

2.4 Credit

With the unification of China by Qin and Han, both domestic and foreign trade began to develop. Foreign nations with which trade relations appeared included India, the states of Central Asia, Rome and Parthia.¹ The development of domestic commerce² may be judged from the development of the markets of the capital and the rules for petty merchants. There were nine markets in Chang'an, each four *li* apart, and 266 paces square. There was an office which specialized in the overseeing of merchants, money, and the buying, selling and trading of goods.³ The rules for petty commerce also reflected the expansion in the power of the merchant class. The high profits of the merchants⁴ caused distinctions between wealth and poverty to grow ever greater among the people.

Naturally, the making of loans also became more frequent. Not only was mercantile capital then running wild, usury capital was also on the rise, since not merely ordinary merchants were making loans,⁵ but so too were specialized

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firms of lenders.

Chang'an had only one loan market. At the time of the Revolt of the Seven Feudatories, when the commanders of the military in Chang'an were about to go on the offensive, they went to this market to float a loan. Because victory in the east had not yet been won, the lenders were unwilling to accommodate them. A man named Wu Jian took a chance on lending a thousand *jin* for a return of ten-fold. By the 3rd month the rebellion in the south had been put down, and a year's interest allowed Wu Jian to

become one of the richest men in the area surrounding the capital.⁶

What is worth noting here is not just that there was a loan market in Chang'an, but that the participants in this market for the most part did not operate from the government's point of view. It was not a matter of right or wrong. Lenders merely sought security for their capital and to make money. At the same time, the borrowers were not all necessarily poor commoners. There were also some men of high position who lived off borrowed money.⁷ Of course, their situation was different. From Han times on in Chinese society, mercantile capital and usury capital have been very well-developed, and for the past two thousand years there has been no change in this respect.

The ruling class of every epoch has, from time to time, made government relief loans so as to meliorate the class struggle. In 117 B.C. Emperor Wu sent six high officials on a tour of inspection of the Empire during which they could extend credit to sick widowers and widows, and to people unable to earn their livelihoods.⁸ In 40 B.C. Emperor Yuan issued an edict "forgiving those poor people in the Empire who had borrowed money from having to pay back their debts."⁹

Interest rates in China seem to have been higher than those in foreign countries since antiquity. The government must have regulated interest rates during Han, since the histories often mention the taking of interest in excess of the legal rate.¹⁰ I have,

⁶*Han History*, 91, "Biographies of the Money-makers."

⁷*Han History*, 80, "Biographies of the Six Princes of Emperors Xuan and Yuan": "When Emperor Yuan ascended the throne . . . the Prince of Xian had three brothers of his maternal grandmother, including one Zhang Bo. . . They received gifts from the Prince. Later, the prince sent a letter to the Throne asking that his maternal relatives, the Zhangs, be moved to his fief. Bo sent up a letter stating his desire to remain at the tomb, and he alone did not go. The Prince hated him for this. Later, when Bo arrived at Huaiyang, the Prince gave him few gifts. Bo said he was poor and had borrowed several million. He wanted the Prince to pay this debt, but the Prince would not do so." *Ibid.*: "Now there was an official who borrowed 2 million from a usurer."

⁸*Han History*, 6, "Annals of Emperor Wu."

⁹*Han History*, 9, "Annals of Emperor Yuan."

¹⁰*Han History*, 15, "Table of Princely Ranks": "In yuanding 1 [116 B.C.], Yin, the Marquis of Pangguang lent money at interest. He did not take over the land tax, but took interest in excess of the laws and got around the remission." *Ibid.*: "In jianshi 2 [31 B.C.] the Marquis of Lingxiang was accused of having someone injure the chamberlain of his household, and of lending money at a rate in excess of the legal one. Hence the

¹Cf. subsection 2.1.3, "Gold and Silver."

²The *Yellow Diagram of the Three Capital Districts*: "In yuanshi 4 [4 A.D.] a Hall of Enlightenment for the doctoral examinations was erected. Thirty sections were made assembly markets. Several hundred locust trees were set out in rows. The students faced north assembled in these markets. Each carried goods and classical books produced in his commandery, and they bought and sold these among themselves. Each courteously yielded place to the others as they debated amiably and gently beneath the locust trees."

³*Yellow Diagram of the Three Capital Districts*.

⁴*Han History*, 91, "Biographers of the Money-makers": "For a poor man to seek wealth, agriculture is not as good as artisanship, and artisanship is not as good as commerce. Embroidery is not as good as sitting at the gate of the market."

