6.4 Credit and Credit Institutions

During the twelfth and thirteenth centuries Europe's feudal system began to break up, and the rate of progress accelerated. In the credit trade money exchange shops, loan societies, and pawn-brokings appeared.

The gradual development of commerce had begun to unravel the feudal system. City states arose one after the other. Coins from different places flowed into these cities. Their fineness and weights were not uniform. Inferior coins were very numerous, and illicit clipping of coins' edges was a common practice.

It was for these reasons that money exchange shops arose. They not only calculated the fineness, weight and value of coins for merchants, they also guaranteed coins for them, and cleared debts on their behalf. Later on, they expanded their clearing operations from their original sphere to locations outside their home cities. This gave rise to a form of remittance. By the end of the twelfth century, Italy was already using bills of exchange. In contrast, the use of paper money retarded the development of the remittance trade in China.

The growth of the city-states in Europe also gave rise to constant warfare among them. To fight such wars they recruited mercenary soldiers. This differed from the situation under the feudal system, where such service was obligatory for the people. It was now necessary to employ cash to hire these soldiers, which required large sums of money, much of which those city governments could not undertake to raise themselves.

As a consequence, they frequently resorted to extortion of loans from local rich merchants, and it was such men who would organize a corporate group to manage the loan accounts, and to collect on their behalf the taxes pledged for the loans. Sometimes they profited by employing these tax funds to make further loans. Such partnerships evolved into another type of financial organization. Such organizations had already appeared within the twelfth century Venetian Republic.

There were no important new developments in the Chinese credit trade during this period. Under Jin rule, credit was still mostly a matter of loans made privately. Although the governmental authorities had fixed the rate of interest at no more than 3 percent per month, and total compounding was to come to no more than twice the original principal, in actuality interest of more than 300 percent per month was sometimes taken.

Secured credit, as of old, relied on pawnshops, which were called pledge treasuries [hidianku] or release treasuries [jieku]. These were carried on as private businesses. There were also public pawnshops, called "flowing springs" [liuquan]. This was a rather important development in the history of credit in China.

In dading 13 (1173), because pawnshop interest had become too heavy, reaching as high as 5 or 7 percent, and sometimes being compounded, Emperor Shizong ordered that in the Middle Capital and Southern Capital (i.e. Bianjing), and in Dongping and Zhending pawnshops be established under the name Flowing Springs, with specialists to manage them.

The regulations also obliged the chief of each establishment and his deputy to personally evaluate the articles offered as pledges. The amount of the loan was to be 70 percent of the value of the pledge, and monthly interest was to be 1 percent. For loans of less than a month, interest was to be reckoned by the day. The pledge could only be sold if it was not redeemed within two years and one month.

The pawn ticket was called a check [niezi]. On it was clearly written the full name of the person pawning the object, the name of the object pawned, and its nature, or the grade and weight of gold or silver of which it was made, as well as the date and amount of the loan. If the pledge was lost, its owner was to be recompensed on the basis of the cost of a new object of that type. In dading 28 [1188], 10th month, an additional 28 Flowing Springs Offices were established.

Because the Jin simultaneously employed silver, coins and paper money, the money exchange trade

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1Hong Hao, Record of Things Heard at Pine Desert, "Great King Yinzhuge": "There was a man named Great King Yinzhuge [a Jin person] who had displayed much nobility in war, but who was not familiar with the people's affairs. He was made Defender of Yanjing. He had several tens of silver. His family owed to a rich monk 6 or 7 million strings of metal which they were unwilling to repay." (Old Stories, Collection D, 4.)

2Ruzhen-Jin History, 50, "Treatise on Food and Money, 5, Harmonious Purchase": "The Dynasty set up regulations for those who raise wealth specifying that their monthly interest should not exceed 3 percent, and that it should accumulate only to a total of twice the original amount. Now it sometimes happens that interest of 300 percent is taken for less than one month. It is desired to clearly order the offices to enforce the old regulations. In days of abundant harvest, increase Harmonious Purchase of grain. Thereby the public authority will have an abundance without private interests suffering."

3Ruzhen-Jin History, 57, "Treatise on Officials, 3."
became somewhat more developed. Though the government had established Exchange Certificate Treasuries to redeem paper money for cash, ordinary people found it very difficult to come into the local government offices, and preferred to let merchants handle their money exchange requirements. Given the chaotic conditions under which money was circulating, this was probably a business which it was profitable to undertake. A money changer could make a substantial profit from the discrepancy between his selling and purchasing prices.

