

#### 1.4. The Appearance of Credit

Borrowing must have begun after the appearance of private property. Once private property had appeared, society gradually divided into the two classes of the rich and the poor. When the rich and poor competed, the rich were generally in the superior position, which allowed them to become still richer, and made the poor still poorer. At times, if a poor man did not borrow, he would not have enough to preserve his property or even to live.

The existence of money is not a necessary prerequisite for borrowing, because borrowing need not employ money. It can be in various articles necessary for daily life. Such everyday necessities, when used to make loans, took on

[104] the function of instruments of payment, which is also a function of money, but there is room for argument as to whether things which just have this function can also be called money.

Hence borrowing frequently begins before the appearance of true money, and has almost as long a history as the exchange of goods for goods. Evidence for this is found in the early records of a number of ancient peoples. Borrowing flourished among the Sumerians and Babylonians prior to 2,000 B.C. Borrowing was sometimes in silver, sometimes in grain. Repayment was sometimes in the same goods, but sometimes even if silver had been borrowed, repayment might be in grain.<sup>1</sup> After the emergence of money, sometimes goods continued to be used as well as money, as is attested in the *Old Testament*.<sup>2</sup>

---

<sup>1</sup>The forty-eighth item in the "Code of Hammurabi" states: "If a man owes a debt, and his fields are destroyed by a violent storm, so that his harvest is blown away; or if because of lack of water, the grain does not ripen; then during that year he will not give grain to his creditor. He will soak his writing board (meaning the clay certificate-tally of debt, which was soaked so as to revise it), and moreover, during that year he will pay no interest."

The forty-ninth article concerns money which was borrowed (the original text possibly reading silver), and the use of grain or linseed as repayment. A number of other articles also deal with borrowing.

<sup>2</sup>*Old Testament*, "Leviticus," xxv.37: "When you lend money to another, you may not take interest from him; when you lend grain to another, you may not demand more in repayment." The English *Authorized Version* of "Deuteronomy," xxiii.19 reads: "Thou shalt not lend upon usury to thy brother, usury of money, usury of victuals, usury of any thing that is lent upon usury." The word "money" in the English text is sometimes lacking in the original, and sometimes the word "silver" is found instead, and so the silver may have been viewed by the Bible's

I have found nothing concerning borrowing in either oracle bone texts or bronze inscriptions. This, of course, is not to say there could not have been borrowing during the Yin dynasty. Private wealth and property already existed, and so the prerequisites for borrowing were all present. The Yao ding inscription states that for stealing official rice, the penalty was to return twice the amount. If the amount was not returned within the year, the quantity was to be doubled yet again. Though this was a fine, it can also be viewed as the exaction of interest.

An ancient tradition states that when Ji Li [the father of King Wen of Zhou] moved his capital to Western Zhou, he took out a loan from the Shang. Unable to repay them, he ascended the multi-storied terrace to avoid the debt. The Zhou people called this structure the debt-avoidance terrace.<sup>3</sup> This tradition is, however, implausible.

The earliest recorded reference to borrowing in ancient texts is generally believed to be in the *Rituals of Zhou*.<sup>4</sup> As described by this book, the "Coin Office" [*quanfu*] was something like a modern finance ministry and central bank combined. Its job was to manage various taxes and price stabilization. Its credit business involved buying on credit. The people would borrow from the government for a period determined by the purpose of the loan. If for ceremonial purposes, the loan's term was only ten days. If it was for a funeral, the loan could be for three months. The government took interest on its capital, and used it to meet its expenses. At the end of each year the accounts would be balanced.

Lending by this Coin Office may be considered the first use of government credit. Probably both the loans and their repayment, including interest, were in various local products.<sup>5</sup> The Coin Office operated on a very large scale. It had four upper officials, eight middle-ranking officials, and sixteen lower-ranking officials. Four men were of bureau rank,

---

authors as a commodity.

<sup>3</sup>*Jin History*, 26, "Treatise on Food and Money," quoting Wang She.

<sup>4</sup>*Rituals of Zhou*, 15, "Local Official Coin Offices."

<sup>5</sup>To the above cited text, Zheng Xuan of Han added the following note: "If a farm received a state loan of ten-thousand coins, it would pay an annual interest of five-hundred." Jia Gongyan even went so far as to say: "Those in nearby suburbs up to eleven *li* away, paid annual interest of a thousand for ten-thousand. Those in distant suburbs up to twenty or thirty *li* away, paid 1,500 per 10,000 cash. People cultivating land around prefectural cities paid 2,000 in annual interest per 10,000." These statements are, of course, unreliable.



there were eight scribes, and eight merchants, with eighty subordinates, for a total of 128 personnel. Evidently they must have done a brisk trade.

