perhaps not surprising that almost no one in Chinese academia has perceived the close affinity between

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Peng's economic history research and the Austrian approach,[1] it is surprising that this also holds for all but a few academics in the West—one exception is Kaplan (1994, xix), the English translator of Peng's work. Western scholars have thus failed to include Peng's accomplishments in the story of the development of Austrian thought and to recognize that the Austrian approach has blossomed in the field of Chinese economic history research. This article aims to resurface Peng's contributions that deserve recognition by contemporary Austrian economists and to provide evidence of the affinities between Peng and Austrian monetary theory.

The first section of this article gives a concise review of Peng's works and life experiences, which provide clues to Peng's exposure to Austrian economics. The second section demonstrates the close affinity between Peng's and Austrian economists' approaches to economic history by laying out his position on the various rival doctrines in monetary theory. There is ample evidence that Peng's thinking was closely aligned with the monetary thought of Carl Menger and Ludwig von Mises. Since none of Peng's texts directly mentions Menger or Mises, this argument necessarily comes from a textual analysis of Peng's work on monetary history.

The third section briefly outlines Peng's reconstruction of Chinese monetary history and the history of monetary thought based on the Austrian approach. Ancient China's monetary history is one of rulers inflating money for fiscal purposes (often because of foreign or domestic wars), and Peng takes a strong stand against rulers using inflation to plunder the people. In terms of the history of monetary thought, Peng reconstructs the monetary debate in China through the ages as a millennia-long struggle of state-determined versus market-determined theories and proinflation versus anti-inflation theories. Like other Misesian monetary historians, Peng supports the theory of the spontaneous origin of money and is a staunch anti-inflationist.

The fourth section focuses on the mystery of paper money in ancient China. It is well known that paper money first appeared in ancient China. What is not clear is how paper money was made possible in ancient China. Was it introduced by rulers through decree and law, as suggested by Georg Friedrich Knapp and modern monetary theorists? Austrians reject this theory outright. The progression theorem—first articulated by Murray N. Rothbard (2024), named by Joseph T. Salerno (1991), and elaborated by Hans-Hermann Hoppe (1994)—shows an inevitable evolutionary procedure for the emergence of paper fiat money: from money substitutes to credit money, and finally from credit money to fiat money. Although the Austrian approach would not argue that historical experience validates any theory, the history of ancient Chinese paper money fits this progression theorem.

1 Here we reference the causal-realist approach of Austrian economics; see Salerno (1999) and Klein (2008).

Peng Xinwei: The Man and His Work

Peng Xinwei was born in 1907 in Anfu County, in the west of Jiangxi Province. Regarding his biographical information, scholars of Chinese literature cannot provide much more than his English translator, Kaplan. The life of this understated and dedicated pioneer of monetary history can be summarized as follows: "For most of his early life, he was preparing to write a monetary history book; and for the latter half of his life, he focused on writing it" (Ke 1986; our translation).

Peng had a passion for European literature and art from an early age, but after studying in England, he changed his career to specialize in monetary history and devoted his life to its study. After arriving in England in 1935, Peng was a guest auditor at the London School of Economics and Political Science (LSE) for two years and in the history of English literature program at Oxford University. He returned to Hong Kong in 1937 and joined the banking industry as an assistant at the Bank of China in Hong Kong, studying money and banking. In 1941, he began teaching at Fudan University in Shanghai. In 1944, with a coauthor, Peng published a textbook entitled *Yinhang xue* (Banking) (Peng and Jiawan 1944). He had started writing *A Monetary History of China* a year earlier, and the first edition came out in 1954. After revising more than one hundred thousand words, he published the second edition in 1958. The third revised edition was published in 1965 with the addition of several hundred thousand words. This final edition was translated into English. Had he not died in 1967, suffering the effects of political persecution and disease, Peng might have continued to revise his book. Peng's works include the two books mentioned above and an essay entitled "Usury in Feudal China."

The extreme dedication and devotion of Peng to his research on monetary history is most impressive. Peng's friends recalled that he had vowed to marry only if he completed this book. While studying economics in London, Peng translated Chinese folktales and copied books for publishers. This income helped him pay to copy monetary history materials at the British Library. He also joined the banking industry and became involved in financial practices in order to study money and banking more thoroughly (Ke 1986).

Peng's experience as a guest auditor in London at the LSE between 1935 and 1936, is most relevant to this article's subject. Although no archives or documents have been found to prove that Peng had direct contact with any Austrian economists, Lionel Robbins, a Misesian at that time,[2] used his influence as the senior professor of economics at LSE (tantamount to chair of the LSE economics department) to promote Austrian doctrines, especially

2 On the early Robbins as a protopraxeologist, see Salerno (2009).

Misesian monetary theory. This promotion included inviting Mises's student and colleague F. A. Hayek to lecture at the LSE on the Misesian theory of money and the business cycle (Caldwell and Klausinger 2022, chap. 16).

As shown in the next section, there are reasons to believe that Peng learned what he considered sound monetary theories in London and that he remained faithful to those theories, letting them bear fruit in his lifelong research on the monetary history of China.

Peng Xinwei as a Mengerian-Misesian Monetary Historian

Henry Hazlitt (1949, vi) once commented: "An economic history that does not correctly interpret the events it describes is usually worse than worthless." In the methodology of historical research, the theory is prior to the history (Mises 2007). A good study of economic history must have a sound economic theory as a prerequisite for explaining the myriad historical sources and reconstructing them according to the correct causality. Therefore, the theoretical presuppositions in Peng's monetary history research are crucial. Regrettably, Peng never refers to or cites Menger or Mises specifically, but he does explicitly mention the Austrian school (Peng 1994, 97).[3] As shown below, Peng's monetary theory is Mengerian-Misesian, but this is by no means the result of his ignorance of doctrines other than Austrian economics. His erudition reveals that he was acquainted with the competing doctrines of the time. In his comprehensive work on the history of Chinese money, Peng's bibliography encompasses more than one hundred foreign-language references in five languages: English, French, German, Russian, and Japanese. Although his core work focuses on monetary history, his occasional insightful commentary on monetary thought demonstrates his familiarity and proficiency with the various doctrines in vogue at the time, including at least Austrian theory, the Fisherian quantity theory of money, Keynesian doctrine, and Knapp's state theory of money.

