

Paper Money

One of the most impressive discoveries that Marco Polo made on his visit to Mongolia is how the empire's monetary system worked. He was not impressed by the silver Akçe that the empire used for a unified currency, or that some realms of the empire still used local currency, but he was most surprised by the fact that in some parts of the empire the people used paper currency.[16]

Marco Polo considered the use of paper currency in the Mongol Empire one of the marvels of the world. Paper currency wasn't used in the entire empire. The Chinese silver ingot was accepted universally as currency throughout the empire, while local coins were also used in some western areas, such as the modern day Iran. Paper currency was used in China, continuing the practice established by the Chinese several hundred years before. The Chinese had mastered the technology of printmaking and therefore it was relatively simple for them to print bills. Paper currency was used in China since 960 A.D., when the Song dynasty started replacing their copper coinage with paper currency. When the Mongols invaded Song China they started issuing their own Mongolian bills in 1227. This first attempt by the Mongols did not last long because the notes issued expired after several years and were inconsistent throughout the parts of the Mongol Empire that issued them. In 1260, Kublai Khan created the Yuan Mongol's first unified paper currency with notes that did not have any expiration date. To validate the currency, it was made fully exchangeable to silver and gold and was accepted as tax payments. Currency distribution was small at first, but the war against the southern Song dramatically increased circulation. With the defeat of the Song, their currency was taken out of circulation and could be exchanged with Mongol currency at a relatively high exchange rate. Regardless of persistent inflation after 1272, paper currency backed by limited releases of coins remained as the standard means of currency until 1345. Around 1345, rebellions, economic crisis, and financial mismanagement of paper currency destroyed the public's confidence in the bills.[17]

To initiate the transition from other forms of compensation to paper currency the government made refusing to accept the bill punishable by death. To avoid devaluation, the penalty for forging or counterfeiting was also death

Genghis Khan authorized the use of paper money shortly before his death in 1227. It was backed by precious metals and silk.[7] The Mongols used Chinese silver ingot as a unified money of public account, while circulating paper money in China and coins in the western areas of the empire such as Golden Horde and Chagatai Khanate. Under Ögedei Khan the Mongol government issued paper currency backed by silk reserves and founded a Department which was responsible for destroying old notes.[8] In 1253, Möngke established a Department of Monetary affairs to control the issuance of paper money in order to eliminate the overissue of the currency by Mongol and non-Mongol nobles since the reign of Great Khan Ögedei. His authority established united measure based on sukhe or silver ingot, however, the Mongols allowed their foreign subjects to mint coins in the denominations and use weight they traditionally used.[7] During the reigns of Ögedei, Güyük and Möngke, Mongol coinage increased with gold and silver coinage in Central Asia and copper and silver coins in Caucasus, Iran and southern Russia.[9]±±§

The Yuan dynasty under Kublai Khan issued paper money backed by silver, and again banknotes supplemented by cash and copper cash. Marco Polo wrote that the money was made of mulberry bark. The standardization of paper currency allowed the Yuan court to monetize taxes and reduce carrying costs of taxes in goods as did the policy of Möngke Khan. But the forest nations of Siberia and Manchuria still paid their taxes in goods or commodities to the Mongols.[10] Jiaochao was used only within the Yuan dynasty, and even Ilkhan Rinchindorj Gaykhatu, who was supportive of the Yuan leadership in other ways, failed to adopt the monetary experiment in his Middle East realm in 1294. As did the khanates of the Golden Horde and Chagatai Khanate, the Ilkhanate minted their own coins in gold, silver and copper.[11] Ghazan's fiscal reforms enabled the inauguration of a unified bimetallic currency in the Ilkhanate.[12] Chagatai Khan Kebek renewed the coinage backed by silver reserves and created a unified monetary system through the realm.

Mongol government and elites invested in commercial enterprises using metal coins, paper money, gold and silver ingots and tradable wares for partnership investments and primarily financed money-lending and trade activities.[13] A paper money investment was not possible in the western