Because of the Yuan’s military campaigns toward all points of the compass, its taxes were especially heavy, and many people had to borrow money to pay them. As a consequence, lenders raised their interest rates. The most famous form of high interest loan was the so-called "lamb interest" or "lamb profit," which doubled the principal in a year. Those who made such loans seem to have been Uighurs from the northwest. This practice was already occurring before the Mongols became rulers of China.

In Emperor Taizong’s (Ogodei’s) 12th year (1240), 76,000 ingots of public funds were used to pay off such loans. It was ruled that from then on, no matter how long a loan ran, the interest could not exceed the amount of the original principal. In zhiyuan 3 [1266], 2nd month, another edict emphasized the principle of having no more profit than the original amount of a loan.

Yuan History, 155, "Biography of Shi Tiance": "[During the time of Emperor Taizong] when Tiance returned to Zhending, the administration was vexatious to the people, and taxes were heavy. People were borrowing from northwestern merchants so as to pay their taxes, and interest accumulated to several times the amount of the principal. This was called lamb profit. The people could not repay such loans. Tiance memorialized to request that the officials pay these off, with principal and interest being limited to the same amount."

Yuan History, 151, "Biography of Wang Yu": "There were people who were in debt to northwestern merchants for silver, interest had doubled the original amount of these debts, and they were unable to repay them. Wang put forth 5,000 ounces of silver to repay the loans for them."

Yuan History, 152, "Biography of Wang Zhen": "[In the time of Emperor Taizong] Zhen said to the Emperor, 'Darning is in difficulties from taxes, and has borrowed 80 ingots of silver from northwestern merchants. Tax obligations of 50,000 hu of grain have been evaded. If that amount is levied again, some people will have nothing to live on.' There was an edict to the officials to repay the silver that had been borrowed."

Yuan History, 156, "Dong Wenbing": "Previous orders had not been enforced because of military action. Loans had been made to people, and interest was doubling the amount of the principal within a year. The district used the people's silkworms and wheat to repay them."

Yuan History, 105, "Treatise on Punishments, 4, Prohibitions": "For all loans, no matter how many years or months they may run, the interest may not exceed the principal. If more is taken from people or a new contract is taken out so as to take interest on the interest, or if a person’s livestock or other forms of wealth are taken, or if his children and women are taken as servants, the punishment will be still more severe. If more is taken as interest, both principal and interest are to be forfeited to the officials. Even if pledges are not placed in a licensed pawnshop, and a pawn ticket is not issued, taking interest in contravention of the rule is prohibited."

Yuan History, 125, "Buluhaya": "When Emperor Shizu took the throne . . . Buluhaya was ordered to Zhending. There were rich men in Zhending who made loans for unlimited periods, and took interest totalling more than the original principal. Buluhaya rectified these abuses and limited the amount of interest paid to the amount of the principal. Later this was fixed as a law."

Yuzhen-Jin History, 48, "Treatise on Food and Money, 3," taihe 7, 11th month: "[Gao] Ruli said in reply, 'Now treasuries have been set up in various places, most in public buildings, which ordinary people find it rather difficult to move in and out of. Though there are merchants who exchange them, the Certificates suffer from their lack of abundant backing.'"

Yuan History, 2, "Annals of Emperor Taizong," 12th year: "This year because officials and commoners had borrowed money from the Uighurs to reward officials, and the amount of the principal was doubled in the course of a year, a practice called lamb interest, terrible harm was being done. An edict called for official goods to be used to repay these loans. In all 76,000 ingots were employed. It was further ordered that for all loans longer than one year, only as much interest as was equal to the principal be paid."

Yuan History, 146, "Biography of Yelü Chucai": "[During the reign of Taizong]. Prior to this, the senior clerks of the prefectures and districts had been borrowing silver from merchants. Interest at the official rate had accumulated to several times the original principal. This was called lamb profit. Even if they had sold their wives and children into slavery, they still would not have had enough to repay these loans. Chucai memorialized that it be ordered as a permanent rule that interest amount to no more than the original principal. For those among the people who owed the most, the officials would repay in their stead."

Yuan History, 191, "Good Clerks, 1, Biography of Tan Deng": "The officials were making loans with interest accumulating to several times the principal. None of the people could repay them. Deng came in for audience and described the harm of this to the minister Yelü Chucai. Emperor Taizong was sympathetic. To avoid forcing people to flee from their creditors, no matter how many years a private loan had run, interest could no more than double the principal."