On the Origin of Money

The study of the history of money naturally begins with the origin of money. One analytical tool, the quantity theory of money, assumes that money is a medium of exchange that already exists and examines how it circulates (Anderson 1917, 142). It does not explain how money acquired value. At best, it investigates the laws of value *change* in the context of *taking it for granted that money has a value* (Mises 1953, 116). The quantity theory says nothing about the origin of money. Regarding the origin of money, as far

3 Peng (1994, 97) argues that the *Mo Zi*, an ancient Chinese text from the Warring States period (475–221 BCE), like the *Guan Zi*, another ancient text, "is also a forerunner of the later Austrian School's theory of subjective value." When one considers the Marxist ideology that dominated mainland China when Peng lived and wrote, and the fact that Mises had been destructively critical of socialism as early as the 1920s, one can perhaps understand why Peng does not explicitly refer to or endorse Mises. The Cultural Revolution began in 1966, and Peng was persecuted as a "reactionary academic authority," one of the ridiculous reasons for this being that the cover of his book on the history of money was black, which at the time meant reactionary. This persecution persisted until his death.

as Peng is concerned, the competing doctrine is Knapp's state theory of money (Knapp 1924). Although Peng does not directly comment on Knapp's theory, his position is clear. He variously attacks ideas linked to the state-determined theory in his book, including through his view that the state cannot determine the purchasing power of money by decree (Peng 1994, 791) and his attack on the nominalists'[4] sophistry about the exploitation of the people's wealth (see his comments on Wang Liu, a Qing dynasty monetary theorist, below).

In contrast, the opening sentence of Peng's work adopts a straightforward Mengerian theory of the origin of money.[5] Menger (2009, 20) gives a complete chain of explanations for the origin of money in commodity exchange based on the premise of different degrees of "saleableness" among commodities. As Salerno (1991) puts it: "Menger's most important contribution to monetary theory was the development of a rigorous theoretical explanation of the catallactic origin of money." Peng (1994, 1) writes: "Money evolved out of the exchange of goods. The exchange of goods was the necessary precondition for its existence."

Mises's (1953, 120–21) regression theorem demonstrates that, as far as value theory is concerned, money necessarily evolves from nonmonetary commodities. The "knife coins" and "spade coins" of ancient China, which evolved from widely used, steadily demanded, and durable agricultural and everyday tools—the knife and shovel (Peng 1994, 23)—are clear illustrations of the regression theorem. In addition, in a passage that discusses the disorderly period during which the monetary commodity economy degenerated into a nonmonetary natural economy, and where money needed to reevolve, Peng points out that, in times of disorder, ancient Chinese people turned to grain and silk and used them in exchange as money: "Though use of these two *commodities* [grain and silk] as money carried a number of disadvantages, in times of disorder they were the goods *most willingly accepted* by the people, and *this is money's most indispensable attribute*" (209; emphasis added).

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4 "Nominalist" or "nominalism" in Peng's book refers to chartalism, a term coined by Knapp (1924, 32). Although the English translator of Peng's book does not use "chartalism" but rather "nominalism," the original text of Peng's (1994, xxxii) book directly refers to Knapp. In the English version of Mises's *The Theory of Money and Credit*, the English translator also uses "nominalism" when referring to Knapp's state theory of money; for example, "The nominalists assert that the monetary unit, in modern countries at any rate, is not a concrete commodity unit that can be defined in suitable technical terms, but a nominal quantity of value about which nothing can be said except that it is created by law" (Mises 1953, 66) and "Nominalism was used as a foundation for the demands of the inflationists" (465). Thus, when "nominalism" or "nominalist" appears in Peng's work, the term is consistent with Mises's use of the term to refer to a doctrine that asserts that the state's decree creates the monetary order and serves inflation.

5 Regarding the state's role in the circulation of money, there are subtle differences among the positions of Menger, Mises, and Rothbard. Yukihiro Ikeda (2008), for example, argues that Menger recognized the importance of the state in the historical development of money, emphasizing the state's role as necessary for the full development of the monetary system. Mises downplayed the importance of the state more than Menger did. However, Mises (1998, 402–4) does not seem to categorically reject the state theory of the origin of money. He seems to mean that, if one already has a catallactic theory of the origin of money, there is no need to resort to a state theory or a convention theory. On the other hand, Rothbard (2011, 694) rejects any possibility of other theories: "No money could have originated either by a social compact to consider some previously valueless thing as a 'money' or by sudden governmental fiat."

On the Variation of the Purchasing Power of Money: The Cantillon Effect

The very essence of monetary theory is the theory of price determination (Salerno 1991). Although Peng's monetary history devotes a substantial volume to exploring the numismatic content of money, he is aware that the purchasing power of money is the core of monetary history research (Peng 1994, xxix). The history of the purchasing power of money must be preceded by a sound analysis of the determination of the purchasing power of money to elucidate the causes and results of the changes in purchasing power.

Peng rejects the Fisherian mechanical version of the quantity theory, endorses the nonneutrality of money, and then articulates the Cantillon effect in a single paragraph.[6] Since his views are almost exactly the same as Mises's, it is necessary to quote this passage from Peng at length:

> In modern times, some economists suppose that the quantity of money is of no relevance at all, and that increases or decreases in the quantity of money are of no importance. They say that if the quantity of money increases ten fold, then all prices and wages will also increase ten fold, so that no one will be able to gain any extra advantage. The same sort of thing will happen if the quantity of money is reduced.
>
> This is a *mechanistic* view. First of all, neither prices nor wages *can rise or fall exactly in parallel with rises or falls in the quantity of money*. Second, these economists view the circumstances of society as static, supposing that change is the exception, and repose the norm. They do not realize that circumstances are eternally changing, and that things can never be at rest. Changes in the quantity of money cannot appear immediately or to the same degree in each sector or in the income of each individual. Each increase must be the occasion for society's purchasing power to be reallocated once more.
>
> Just to take official salaries and wages as examples, *whosoever's income increases most or earliest has the advantage and receives a stimulus*. The Northern Song government threw most of the

6 In the preface, Peng (xxvi) also emphasizes the inflationary expectation component of the process of valuation of money, which explains why price spikes far exceed the extent to which money is weight reduced: "They knew that such coins could not be passed on, and so it would be best to get rid of them immediately. . . . Though Dong Zhuo's small coin was only reduced in weight to one-fifth, prices rose ten-thousand fold"; see also p. 163.