The date of completion of the *Rituals of Zhou* cannot, however, be determined. Some of the material it contains was probably inserted by Han dynasty writers. Some may even have been forged. Hence its account of the Coin Office is not altogether credible.

[105]

The *Dialogues of the States*, "Dialogues of Jin," 1, states that when Duke Wen of Jin recovered his state, he "rejected his responsibilities [for his debts]." The "Dialogues of Jin," 14, tells the story of Luan Huan Zi "borrowing residence money." The *Zuo Chronicle*, under the 16th year of Duke Wen, notes that when there was a famine in Song, "Gongzi Bao used up his grain in making loans." These may really be the earliest records of credit.

Another important written source is the *Guan Zi*, which must reflect Warring States circumstances. Usurers flourished then to an extraordinary degree. Borrowing could be in either grain or cash. Some thirty-thousand families were involved in lending, according to the *Guan Zi*, and the amount lent, reckoned in grain, was over thirty-million *zhong*, with each *zhong* being 6 *hu* four *dou*. Reckoned in cash, it came to thirty-million.

The customers of the usurers were the peasant, hunting and fishing households. The peasants were those the *Guan Zi* called those "who lacked enough in a given month, but who had a surplus over the course of a year," and who normally needed to borrow. Especially to pay the taxes exacted by the rulers, they had no way to avoid paying a very high interest rate to borrow money. Hence the interest rate then ranged from twenty and fifty percent to doubling of the principal.<sup>6</sup>

<sup>6</sup>*Guan Zi*, "Light and Heavy, Part D":

"Bao Shu rode west, and on his return reported that the people of the west live along the rivers and where things sprout from marshes. They fish and hunt, and gather firewood to cook their food. Among their money lenders, those with the most have a thousand *zhong*, and those with the least have six or seven hundred *zhong*. When they lend one *zhong*, they receive interest of one *zhong*. Over nine-hundred households receive interest.

"Pin Xuwu rode south, and on his return reported that the people of the south live on the hills and reside in the valleys. They climb up and go down. Above they hew wheels and shafts; below they collect acorns and chestnuts. They hunt in the fields for food. Of those households which lend, those with the most have ten-million; those with the least have six or seven million. They put it out for interest of five [misprint for fifty? EHK] percent. There are over eight-hundred families receiving interest.

Given the relatively direct nature of production, there was no particular inconvenience in borrowing goods. Whether for production or consumption, a borrower could easily acquire the things he needed, because in those times requirements were very narrowly defined. For production, no more was needed than seeds or tools. For consumption, no more was needed than food and clothing. These things a person could produce for himself for purposes of repayment.

As production became more developed, however, the division of labor became finer, the number of commodities multiplied, and it was no longer easy to borrow the things one particularly needed, or to use what one produced as repayment. Only with money could one buy the things one needed, and so lenders came to prefer receiving money, and even borrowers found money more convenient, since it was only with money that they could buy the things they required.

Moreover, because of money's characteristic as a general denominator of value and its function as a store of value, creditors preferred to receive money rather than goods, since goods were not convenient to store, and money could be turned into goods at any time. Hence, that the appearance of money was a stimulus to the development of credit, is absolutely unquestionable.

---

"Ning Qi rode east, and on his return reported that the people of the east live on the mountains and the seashore. The fishermen and hunters are the wealthiest. They make hempen cloth to earn a living. Of those who lend at interest, including the Ding, Hui, Gao and Guo, those with the most have five-thousand *zhong*, and those with the least have thirty *zhong*. They receive five *fu* of interest per *zhong*. Eight or nine-hundred families receive interest.

"Xi Peng rode north, and on his return reported that the families of the north are spread out in isolated settlements. They boil sea water to make salt. The people of Liang and Ji catch fish. They gather fuel to earn a living. Of the lending families, those with the most have ten-million, those with the least have six or seven million. They get twenty percent interest. Over nine-hundred families receive interest.

"In total they have lent out ten-million in cash, and several tens of millions of *zhong* in grain. Some ten-thousand families receive interest."