Yuan History, 152, "Biography of Wang Zhen": "[In the time of Emperor Taizong] Zhen said to the Emperor, 'Darning is in difficulties from taxes, and has borrowed 80 ingots of silver from northwestern merchants. Tax obligations of 50,000 hu of grain have been evaded. If that amount is levied again, some people will have nothing to live on.' There was an edict to the officials to repay the silver that had been borrowed."
In zhiyuan 19 [1282], because the power [626] of the great families was allowing them to exploit their debtors, the methods of the Jin were imitated, and it was ruled that in making private loans interest would be limited to 3 percent.®

However, most lenders employed the so-called "interest matching the principal" rule. For every loan, the interest was to match the principal at the time of repayment.® If he went past a year, the borrower often had to write another debt contract which subsumed the accumulated interest into the principal, and hence legally turned the loan into one involving compound interest. If the debtor could not make repayment, the creditor would frequently take over the debtor's property, and might even take control of his children and women as slaves.

Violation of Rules": "In zhiyuan 3, 2nd month, an imperial decree was received limiting a loan's profit to the amount of the principal. Even if a new loan contract was exchanged for the old one, it could not be enforced. Nor could the borrower be forced to make up the deficiency from his property. Violators were to suffer punishment."  

®Yuan History, 12, "Annals of Emperor Shizu, 9," zhiyuan 19, 4th month: "Regulations were established for lending to the people at interest. A rate of 3 percent was set." Itemization of the Universal System, 28: "In zhiyuan 19, 4th month, there was a Department of Ministries memorial stating that because loans being made in the various circuits by powerful families were causing a crisis, and taking interest of as much as .05 ounces per ounce, or as much as twice the principal. If the debtor had no money to make repayment, in addition to the interest already paid, he had to make another written contract which compounded the interest. It was permitted to detain the person himself and his property. This was truly hard on the people. Henceforth anyone involved in a loan was to pay no more than .05 ounces per ounce in interest."

Xu Zaisi, Qing River Prefaces ("Xiangsi"): "Xiangsi had a small loan for which he dunned every day, and for which he carried a burden of worry. He could not exceed interest of 3 percent, and he could only count on getting as much as the amount of his original capital in profit."

®The musical drama "The Affectionate Couple's Coverlet," act 1, preface. Cf. also, "Moving Heaven and Shaking Earth Dou Euyuan," preface: "(Old Woman Bu'er Cai recites a poem) . . . There was some money in the house. There is a lower exam graduate named Dou who borrowed 20 ounces of silver last year. As of now the principal and interest come to 40 ounces. I have several times sought to collect repayment, but that Graduate Dou merely says he is poor and in difficulties." (Selected Yuan Songs) Cf. also "The Band of Children of Cuinhong Township," act 2: "(Dr. Wang Shou says) . . . This is Uncle Han Hongdao from Baiying Village. I shorted him 10 ingots worth of Certificates. Principal and interest should be 20 ingots." (Selected Yuan

In zhiyuan 21 [1284], Lu Shirong memorialized to request that the circuits set up Balanced Standard Annually Rotating Emergency Treasuries with the aim of balancing out the value of money and making low interest loans available to the people. He believed that though there were already institutions for smoothing out prices, nobody could use their capital stock, and that this caused a fall in the value of Certificates and rises in prices. If this capital could be used for loans at interest, not only would there be many borrowers, there would also be no loss of capital.

Lu Shirong's many schemes were a step ahead of Wang Anshi's methods. These Balanced Standard Annually Rotating Emergency Treasuries would have been like national banks. He called for establishing one of them in each circuit, which would have been like the provincial branch banks of later ages.

Several months later, Lu Shirong was impeached, and thrown into prison, where he died, and of course these procedures were not put into effect, but in zhiyuan 30 [1293], 5,000 ingots worth of Certificates were put up as the capital for public pawnshops, called Broad Favor Treasuries, which made secured loans at interest.®

The main private credit institution was still the pawnbroking trade. Pawnshops were called "release pledge treasuries" [jiedianku], release pledge
shops" [jiedianpu], or "release treasuries" [jie-ku]. They not only made secured loans, but seem also to have made general unsecured loans. A character in a musical drama goes to a release pledge treasury to borrow travelling expenses. These sources also show the personnel of a release pledge treasury going outside the establishment to collect a debt. In this case, of course, it was not the redemption of a pledge that was involved, but the pressing for repayment of an ordinary loan.

In addition, there were also instances of using the release pledge treasury as a center for setting up a number of other shops. These shops were either under the supervision and management of the release pledge treasury or it would routinely send people to audit their books. In this they resembled modern investment companies or trust financial institutions.