> money into the hands of the meritocratic class. This amounted to stimulating this class and thus encouraging its culture. (389; emphasis added)[7]

Thus, Peng accurately captures the essence of Mises's view of the process of changes in the purchasing power of money (Mises 1953, 139–45). Peng even uses the Cantillon effect to explain the social and cultural history of the Northern Song dynasty (960–1127), arguing that the people who received the new money earlier appropriated the wealth of those who received it later. Peng points out that the meritocratic class of the Northern Song dynasty was the first to receive new money from the government's inflationary policies. For this reason, the cultural prosperity and affluence of the literati and officialdom of the Northern Song dynasty were not mainly the result of the general economic prosperity of Northern Song society. The actual explanation lies in the redistribution effect caused by an inflated money supply, and this cultural prosperity was a cultural bubble brought about by monetary expansion. Peng does not refrain from ridiculing this flourishing culture of scholars: "Though there were always some literati engaged in chanting about flowers and singing of the moon, and so giving the impression of an age of profound peace, particularly during Northern Song this was a false picture. In actual fact, society was not stable, and this instability was reflected in the circulation of money, in the oscillations in money's purchasing power" (Peng 1994, 380).

The exploration and colonialism of the sixteenth century led to the influx of gold and silver from the Americas to Europe. In addressing the ensuing price revolution, Peng skillfully uses the Cantillon effect to explain the uneven movement of international prices. According to Peng, general prices in Spain began to rise in the middle of the sixteenth century and quadrupled in the seventeenth century because gold and silver first arrived there. Prices in England and France rose fifty years later than in Spain, while prices in China rose about a hundred years later than in England and France: "This lag is easily explained. It was only after the passage of a certain amount of time that American gold and silver could have flowed from Spain into England and

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7 Peng immediately adds a footnote to clarify what he means by "some economists" and further elaborates on this Misesian process analysis of the change in the purchasing power of money:

> Lyman J. Gage, "The Sufficiency of Our Present Currency System," *Sound Currency*, vol. X (1903), pp. 61–63. The Frenchman Charles Gide also says that the quantity of money is irrelevant. If the quantity is large, then each unit's purchasing power is reduced. If the quantity is small, then each unit's purchasing power is increased. Cf. his *Principles of Political Economy*. Both of these are quoted by Norman Angell, *The Story of Money*, p. 128, who evidently agrees with them. They do not realize that *the importance of such increases or decreases in the quantity of money occurs during the course of the change*, and not after the influence of the increase or decrease has been extinguished, just as the influence of throwing a rock into a pond occurs at the time the wave induced thereby is present, and not after the pond has returned to its peaceful state. *Actually, even this is not an apt analogy, since there can be no time when an economy and society are absolutely at rest*. Rocks are constantly being thrown into the water, and the weights of the rocks vary, as do their number, direction and angle of fall. (389n4; emphasis added)

France. . . . The reason why China's silver began to fall in value a century later than in England and France was that silver came in via the overseas Chinese of the Philippines and the British East India Company" (755).

Regarding Keynesianism

It would have been difficult for Peng to fail to notice the Keynesian revolution in economics unfolding during the years when he studied and wrote his book. He does not directly refer to Keynes or Keynesianism, except for a brief comment in which he suggests that the inflationist doctrine closely associated with Keynesianism is incorrect. He does, though, seem to have a keen insight into the mercantilist nature of Keynesian doctrine and the logical chain of mercantilism leading to the economic nationalism that inspired international conflicts:[8]

> Inflation involving a tenfold price rise has been rare in English history, and industrialization occurred early there. Hence economists in capitalist nations tend to fear monetary contraction more than monetary inflation, and *they openly advocate inflationary doctrines*. Such inflationism is characteristic of a capitalist system, and *is of most profit to capitalists*. *They hope annual price increases will increase their profits and expand their businesses*. The result, however, is often to evoke war as a consequence of the struggle for profits. In the past some Chinese have acquired such *erroneous views* as a result of studying English and American books. (xxxiii; emphasis added)

Peng also finds, in the history of Chinese monetary thought, Wang Liu (1786–1843) of the Qing dynasty as a counterpart to John Law, a proto-Keynesian according to Rothbard (2006, 328–32). Peng states:

> He [Wang Liu] treated the circulation of paper money as a kind of universal panacea. . . . Each supposed that their remedy could solve all problems of their times, could profit both state and people, enriching both state and people.
>
> . . . His faith in paper money very much resembled that of John Law in the eighteenth century. If he had known that his contemporaries, the French St. Simonians, had the idea of uniting the people to exploit the planet, he would certainly [have] been able to tell them that circulation of paper money could realize that idea. (Peng 1994, 787)

8 On the mercantilist nature of Keynesian doctrine, see Hahn (1947). On mercantilist intervention policies leading to economic nationalism and international conflict, see Mises (2011).

The plan to issue paper money recommended by Wang Liu stipulated that the government give the people a 10 percent benefit if they exchanged silver for government-issued paper money; after that, when the people used the paper money to pay taxes, it was calculated at 110 percent of its denomination. Wang Liu said this gave people an immediate 20 percent benefit when using the paper money. Peng (787) sharply attacks Wang: "If the wealth of the masses of the Empire was going to entirely revert to the state, how could these masses immediately obtain a 20 percent profit? Was this some sleight of hand trick?" Peng (786) believes that Wang Liu's monetary policy proposals "look preposterous" or are "self-deceptions."

On Gresham's Law

The popular expression of Gresham's law is that "bad money drives out good money." This monetary phenomenon was first recorded in Aristophanes's play *The Frogs* (801–11). According to Peng (440), Emperor Wu (464–549) of the Southern Liang dynasty was the first person in China to notice this phenomenon. However, this law of money is easily confused: as far as self-interested individuals are concerned, good money would seem to drive out bad money, so how is it possible for bad money to drive out good money? Mises (1998, 447) gives the explanation: the driving out of good money by bad money is a particular application of the general law that price controls lead to shortages and surpluses when two currencies circulate in parallel. In short, the currency that is overvalued by decree or because of availability in an inflated supply (the bad currency) will be in excess, while the currency that is undervalued by decree (the good currency) will be in shortage. This is manifested in circulation in the market, where the former "expels" the latter. Peng grasps this implication of intercurrency price intervention and skillfully applies it to explain the phenomenon of currency outflow, which was often the result of the ancient Chinese government's forced overvaluation of debased metal or paper money. People responded by hoarding full-value metal money (Peng 1994, 284, 381, 413). For example, the rulers of the Qing dynasty (1636–1912) tried to set an official ratio for two parallel currencies, silver and copper coins; Peng notes: "Both light and heavy standard cash remained in circulation, with consequent differences in their purchasing power. This in turn stimulated melting down of coins and private coining" (732).