⁵*Historical Records*, 129, "Biographies of the Money-makers": "Capital of 1,000 strings of cash, prudently managed, can by an avaricious merchant be tripled, and by an incorrupt merchant be quintupled."

however, seen no reference to what the official ceiling on the interest rate actually was. Gong Yu's statement that "annually there was a profit of twelve-[fold]"¹¹ and Ban Gu's that "for commoners, peasants, artisans and merchants, the annual rate is 2,000 in interest on a sum of 10,000"¹² refer to commercial profit, and not to the pure rate of interest.

The *Nine Chapter Calculating Techniques* mentions "lending a thousand cash at a monthly interest of 30." This would amount to an annualized rate of 36 percent,¹³ which was probably not an officially fixed interest rate.

At that time the highest legal interest rate in Rome was twelve percent. The interest actually being charged was six percent, and eight percent when silver was in short supply. It was only for the riskiest loans that as much as twelve percent would be charged. In Asia Minor then the rate was also only twelve percent. Certainly some charged more than the legal maximum rate. The highest such rate reached 48 percent.¹⁴

The rate for private loans seems to have been higher than this in China. For example, in the abovementioned case of the loan made by Wu Jian, for which he received a ten-fold return in a year. [Interest rates might have been higher because demand for loans was higher in the more monetized Chinese economy. It is also possible that then, as later, much credit was internalized within extended families or corporate analogs to such families, reducing the supply of loanable funds, and thereby raising the interest rates for those who could not borrow from kinsmen, real or fictive. EHK]

During ancient times, both in China and elsewhere, there were opponents of making loans at interest. In King Xian of Zhou's year 25 (344 B.C.), the Romans passed a law forbidding the taking of interest on loans.¹⁵ Later on, the Christians also opposed the taking of interest. China's Confucians seem to have not approved of interest either. Mencius

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said "because they lend money and increase it, the old and weak are turned out into the ditches."

All of these opponents began from the same log-

ical premise. Because most loans during antiquity were used for consumption purposes, and were rarely used to finance production, the exaction of interest increased the burden on the borrower to the point where he might have no way to make repayment.

This is unlike the situation for borrowing of money under a capitalist society, where most such funds are used to seek profit via production, so that interest is only one part of profit, and is thus considered a natural phenomenon. The capitalist's interest burden may be shifted onto others, but the ordinary consumer's burden falls on his own shoulders. Hence Chao Cuo alludes to people who sold their land and homes and even their children and grandchildren so as to pay their debts.

The Greek, Aristotle, believed that money was unproductive, and so interest ought not to be taken for it. This rather temperate attitude was close to that of Mencius. With the rise of the Roman Empire, however, European opposition to the taking of interest became more ardent. Cicero believed that taking interest was worse than stealing. That attitude continued dominant up through the European Middle Ages. In China, there was not much opposition among ancient period scholars to the taking of appropriate levels of interest.

In the first century, Wang Mang supplied credit via the government. There were different rates of interest for consumption loans and loans for production. This was a pioneering undertaking. The governmental credit Wang Mang offered was a throwback to the supposed credit mentioned in the *Rituals of Zhou*. The interest rate was three percent per month.¹⁶ Loans of goods bore no interest.

Terms of loans were of two sorts: One for funerals and another for ceremonials. For ceremonials, the limit was ten days. For funerals, the limit was three months. The people could also borrow cash from the government to establish a business, and an annual interest of ten percent would be paid on the increased return.¹⁷

If we compare this with the nearly contemporaneous Roman legal rate, the short term rate is higher than the Roman, but the long term annual interest of ten percent is about the same as the Roman rate.¹⁸

The lending trade also flourished during Eastern

debt was remitted."

¹¹*Han History*, 72, "Biography of Gong Yu."

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¹²*Han History*, 91, "Biographies of the Money-makers."

¹³*Nine Chapter Calculating Techniques*, 3.

¹⁴Tenney Frank, *An Economic Survey of Ancient Rome*, p. 350. Mommsen, *The History of Rome*, Book V, pp. 508, 526.

¹⁵Mommsen, *The History of Rome*, Book V, p. 523.

¹⁶*Han History*, 99, "Biography of Wang Mang": "He also ordered the market officials to buy cheaply and sell dear. Credit was offered the people at an interest of three percent per month."

¹⁷*Han History*, 24, "Treatise on Food and Money."