The last few phrases are evidently summations, but they do not jibe with the figures given before. For example, the number of lending families from the east, south, west and north only add up to three or four thousand. Perhaps there was a copyist's error. [The translation in Lewis Maverick (ed.), *Economic Dialogues in Ancient China: Selections From the Kuan Tzu* (Carbondale, 1954), pp. 191-192, makes the phrase rendered here as "those who receive interest" into "those who pay interest." EHK]



We ought to distinguish between lending and usury. The meaning of the term usury is quite blurred. The term has no clear definition. It was derived from the Latin, where the word *usura* originally meant "to use," and later was applied to the receiving of interest, particularly high rates of interest. Because Christianity prohibited the taking of interest for loans, all rates of interest came to be considered unjust, but with the appearance and growth of the sprouts of capitalism,

[106]

lending at interest came to be more and more tolerated, and in English the meaning of the word "usury" came to be restricted only to loans at high rates of interest. Usury in this sense meant interest rates for loans higher than that fixed officially.

Our Chinese term for usury --*gaolidai*-- was coined as a translation of the foreign word "usury" at this latter stage of the word's evolution. But the original foreign term referred to taking interest and the translated word also to lending itself, and so the word can be used both in a broad and narrow sense. In the narrow sense it means lending at rates exceeding the official rate of interest. In the broad sense it can refer to any lending at interest, because interest itself is obtained by the lender without labor. It is not synonymous with making loans.

Borrowing is the larger category. A loan need not bear interest. Even in modern times, a loan of tools or even of money to friends frequently does not involve the taking of interest, but such transactions are still loans. Babylonian credit included loans without interest, and such loans can in no way be considered usury. Ancient China undoubtedly also had this type of borrowing, but it was no more the main form of credit than were loans of actual goods. The main form of credit was the borrowing of money with the exaction of interest. Hence we can only say that credit is a variant form of money.

The rate of interest for loans was not uniform in ancient times. It would be better to view this lack of uniformity as a characteristic of feudal society rather than as a characteristic of usury. Feudal society's lack of unity was made manifest in numerous ways, of which the interest rate was only one. Even the interest rates recorded in the *Guan Zi* are not uniform.

During Warring States times, lending at interest was extraordinarily common. It was then called *jiadai*<sup>7</sup> or *chengdai*<sup>8</sup>. The *Historical Records*'

[108]

<sup>7</sup>*Dialogues of the States*, "Dialogues of Jin," 14: "*jiadai* residence money."

<sup>8</sup>*Mencius*, 5, "Duke Wen of Teng," first part: "also *cheng-*

"Biographies of the Moneymakers" gives many examples of lending to attain wealth, as for example the Cao and Bing families' "carrying on of trade in credit." The most famous example was Lord Mengchang of Qi, who used his status as great aristocrat and high official and landowner to lend at interest so as to support several thousand retainers. His annual income from interest came to more than a hundred-thousand.<sup>9</sup>

Borrowing then was almost entirely pure credit. There was no collateral. The only record of a loan was a tally issued by the lender. Each party retained half the tally. When the term of the loan had expired, the tallies would be matched as repayment was made. When Liu Bang served as constable of Sishui, he went around with his friends, and they frequently drank wine on credit. It is said that on one occasion his creditor saw a dragon hovering above Liu's head while he was in a drunken sleep, and he thereupon "broke the tally, and forgave his debt."<sup>10</sup>

Non-collateral loans were the main form of credit under feudal society. There was not much risk for the creditor because

[107]

in a feudal society the people's movements were not free. Though absconding was not impossible, all things considered, it was relatively difficult. If a debtor left the land, he frequently found living difficult. Creditors also often had complete freedom to dispose of the property and persons of debtors. Hence at times a debtor's family property might be sold or confiscated, and whole families would sink into beggary. This is what Mencius meant when he

*dai* increasingly."

<sup>9</sup>*Stratagems of the Warring States*, "Stratagems of Qi," 4: "There was a man of Qi named Feng Xuan who was so poor he could not maintain himself. He sent a servant to ask that he himself be placed under Lord Mengchang. He wished to be lodged and fed as one of the Lord's retainers. . . . Later, Lord Mengchang put out a request among his retainers asking which of them could keep records, and was thus able to collect his debts in Bi. Feng Xuan said that he could do so. . . . Thereupon Feng secured a chariot, and rode off carrying the tallies of indebtedness. As he departed, he asked what he should purchase and bring back with the proceeds when the debts had all been collected. Lord Mengchang replied that it should be something in scarce supply in his household. Feng hurried to Bi, where he had the clerks assemble all those among the people who owed debts, so that his tallies might be matched against theirs. When the tallies had been matched, Feng brought forth a false order to forgive these debts, and so he burned the tallies. The people all cheered."

<sup>10</sup>*Historical Records*, "Basic Annals of Emperor Gao Zu."

said "they also lent increasingly, causing the old and the very young to be cast into the ditches."<sup>11</sup>

---

<sup>11</sup>*Mencius*, 3, "Duke Wen of Teng."