Peng Xinwei as a Laissez-Faire Scholar

Austrian economists such as Mises would generally consider themselves value-free scientists. Despite this, based on the objective economic laws and the consequences they revealed, Austrians generally support the free market and oppose coercive intervention and government actions, especially in the economy. Peng also has this propensity. Throughout his book, he never has a single word of praise for ancient Chinese rulers. Those emperors, such as Emperor Wu of Han (Peng 1994, 152) and the Shu emperors of the Three

Kingdoms period, may be controversial, but they are considered great by many traditional Chinese historians. Peng, however, almost always ridicules and criticizes them. In this he is so consistent that readers might think they are reading a libertarian-revisionist history book about the ancient Chinese economy.

When the Ming rulers issued paper money, causing the price of copper coins relative to paper money to rise sharply, the government began to ban copper coins. The people then turned to gold and silver, and the government followed suit by banning gold and silver. This was "like the policy of an ostrich," strongly criticizes Peng (574). He is not convinced by the interventionist policy of Wang Mang (45 BCE–23 CE), the short-lived usurper at the end of the Western Han dynasty who "believed that his system was a panacea" (112). Regarding the unprecedented cultural boom of the "hundred schools contending" within the culture of China's Warring States period (475–221 BCE), Peng (89–90) explains that it resulted from a monetary economy, in that money arose in the commodity economy and the emergence of money, in turn, promoted commodity production and exchange. Once goods and property could be circulated, individuals were freed from the natural economy, religion, and traditional prejudices. Money allows people to emigrate and "lets a man think, and dare to speak." The migration and exchange of different ethnic groups in ancient times stimulated cultural and intellectual prosperity, he finds. Moreover, according to Peng (571), the prevalence of silver in the late Ming dynasty, after the 1520s, not only stimulated China's economy but also played a huge role in promoting Ming fiction and literature, such as *The Journey to the West* (among the four great classical novels of China) and the art of painting. These statements are reminiscent of Mises's (1998, 469–70) description of the establishment of the international gold standard leading to the breakdown of prejudiced superstitions and the spread of prosperity and civilization worldwide.

Moreover, in commenting on the history of monetary thought in the Ming dynasty, Peng clearly expresses the fundamental reason for advocating the metallic standard according to Mises (1998, 471), which is that the ruler cannot control the quantity of the metal: the left vice director of the ministry of personnel's "primary aim and concern remained the welfare of the rulers. The rulers had no way to control silver, but they held the power to mint coins. . . . Actually, paper money would have fit his ideas even better. . . . By the tianqi and chongzhen periods [1621–44], owing to government deficits, neither silver nor coins could be increased at will, and as a consequence there were once more people who called for the circulation of Certificates" (Peng 1994, 621–22).

Many other instances in Peng's work suggest that he was a Misesian, a proponent of the Austrian approach to monetary analysis. One can perhaps best perceive the affinity between Peng and the Austrians by reading Peng's masterpiece in its entirety.

The History of Chinese Money and Chinese Monetary Thought Reconstructed by Peng Xinwei

A Monetary History of China is a pioneering study with eight chapters and thirty-two sections, each chapter covering coinage and coinage policy, the purchasing power of money, monetary thought, and the development of credit markets. Peng, a professional numismatist, clarifies what numismatics is about: "Numismatics is the study of the shape, manufacture of, inscriptions and images on coins" (Peng 1994, 239). However, in his preface, he declares, "In fact, the form of an ancient coin is only its outer shell; its life or soul lies in the circumstances of its circulation, particularly its purchasing power" (xxix) and "Hence one may say that changes in money's purchasing power over time are the key to studying economic history" (xxx).

His research, therefore, focuses on the history of changes in the purchasing power of money and on the history of the Chinese economy, politics, and ideology as reflected by such changes. This article suggests that, if one leaves aside the contents of those sections about numismatics, Peng's book accomplishes the historical reconstruction of two main concepts: (1) the history of Chinese money is a history of struggle in which the ruler, on the one hand, wants to inflate the currency and the ruled, on the other, are compelled to deal with and fight against inflation (xxv); and (2) alongside the historical fact of monetary inflation is a corresponding history of ideas, in that, in ancient China, there were both monetary state deterministes and anti-inflationists (xxxii–xxxiii).

Ancient Chinese rulers inflated money, usually to solve fiscal deficits that often resulted from internal or external wars. The constant theme throughout Chinese history was the ruler's monopoly on the minting of money, the coaxing of the people into using paper money, and the monopolizing of the right to issue paper money. As Peng puts it: "Ever since the authority to make and issue money first fell into the hands of rulers it has been an instrument for oppression of the people by the rulers" (xxv). Starting in 113 BCE, the right to mint coins was monopolized by the Chinese state (107), and after that "private minting of copper coins was always prohibited by every dynasty" (586), although the prohibition was implemented with varying degrees of intensity. As for the specific techniques used to inflate money, according to Peng (xxx): "In the course of history Chinese governments have employed all possible methods for carrying out monetary devaluations. At first they *reduced weights to make small coins*. They then *used a disguised form of weight reduction and made large coins*. Finally they went over to paper money to cause inflation" (emphasis added).

There is a slight technical difference from Western history in that ancient Chinese rulers minted small coins with the same nominal value and directly reduced their weight, while Western rulers often inflated their currency by reducing the precious metal content and mixing it with base metals. Both led to the devaluation of the currency. As for larger Chinese coins that were a kind of token, their nominal value as metal money was much higher than the actual value of the metal they contained; the "inlaid knife" minted by Wang Mang, for example, was given a face value of five thousand coins.[9] Confronted with such plundering, "the people always strenuously opposed this, and in doing so they were always in the end victorious. The first such coins were Wang Mang's large coins. The last were the large coins of the xianfeng period. None of these won the faith of the people. As a consequence, the authorities always had to restore the small coin" (749).

It was not until the emergence of the world's first paper money, the *jiaozi*, in the Northern Song dynasty that ancient Chinese rulers finally found a powerful tool to redistribute the people's wealth on a large scale, and it has been unstoppable ever since. The history of paper money in ancient China, as documented by Peng, is a cycle in which the ruler first coaxed the people to accept paper money, then secretly increased the issue, then defaulted and suspended the redemption. Finally, people's expectations of inflation increased significantly, leading to hyperinflation and paper money collapse.

Despite properly realizing that ancient Chinese governments used paper money expansion to solve their financial problems, somehow Gordon Tullock (1957, 406) comes away with the impression that inflation during the era of ancient Chinese paper money was not particularly severe and asserts that, overall, "the rate of inflation was also normally low" and "normally it would appear that the amount added to the money supply ran well under 20 per cent per year. This is particularly remarkable when it is remembered that the various dynasties were engaged in active warfare for much of the period studied." However, this remarkably low inflation was merely an illusion caused by the tricks ancient rulers used to conceal inflation, as Peng (424–25) explains in his discussion of Song dynasty paper money:

> Because Song's paper money used fixed periods of issue, [people] could not discern the truth about the effect of monetary inflation on prices. . . .