¹⁸Julius Caesar decreed a limit of one percent per month. It was forbidden to charge interest on interest or to allow interest to accumulate in excess of the principal. Mommsen, *The History of Rome*, Book V, p. 526.

Han. The income of most rich merchants was comparable to that of feudal lords.¹⁹

Even the government often floated loans because the Eastern Han government was usually in fiscal trouble. When, for example, in Emperor An's yongchu 4 (110 A.D.) there was a war with the Qiang, and tax receipts were down, the officials had to borrow several billion from the people.²⁰ In Emperor Shun's yonghe 6 (141), "an edict levied a loan of a thousand cash on each household which possessed some capital."²¹ Because of a famine in Jizhou during Emperor Huan's yongshou 1 (155), thirty percent of their holdings was borrowed from princes and marquises who held reserves of grain so as to maintain the holdings of the imperial granaries until the new harvests could replenish them.²²

During the Han dynasty the credit trade was probably limited to transactions between private persons or between the government and private parties.

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Apparently credit institutions had not yet appeared among the populace at large.

Some say pawnbroking was already present in China by Han times, and cite as proof of this the statement in the *Latter Han History*'s "Biography of Liu Yu," which states that "the reward bestowed on Yu was pawned to the Hu-Yi barbarians." However, the earliest pawnbroking in China was given the label *zhi* or *zhiku*, rather than the term now used, and used in this quotation, *diandang*. It was not until the Song Dynasty that the terms *dian* and *dianzhi* appeared, and it is not until the Ming Dynasty that the term *diandang* appears. Hence the practice which the *Latter Han History* labels *diandang* was not necessarily pawnbroking.

¹⁹*Latter Han History*, 58, "Biography of Huan Dan."

²⁰*Latter Han History*, 51, "Biography of Pang Can": "Yongchu . . . 4 . . . Can's memorial was recorded by Deng Xi, who said that in recent years the Qiang depredations have been especially severe. Tax receipts from the commuted land and labor service taxes for the Longyou [modern Gansu] have been ever more troubled, requiring the officials to add to the people's burden by borrowing several billions."

²¹*Latter Han History*, 6, "Annals of Emperors Shun, Zhong and Zhi."

²²*Latter Han History*, 7, "Annals of Emperor Huan": "Yongshou 1, Spring . . . 2nd month. The Director of Retainers reported a famine in Jizhou so bad that the people were reduced to cannibalism. Imperial orders were issued to the prefectures and commanderies to give relief to the poor and weak. Those among the princes, marquises, officials and people who had stores of grain were all to lend three parts of ten to replenish the storehouses. Commoners and officials were to be recompensed with coin. Princes and marquises had to await arrival of the new

The idea of giving goods as security for a loan appeared very early. There are many instances of it during Spring-Autumn and Warring States times. There are instances during Han of something called *qiezhi* (i.e. holding for ransom), but we have no way of proving that pawnbroking as such existed during Han. If the term *diandang* in the "Biography of Liu Yu" does refer to the granting of credit in return for the giving of a material pledge, then the pledge market tower [*dangshilou*] whose existence is noted in the *Old Times in the Three Capital Districts* must have somehow been connected to pawnshops.

As for the making of deposits, that developed still more slowly. The wealth in coin accumulated by the ancients was for the most part kept in hoards. There were such things as money boxes during Han,²³ but there is no great difference between a money box and a hoard. It is merely a form of accumulation, and putting coins in one cannot be called making a deposit.

tax receipts for recompense."

²³*Miscellaneous Record of the Western Capital*: "In yuanguang 5 [130 B.C.] Gongsun Hong was made a Man of Wisdom and Virtue of the State Knight Hall. Because his family was impoverished, and he had little capital of his own, his colleague Zou Changqing took off some of his own robes to clothe him, and took off the hat and shoes he was wearing to give him. He also gave him a bundle of straw, a set of plain silk grave clothes, a money box and a book box. In leaving this to him he said . . . A money box uses the earth as an implement for storing up coins. Everything one has enters into the hole, and does not come out of it. When it is full, you have saved it. The earth makes things coarse. Coins are heavy goods. They enter and do not come out, they are accumulated and not dispersed, and so it is said one saves them. There are gentlemen who accumulate and save, but are unable to disperse wealth, and there are generals who have been defeated by money boxes." (Cf. *Collectanea of Ancient and Modern Books and Illustrations*, 358, "Coins and Notes: Records Thereof.")