Monthly interest rates charged by Yuan Dynasty release pledge treasuries mostly ranged from 3 to 3.6 or 3.7 thousandths. That is, for each string of cash per month they took from 30 cash to 36 or 37 cash. For ordinary loans, however, the rate seems to have only been 2.5 thousandths. There may have been a reason for this discrepancy:

Though the pawnshop had the pledge as security, it faced additional expenditures, such as the expense of safeguarding the pledge. Moreover, the pawnshops recognized the ticket and not the man. After the man who had pawned the object had left the establishment, the pawnshop had no way to control him. It could not force him to return to redeem the pledge, though he retained the right to do so.

Though ordinary loans often

16The musical drama "Seeing the Cash, the Servant Girl Buys Back Her Family From Their Creditor," act 2: "(The wai-ban, Chen Depu, rises and recites a poem) . . . There's a man in this place, old Executive Jia 'tis, who's family fortune ten-thousand strings is, fields and businesses a crow can't fly past, an oil-press shop, a release pledge treasury, gold, silver, pearls and feathers, light silk, gauze, damask by the bolt, and I don't know what else could be. . . . I'm today sitting in the hall of his home. And it's not a school hall either. It is just that I'm settling the accounts in his release pledge treasury. . . . Today there's nothing much going on, so I'm going to the release pledge treasury to take a look. (Exits)"

"(The jingban Little Two of the shop rises and recites a poem) . . . This wineshop of mine is Executive Jia's. His firm has a gate hall master named Chen Depu, who comes every three or five days to audit the books. . . (Jia Ren rises to speak to Little Two) . . . Ever since I dug out a wall for that small family and found a picul-sized trough of gold and silver unknownst to the master's family, all of it was stealthily moved home by me. Beginning with that, these houses and cottages, release pledge treasury, flour house, grinding house, oil house, wineshop, the business they all do, grows like water flowing. . . In this release pledge treasury of mine there is a gate hall master called Chen Depu. He collects money from loans for my establishment." (Selected Yuan Songs)

17Zhu Shijie, Calculation Techniques Primer, first chapter, "Treasury Release Tax Gate": "Now there is a man pawning something for cash of 85 strings 700 cash. Per string the monthly interest is 30 cash. It has now been 8 months. The question is how much interest has accumulated?"

18Zhu Shijie, Four Original Jade Mirror Detailed Draft, latter part, 4: "Now there is a man pawning something, . . . For each string the monthly interest is 36 cash and four-fifteenths."
lacked security to back them, the creditor and debtor were frequently acquainted with each other, and there was no great possibility of defaulting on the debt. In fact, most debtors were under the domination of their creditors.

In zhiyuan 16 [1279], not long after the conquest of the south, pawnshops came under official harassment, and so only influential people dared run release treasuries. As a consequence, the authorities sent down orders prohibiting the local offices from blindly interfering in business, and from collecting things from private households. In yuanzhen 3 [1297], an order was issued that only if pawned gold and silver had not been redeemed after two years could it be taken over. This was because at that time some release treasuries were not permitting pledges to be redeemed after a year.

Proprietors of pawnshops included, in addition to officials and merchants, a significant number of Buddhist monks from temples and priests from Daoist monasteries. The affairs of such temples and monasteries were multifarious. In addition to pawnshops, they also ran gardens and forests, mills, shops, stalls and bath houses. These businesses were all under imperial protection. Based on surviving imperial edict steles we know that such arrangements existed in Henan, Hebei, Shandong, Shaanxi, Shanxi, Jiangxi, Hubei and Yunnan provinces.

The deposit trade was not at all developed during the Yuan Dynasty. We do not know if forwarding and safe deposit by shops was still being practiced, but counting houses seem to have fallen into decay. Counting houses had originally appeared during Sui and Tang times in Chang'an, and they were also present in Northern Song's Bianjing and Southern Song's Lin'an. Chang'an had suffered destruction during the civil wars at the end of Tang. Bianjing was looted by the Jin. Its former glories had long since disappeared. The Yuan Dynasty's political center had shifted to Yanjing. Given the warfare and currency inflation, the deposit trade could not have developed there.

The monetary exchange trade, therefore, gradually developed out of necessity. The Yuan Dynasty's monetary exchange trade was run by the silver shops or silversmith shops. Since Jin and Yuan times, more silver has been used than gold. Hence the gold number of Yuan Dynasty stele texts. Eight of these mention release pledge treasuries. Chavannes translates the Chinese word for pawnshop [jielianke] as "library" ("bibliotheques"), which is what one might expect of a pedant. He did not realize that the temples and monasteries of China were not like Medieval Europe's churches in being places for the exercise of scholarship. The Chinese centers of religion emphasized the running of businesses. The dates of the eight stele texts run from yuanzhen 2 (1296) to zhizheng 1 (1341). Their locations were Shandong, Hebei, Shanxi, and Hubei. Their texts are half indecipherable, since they were in Chinese as written by Mongols. Cf. Edouard Chavannes, "Inscription et pieces de chancellerie chinois de l'époque mongole." T'oung Pao, Serie II, Vol. IX, pp. 356-411. Cf. also Cai Meibiao, Yuan Dynasty Colloquial Language Steles Collected Record (Academia Sinica, Institute of Philology), which contains additional stele texts mentioning release pledge treasuries encompassing a still wider territory.