9 This kind of large coin, whose nominal value seriously deviates from its actual value, has the effect of depriving ordinary people of wealth and income only when it is put into circulation for the first time. This is because, as Wang Maoyin explained in volume 1 of his 1991 book *Wang shilang zouyi* (Memorials of expectant executive Wang), once a coin has started circulating on the private market, "though the officials can determine a coin's value, they cannot limit the values of goods. The people would not dare to use a coin with a face value of 1,000 as a 100-cash coin. They would not find it difficult to price at 1,000 a good with a value of 100" (quoted in Peng 1994, 791; see also Guo 1983). As soon as the coin is traded and circulated, the market participants determine its true market price based on their valuation; the administrative decree can do nothing about the coin's market purchasing power. From an economic point of view, the essence of such a large coin remains the currency's devaluation.

> . . . If we extrapolate back to the 1st term, I suspect a 1 string Account Note could not even be worth a single cash coin.[10]
>
> . . . The fixed term issue method had the effect of disguising the rise in prices, and for that reason even though Southern Song inflated its currency for nearly a century, there were no price figures which would have alarmed people. Only those who were themselves affected at the time understood the suffering of the people. . . .
>
> . . . If we go back to the 1st term of Account Notes, there is no telling by how many multiples of ten-thousand a depreciation had occurred.

Tullock (1957, 406) also states that "in the latter part of the Chin dynasty rates of inflation which would do credit to a modern European country were obtained, but this was the exception." In contrast, Peng (2015, 429; our translation) writes: "If we match this [situation] with the earliest of the Exchange Certificates or Treasure Deeds, then the price of silver had jumped 60,000,000 times."[11] Thus, the inflation caused by the Jin (Chin) dynasty (266–420) rulers was not simply something "which would do credit to a modern European country," but a sixty-million-fold increase in prices, an event comparable to the hyperinflationary collapse of the German currency system in the 1920s. This kind of inflation was not an exception: "Since Han times, prices have jumped ten-thousand fold at least five or six times" (Peng 1994, xxx).

Maybe no other nation has suffered as much and as deeply from the scourge of devaluation and price inflation as China in ancient times. Therefore, one of the features of ancient Chinese monetary history is that in contrast to the "deflation phobia" (Bagus 2015, viii) popular in the world today, the general population shared a preference for deflation. Even some sensible emperors had a deflationary inclination, knowing that the misery of inflationary devaluation would lead to unrest and thus shake the foundations of their rule.[12] Furthermore, Chinese historians have taken low or stable prices as an essential indicator of a period of peace and prosperity.

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10 In ancient China, one string was typically equal to one thousand cash coins. Peng's point here is that the purchasing power of paper money (the Account Note) depreciated by more than a thousand times.

11 Kaplan's translation reads as follows: "If we match this with the earliest of the Exchange Certificates or Treasure Deeds, then the price of silver had jumped between 6,000 and 10,000 times" (Peng 1994, 501). It is a translation error the present writers have corrected.

12 For one example, Xiao Daocheng, the founding monarch of the Southern Qi dynasty, had a fanatical belief in price deflation and implemented a historically rare deflationary policy. He often said: "If I could rule the Empire for a decade, I would reduce the price of gold to the same as dirt" (Peng 1994, 501). It should be noted that most of the time in China, cheap metals were taken as money; in Xiao Daocheng's time, gold was not money but a luxury item like jewelry. Therefore, this statement by Xiao is an exaggeration of his deflationary inclination to reduce the price of gold, a nonmonetary commodity, to the same cheap price as dirt. Another example is that the Qing rulers were descendants of the Jin (Chin) dynasty, so they remembered the hyperinflation created by the Jin and issued paper notes very cautiously. Notes were issued only when they encountered difficulties and discarded once the difficulties had passed (707).

The history of humanity is a history of ideas and a history of the struggle of the ruling class against the ruled class (Hoppe 1990). In the history of China's intellectual development, one can find two implicit ideological threads: one defends kingship and justifies the rulers; the other advocates for a laissez-faire approach, opposing coercion. The doctrine of legalism is particularly in line with the first tradition, while Confucianism (especially pre-Qin Confucianism) often speaks for the ordinary people, advocating restraint of royal power, less exploitation of the people, and relative support for a free market. For example, the Confucian follower Mencius "advocated economic liberalism and opposed controls and management of the economy" (Peng 1994, 91).

Corresponding to the history of monetary thought as reconstructed by Peng, it tended to be legalistic scholars who supported the state theory of money, arguing that the emperor's decree is the originating source of money. In contrast, ancient Confucian scholars advocated the market doctrine of money, or, in other words, sound money. The former, echoing Knapp (1924) and modern monetary theorists—often associated with monetary nominalism, inflationism, support for monopoly minting power, and support for paper money—were represented by ancient Chinese figures such as Lu Zhi, Yang Yuling, Wang Liu, and Su Zhe. The latter, holding positions similar to those of Austrians today —often associated with advocating sound monetary principles, the theory of the market origin of money, metallism, opposition to inflating the currency, advocating the private coinage, and questioning paper money—were represented in ancient China by Sima Qian, Ye Shi, and others (Peng 1994, 177, 791).

Peng comments on these two traditions throughout his book. It is the second tradition that Peng, as a Misesian monetary historian, supports.

The Mystery of Ancient Chinese Paper Money

It is well known that China was the first country in the world to use paper money systematically (Tullock 1957). For Austrians, given that the market spontaneously generated money and that, based on Mises's regression theorem, money necessarily originated from commodities that had a nonmonetary value, how was fiat money[13] possible? At a theoretical level, this is no longer a problematic question. The progression theorem, first articulated by Rothbard (2024) and named by Salerno (1991), elucidates the historical-sociological evolutionary chain of fiat money (Hoppe 1994). At best, government decrees can have the effect of confiscating wealth, or the government can use its economic resources to facilitate the circulation of a

13 In the narrow sense defined by Mises, money is divided into three classes: commodity money, credit money, and fiat money. "Fiat money" in this article refers specifically to Mises's definition. Commodity money is money that is also a commodity in itself; credit money is a certain future maturity of a claim that is used as a medium of exchange; and fiat money is neither a commodity nor a claim but a pure token (Mises 1953, 62; 1998, 426).

medium of exchange by acting like a market participant. There is, however, no way to make people accept a medium of exchange by mere coercion, nor is there any way to impose a price rate by decree without leading to shortages or surpluses. What turns something into money is necessarily the *voluntary* valuation and action of the market participants. Therefore, all money appeared originally in the form of commodity money.

When credit relationships and depository institutes developed, money substitutes—perfectly secure legal rights that are readily redeemable titles to the money proper—emerged. Since money is a pure exchange phenomenon, it does not dissipate in the process of consumption or production like other commodities, so money substitutes can have the same continuous circulation as commodity money itself. According to Mises (1953, 133), money substitutes fully backed by the money proper are "money certificates," while those which are not backed by the money proper are "fiduciary media." When money substitutes are overissued, the depository has difficulty redeeming them for commodity money on demand and is in danger of sparking a panicked demand for liquidity. In this case, the depository often resorts to government decrees to release it from its civil contractual obligations, suspending the redemption of commodity money. After the suspension, although discounted, the fiduciary media do not cease to circulate entirely and become what Mises defines as "credit money" because, although they cannot be redeemed on demand, they are expected to be redeemable in the future. Credit money evolves into real "fiat money" when at a certain point in its continuous circulation it starts to be completely cut off from the possibility of future redemption and continues to circulate based on the "historical component" of its purchasing power.

The theory is therefore clarified, but what of the history? Mises (61) writes: "It can hardly be contested that fiat money in the strict sense of the word is theoretically conceivable. The theory of value proves the possibility of its existence. Whether fiat money has ever actually existed is, of course, another question, and one that cannot off-hand be answered affirmatively. It can hardly be doubted that most of those kinds of money that are not commodity money must be classified as credit money. But only detailed historical investigation could clear this matter up."

As late as 1966, in the third edition of *Human Action*, Mises still did not explicitly affirm the historical existence of any kind of fiat money (Salerno 1994). This article seeks to demonstrate that, based on the history of ancient Chinese paper money reconstructed by Peng and the more recent studies of

monetary history,[14] there was no fiat money in the strict sense in ancient China. Since, as demonstrated below, the people of ancient China generally valued and accepted paper money based on the expectation that it would be convertible into commodity money or nonmonetary goods, paper money in ancient China was either a money substitute or credit money, with the latter perhaps more common in ancient Chinese history.[15]

The world's first *large-scale* circulation of paper money occurred in China during the Northern Song dynasty in the eleventh century CE (Tullock 1957). However, with its precocious political and governing skills, China had made much earlier attempts to issue paper money based on state power. During the Western Han dynasty, Emperor Wu (156–87 BCE) made an unsuccessful attempt to issue "deer hide money," which was made of the hides of white deer kept in the royal garden and decorated with colorful paintings. The hide money was officially valued at four hundred thousand coins, a nominal value that far exceeded its actual value as a commodity. This special hide money had limited circulation. To create demand for it among the nobility, Emperor Wu stipulated that participants in certain royal activities, such as pilgrimages, tributes to the emperor, and royal banquets, had to carry the hide money as a passport. "This may be said to have been the beginning of Chinese paper money" (Peng 1994, 106). This case was an attempt by the government to use its power to bestow a use-value on certain goods and, in this way, to make something that would otherwise be of little value very valuable (Hansen 2019), or rather, to make deer hide money an administrative good (Kuznetsov 1997).[16]

It is no coincidence that paper money originated in the Tang and Song dynasties. The first peak in the development of the commodity economy in ancient China was during the Warring States period and the Qin and Han dynasties, followed by a process of degeneration into a natural economy like that of the early Middle Ages in Western Europe during the Wei, Jin, and North and South dynasties. The Tang and Song dynasties were the second peak of the development of the commodity economy in ancient China, which provided the economic basis for the credit relationship needed for money

14 A study related to this theme and more focused on the convertibility of ancient paper money and the operation of redemption funds is Liu S. 刘森 (1993), although its scope only covers the Song and Jin dynasties. For a more recent and illuminating study whose author claims it is based on a Misesian conceptual framework of money, see He (2019), although, in the present writers' opinion, He does not strictly adhere to Mises's taxonomy of money.

15 Salerno (1994) shows a historical illustration of the distinction between money substitutes and credit money: "In contrast, the value of credit money is established by an 'independent process of valuation.' For example, Bank of England notes denominated in gold pounds were money substitutes during the periods of their unqualified convertibility prior to 1797 and after 1821; they circulated as credit money for the duration of suspended specie payments from 1797 to 1821."

16 Another case of administrative good is that of Wang Mang, who, to extort from the people and fund his military expenses, forced people to accept spade-money or suffer severe punishment. This money was apparently endowed by decree with the role of a kind of passport; according to Ban Gu's 1930 essay "Wang Mang zhuan" (Biography of Wang Mang), which appeared in the volume *Hanshu* (Han history), people without spade-money "would have nowhere to eat or stay, and would be harassed and delayed at the passes and ferries" (quoted in Peng 1994, 159).

substitutes.[17] During the Tang dynasty (618–907), the cheap metal money used in China was generally too heavy, and so to avoid transport issues and prevent robbery, bills of exchange and money depository institutions developed, which led to the emergence of the Misesian concept of money substitutes. The Tang dynasty issued "flying cash," which was equivalent to the bill of exchange in modern financial practice.[18] However, the depository business at that time went beyond a mere safe deposit box "because the check had in principle already come into use. The principle of the check is that once the deposit has been made, one need not go in person to withdraw the funds but can transfer the authority to do so to some other person" (Peng 1994, 326). So the emergence of money substitutes in the Tang dynasty can be considered the real beginning of paper money.

There are no further specific descriptions of the operation of the depository institutions in the Tang dynasty in Peng's writing, but he records an interesting historical event. In 782, to suppress a domestic rebellion, the Tang dynasty government demanded a loan of two million coins from the financial market of Chang'an to finance its military expenses. However, the merchants of Chang'an went on strike in protest because most of the financial market money belonged to a massive number of merchant-commoners. As a result, the government was forced to concede, and Peng hailed this as a rare win for the ruled: "This was a great victory for the merchant capitalists" (319). Peng (634–35) compares an event at the Tower of London[19] with this event in the Tang dynasty. This event also anticipates the ever-cyclical fate of ancient Chinese paper money. The depository was politically controlled from the moment of its birth, and, unsurprisingly, the subsequent development of paper money was often characterized by increased government-imposed issuance and an extreme lack of reserves.[20]

17 Shigeru Katou (1953, 2:1–13) emphasizes the establishment of social credit relations as a prerequisite for creating paper money in the Song dynasty.