"The musical drama "Luo and Li Make a Disturbance at the Xiangguo Temple," act 2: "(The waiban silversmith rises and says) My family are silversmiths. Bright and early I arise, and open up my little shop to see what people come. (The jing rises and says) On the road all my travel money has been used up. I have these two pieces of silver which I'm taking into the silversmith shop to exchange for some cash Certificates to use. (The jianke says) Elder brother, I bow in greeting. (The wai says) What do you wish? (The jing says) I have an ingot of silver to exchange for some travel expenses. Do you want to handle the job? (The wai says) Bring it over and I'll look at it. (The jing says) This isn't silver. Take a look at it. ((The wai looks and the ke says) Elder brother, do you have anything else? (The jing says) I have another one here. (The wai says) Bring it over and I'll look at it. Alright. It's simply a counterfeit silver piece, which is clearly prohibited. Let's you and I go to the official headquarters." (Selected Yuan Songs)
and silver shops of Tang and Song times came to be called silver shops, and this trade was called the silver guild [yinhang, the word that was much later somewhat redefined for use as the Chinese term for Western-style bank].

Naturally, the main business of a silver shop would be the making of silver utensils, but money exchange was probably also very important for them, and this was not limited to silver. Gold could also be exchanged. Later, copper coins came back into use among the people, and so the copper coin exchange business probably also became somewhat developed. In Emperor Shun’s zhizheng 16 (1356), there was a ban on selling copper coins.

The price of gold during Yuan was 15 strings worth of Zhongtong Certificates per ounce, 20 strings of Zhiyuan Certificates, 10 ounces worth of Zhida Silver Certificates, or 10,000 copper cash. The price of silver per ounce was 2 strings worth of Zhiyuan Certificates, 1 ounce worth of Zhida Certificates, or 1,000 Zhizheng copper cash.

Nominally, however, the Yuan Dynasty did not permit the people to use gold and silver, and since few copper coins were minted, paper money prices frequently changed.

The gold-silver exchange price changed from 1:7.5 to 1:10. The upward tendency in the price of gold was the consequence of the authorities’ policies. The price of gold was low in gold producing regions. For example, in some places in Yunnan the gold-silver exchange price was 1:8, and in other places it was 1:6 and 1:5. Probably the supply of gold continued to increase. Japan continued to ship gold to China without interruption. Sometimes this gold was exchanged for Chinese copper coins, as occurred on one occasion in zhiyuan 14 [1277]. Sometimes it was brought to China to exchange for other commodities, as when the Kamakura Jomyo Temple had the people of Anzen bring 100 yi of gold to China to purchase the Great Treasury Sutra published in Fujou.

The Yuan employed copper coins to exchange with overseas countries for gold and jewels. There were also frequent prohibitions on export of domestic gold. Therefore, gold could only flow in. In zhiyuan 26 [1289], 1st month, the Jianghuai provincial governor, Pingzhang Shamuding, requested that the merchant ships office annually pay in 3,400 ounces of gold. At that time this office was supposed to collect 10 percent of the value of imported foreign goods. If this 3,400 ounces of gold represented 10 percent of one year’s importation of gold, then the quantity of gold imported during the Yuan Dynasty was considerable.

As for the remittance trade, with the adoption of paper money there was no longer any great need for it, and so the convenient exchange method was gradually forgotten by people.

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24 Lianghe Epigraphic Record, 15, records a stele of yanyou 1, set up in the Eastern Prison of the Travelling Palace in Changxingzhou. On it are the phrases "Dragon King Office, Silver Guild, Wu Yong, Yang Xin." The meaning of this is: Making charitable contributions to the Dragon King are the silver trade’s Wu Yong and Yang Xin.

25 The musical drama "Three Tigers Descend the Mountain to Contend for Requiting Mercy," act 1: "I’ll give you this gold hairpin for travelling expenses. You go into that silver shop to exchange it. Hush up your complaining." (Selected Yuan Songs)

26 Yuan History, 44, "Annals of Emperor Shun, 7."

27 The Travels of Marco Polo, Book II, chaps. XXXIX, XL, XLI and XLIII.