18 Historical evidence does not support the idea that flying cash ever entered circulation, as Peng (1994, 367) writes: "Although Flying Cash was a kind of draft or money order, and we cannot prove that it was turned over in circulation, nevertheless down through the ages most of those who have discussed paper money have said it evolved out of Flying Cash."

19 Since the Tower of London was a strong prison in seventeenth-century England, and there were government guarantees, merchants deposited much gold and silver there. However, in 1640, Charles I diverted this money to other purposes because of fiscal difficulties (Peng 1994, 634).

20 In *Yinhang xue* (Banking), Peng succinctly identifies the alliance between banks and political power in modern China, stating: "Many banks have acquired their issuing privileges as a result of political lending, and the chaos in the issuance of [banknotes] in China can be said to be the result of political lending" (Peng and Jiawan 1944, 11; our translation). The banking-government alliance of fraudulent issuance in China parallels the monetary history of the West. On this sort of banking-government symbiotic collusion in the West, see Huerta de Soto (2020, chap. 2).

For complex historical reasons[21] and due to geographical isolation, during the Northern Song dynasty (960–1127), Sichuan Province became an area of iron money currency independent of the copper coins of other areas. Iron coins were even more cumbersome than copper coins, and according to Peng (368), a bolt of silk gauze had to be purchased with 130 catties[22] of iron coins. The need for depositories and iron money substitutes—paper money—was thus generated. The emergence of paper money, *jiaozi*, in the Northern Song dynasty, was divided into three phases (369). The first phase was a period of free issuance, and the second phase was a period of still privately run but more centralized joint issuance by sixteen wealthy merchants. In this second phase, the bankers immediately began to implement fractional-reserve banking practices, and the wealthy merchants diverted the metal money coming into the depository to invest in real estate and treasure. The depository soon lost trust and was run out of business. The third stage started in 1023, when the Northern Song dynasty government began to replace the private depository and started to issue paper money with iron money as reserves and a reserve ratio of 28 percent (Peng 1994, 369–71).

However, with the advent of foreign wars, paper money was issued indiscriminately, and the dangers of paper money were recognized by the emperor himself. Emperor Shenzong of Song argued, when faced with ministers who opposed paper money, that "the issuance of paper money *jiaozi* (or Exchange Notes) was inevitable, and if there were abundant finances, there would be no need to issue paper money" (He 2019, 104; see also Peng 1994, 371). Less than twenty-seven years after the official *jiaozi* was issued, the unbacked issuance of additional pure fiduciary media began with the thirteenth term of paper money in 1047 (He 2019, 103). After the gradual devaluation and loss of credibility of the *jiaozi*, a new paper currency was issued under the name *qianyin* (coin vouchers) to cover up inflation. By 1137, the supply of *qianyin* had increased thirtyfold in thirty years. By 1161, part of the reserve of the *qianyin* was changed into in-kind items, such as salt and wine, and the reserve rate was around just 1.7 percent. It is worth noting that the government officials of the time well understood that the basis of public acceptance of paper money was convertibility and maintenance of confidence. Wang Zhiwang (1104–71), an official of the Southern Song dynasty, advocated extreme caution in issuing additional paper money: "If it was necessary to increase their issue, it had to be done secretly in stages, and outsiders must not be permitted to learn the size of the increase" (quoted in Peng 1994, 409; see also He 2019, 109).

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21 In fact, as with paper money, the exclusive use of iron money in Sichuan was to some extent the result of government intervention, because of Gresham's law at work: "It was only when the number produced suddenly increased at the beginning of Song that the iron coins could no longer retain parity with bronze cash, and as a consequence the bronze cash were all driven out of circulation, and Sichuan became a region using only iron coins" (Peng 1994, 381). See also Gao (2000). The Northern Song government imposed a fixed price between copper and iron coins, resulting in the overvalued iron coins expelling the undervalued copper coins.

22 During the Northern Song dynasty, one catty equaled about 640 grams.

The Southern Song dynasty (1127–1279) was a regime reestablished in the south by the imperial lineage that survived after the fall of the Northern Song dynasty. Its founding, the military, and consequent financial pressures made the government more dependent on paper money increases. With the Southern Song's reserves growing scarce but the rate of monetary expansion staggering, the question was how to get people to accept the ever-increasing volume of paper money. The solution was to introduce commodities or legal titles other than metallic money into the conversion fund. According to Sen Liu S. 刘森 (1993, 82–88), the following were used to redeem paper money in the Southern Song dynasty: (1) gold, silver, copper, and iron money; (2) official ranks and noble titles; (3) official fields, clerical ordination certificates (these tax-exempt certificates of the ancient monks became a kind of negotiable security), and some commodities or securities related in value, such as tea, salt, and incense (see also Takahashi 2000, bk. 2, chap. 3).

Although paper money was a money substitute in the early Northern Song dynasty, it turned into credit money during the occasional suspension of conversion in the later period. In the Southern Song, the increase in the issuance of paper money was even more severe, and people were more eager to sell their paper money due to the uncertainty of the expectation of redeeming it for metal; and once there was no ready cash reserve available for additional issue, the people distrusted such paper money (Peng 1994, 404).

The devaluation of paper money in the Southern Song dynasty was so severe that it eventually led to hyperinflation. However, it is not easy to ascertain from historical sources how much paper money was issued in the Southern Song dynasty because of the Song government's inflation-covering tactics and "fixed periods of issue" mentioned earlier. The constant devaluation of old paper money in circulation often led to a 1:5 exchange ratio of new-term to old-term paper money. A study based on this ratio extrapolated that the twentieth-term paper money of the Southern Song dynasty increased 19,073,486,328,125 times over the first-term paper money, in terms of denominations of notes (Qian and Yangang 2014).

The large-scale use of paper money during the Yuan dynasty (1271–1368) impressed Western travelers and observers (Tullock 1957). However, this widespread use was not the result of strict enforcement of coercive decrees by the Yuan government; instead, it resulted from the Yuan government's early compliance with the market laws of money substitutes. First, after the Yuan dynasty replaced the Southern Song, it did not rush to issue paper money based on decree out of thin air but carefully used its own paper money to collect the old paper money of the Southern Song at a ratio of 1:50 (Takahashi 2000, bk. 2, chap. 4). This ensured the continuity of the historical

component of the purchasing power of money during the period of currency change, thus facilitating the successful issuance and circulation of the new paper money.[23]

Second, the Yuan rulers cautiously maintained the convertibility of paper money and strictly controlled the total volume issued in the early stages of its implementation. According to Peng (1994, 477): "The Treasure Certificates were, however, backed by gold and silver, mainly by silver. One might almost say that it was an uncoined silver standard system. The government established Certificate Treasuries in each of the circuits to provide 100 percent backing in metal for the paper money. The people could bring paper money to the Certificate Treasuries to exchange for specie. If there were too many notes on the market, they would immediately put out silver to redeem them. Such a system was merely a further development of the Song and Jin systems." So in the early Yuan dynasty, paper money was still a money substitute, the money proper was still metal money, and the valuation of paper money was not independent of its relation to metal money.

After the market's trust was secured, the old cycle recurred—the Yuan rulers began to overissue paper money because of their significant increase in financial needs due to war. This ended in hyperinflation and the abandonment of paper money by the ordinary people. According to Peng (506, 510–11), from 1260 to 1332, the total amount of paper money in circulation increased nearly 1,095 times. By the end of the Yuan dynasty, the price of rice denominated in paper money was 2,500 times that in the early Yuan period, and "the histories say that the people no longer used the notes, and that exchange was carried on either with copper coins, or by means of barter" (521).

The rulers of the Ming dynasty (1368–1644) seemed bent on putting into practice the state theory of money, as they issued paper notes without reserves, did not promise the convertibility of such notes, and banned the circulation of copper coins (He 2019, 178). On the other hand, when taxes were collected, the government collected less paper money and, later, no paper money at all, accepting only silver. When the government spent heavily, however, it paid worthless paper money (Guo 1983). Unsurprisingly, the value of Ming paper money continued to fall, and the public did not accept its circulation. Soon, all transactions in the Ming dynasty were paid in metal money (Peng 1994, 537). The Ming rulers' practice of violating the law of circulation of paper money ended in miserable failure.

23 See Rothbard (1992) and Selgin (1994) for the necessity of a historical component of purchasing power when successfully issuing a new currency.

As mentioned in footnote 13, the rulers of the Qing dynasty (1636–1912) were descendants of the Jin dynasty, and they remembered their ancestors' hyperinflation well enough to issue paper money very cautiously. They issued paper money only when they encountered military difficulties and abandoned it as soon as those difficulties passed. There was even an occasion (in 1814) when an official who proposed issuing banknotes was not only rejected but "reproved for thoughtless words which would disorder administration" (707).

However, there are some noteworthy accounts of Qing dynasty officials commenting on the practice of paper money. One example is Wang Maoyin (1798–1865), who clearly outlines the techniques that rulers should use to successfully issue banknotes in compliance with economic laws (the correct opinion against "large coins" in footnote 10 is also from Wang Maoyin). He argues that convertibility is the basis for issuing paper money and that it is crucial to fully use the commercial credit relationships formed spontaneously by civil society. The key is not to issue a significant number of monetary units immediately after the public has gained confidence in the depository institution but rather to "act gradually and maintain credibility" and steadily issue further banknotes based on a fractional-reserve system (He 2019, 207–15). This notion of cautiously using the fractional-reserve mechanism to issue additional paper money and thus gradually seize the wealth of the ruled was clearly understood by some Chinese officials. Another example is Kang Youwei (1858–1927) of the Qing dynasty, who believed that paper money was only a representative of metal money, without which paper money could not be sustained. Once paper money was in circulation, it could be multiplied several times more than reserves, "just as a man's shadow could expand as his body became broader" (Peng 1994, 794–95, also 712).

Conclusion

By reviewing Peng's contributions to ancient Chinese monetary history, this article provides textual evidence of an affinity between Peng and the Austrian approach and thus argues that Peng can be considered a Misesian monetary historian. Based on Peng's *A Monetary History of China*, this article integrates more recent research to briefly outline the key to what made paper money possible in ancient China—the convertibility of paper money for commodity money or the expectation of convertibility of paper money for in-kind commodities and legal titles. In this way, the article tentatively answers Mises's (1953, 61) historical proposition regarding fiat money, finding that, at least in ancient China, the paper money that successfully circulated on a large scale was not a kind of fiat money but a money substitute or credit money. Once the possibility of redemption of credit money became slim and inflationary expectations grew, ancient paper money invariably ended up in hyperinflation and monetary collapse, making it almost impossible for ancient China to evolve the pure fiat money described by the progression theorem. The rulers of ancient China could neither issue fiat money nor determine the purchasing power of money by mere coercive decree. As Austrian monetary

theory shows, both the origin of money and the determination of the purchasing power of a unit of money depend on the *voluntary* evaluation and action of the market participants. Furthermore, several insightful officials in ancient China realized this, emphasizing that issuance of additional paper money for fiscal purposes had to be based on convertible commodity money to obtain the people's trust, and implemented fractional-reserve practices in the depository process after the credit relationship was established. This understanding and the historical facts dovetail with the progression theorem.

Moreover, based on Peng's monetary history, this article cannot agree with Tullock's (1957) point that inflation was normally low during the period when paper money was in circulation in ancient China—the truth is precisely the opposite. As a result of his underestimation of inflation in ancient China, the abandonment of paper money by the ancient Chinese was inexplicable to Tullock: "Chin and the Mongols stopped issuing paper currency when they were on their last legs, when one would expect the printing presses to be working overtime. Ming, however, gave up in the height of its power" (Tullock 1957, 406). The truth is that ancient Chinese rulers tried their best to exploit the wealth of the people through the overissuance of paper money and were forced to give up manipulating paper money only when this overissuance and exploitation reached the point of hyperinflation and the collapse of the currency system or the destruction of the regime. A brief review of the terrible performance of paper money in ancient China and the insights of ancient Chinese officials into the nature of paper money issuance from the standpoint of the rulers leads one to conclude that the earliest appearance of paper money in ancient China illustrates the advancement of ancient Chinese rulers' technique for rule. Paper money, which was mainly used as an inflationary tool to enrich the rulers, was not a characteristic of a developed civil market society.

Peng's pioneering monetary history research cannot tell us all we need to know on all topics (e.g., the operation of redemption funds for paper money). This requires the efforts of more recent scholars, who can uncover more historical materials and reconstruct the complete story of ancient Chinese money. However, since Peng's historical reconstruction work is based on a sound theoretical approach—the Austrian, or rather the Mengerian-Misesian, theory of money—his research should be considered by anyone interested in ancient Chinese monetary history. One cannot agree with the assertion of one of the reviews of Peng's book in the English version that Peng's monetary history is "out of date" (Vogel 1997).

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