

Loans and lenders: specialization, competition, and integration in late imperial and Republican-era lending markets

In the jar there's not a peck of grain
Nor a bolt of silk in my crate of bamboo.
Friends come, to receive a loan they'd fain.
How to consent, I haven't a clue.¹

-- Poem attributed to Cao Cao (曹操) (155-220)

We lend not with a free hand and conceal our wine in cellars deep
Afraid our wealth be known, impoverished our dependents keep
When we enter the earth, our wealth is others' to devour
You shan't spend it; they'll exhaust it beyond your power!²
-- Poem by Wang Fanzhi (王梵志) Sui-Tang era (~569 to 583 AD) Buddhist poet

This chapter studies lending in late imperial and Republican-era Shanxi. It argues that Shanxi-merchant financial institutions developed during the Qing fostered competitive lending markets. These markets integrated the urban and rural economies and provided capital at market prices to a vast number of potential borrowers, including business entities and landowners with collateral or a sound reputation. This high-level thesis is supported by a number of empirical discoveries. First, the chapter uncovers an array of lenders, including specialized financial institutions as well as more communally based actors. Different lenders occupied distinct niches in the lending market. Some focused on commercial borrowers, while others specialized in lending to landowners or peasants. But target markets usually overlapped, ensuring lively competition between lenders and borrowers alike. Critically, this meant that interest rates were determined primarily by market competition, rather than by custom, backward institutions, or exploitative social relations. These findings are also supported by empirical proof of surprisingly low-interest loans, at rates of between 3.3% and 15% annually. This indicates that high interest rates relative to today were a product of scarcity and

¹ 瓮中无斗储，发篋无尺缿。友来从我贷，不知所以应。

Source: “‘瓮中无斗储，发篋无尺缿。’全诗赏析_古诗文网。” Accessed September 26, 2023.

https://so.gushiwen.cn/mingju/juv_f7da8b6a1b68.aspx. Translation by author and Rui Hua.

² 借贷不交通，有酒深藏着。有钱怕人知，眷属相轻薄。身如黄泉下，他吃他人著。破除不由你，用尽遮他莫。 Translation by author and Rui Hua, using text and glosses from Xihou Zhang and Fanzhi Wang, *Wang Fanzhi Shi Jiao Ji*, Di 1 ban (Beijing: Zhonghua shu ju : Xin hua shu dian Beijing fa xing suo fa xing, 1983), 18; Chu Xiang and Fanzhi Wang, *Wang Fanzhi Shi Jiao Zhu*, Di 1 ban, Zhongguo Gu Dian Wen Xue Cong Shu (Shanghai: Shanghai gu ji chu ban she, 2010), 69-71.

other economic factors, rather than defective financial institutions fundamentally incapable channeling capital effectively. Similarly, this chapter discovers a form of long-term lending in the agrarian economy known as *xianqi* (限期; literally “term-dated”), or “xian” for short. *Xian* are well attested to both in primary sources and in *wenshiziliao* accounts yet have gone entirely unnoticed in the scholarly literature. *Xian* may have been limited to areas under Shanxi influence and are likely a product of Shanxi’s uniquely well-developed financial system. Though perhaps not representative of other parts of China, they nevertheless demonstrate that traditional Chinese financial institutions were at least capable of long-term credit financing.

A related discovery is the impressive degree of market integration, both between different strata of society and geographically. The same fund of capital could be deployed in the liquid commercial lending (or futures) markets studied in Chapter XXX or to the rural economy in the form of loans to artisans or peasants. Moreover, capital could move back and forth between sectors of the economy as market conditions changed. Rural lenders borrowed from urban *qianzhuang* when their own funds were insufficient. This allowed urban and commercial capital to fund the rural economy. At the same time, rural institutions held accounts at urban *qianzhuang* in which they parked idle funds. In this way, capital flowed to wherever opportunities were most attractive. This means that Chinese traditional lending institutions and practices, far from stymying growth by misallocating capital, almost certainly raised economic output.³ At the same time, we also see evidence of market integration in the spatial orientation of interest rates. Urban and rural rates are highly correlated by county, as are interest rates of neighboring counties. Credit markets appear to have been at least to a significant extent regionally integrated, rather than isolated in small communities. This finding strengthens Keller and Shiue’s discovery that modern or “colonial” institutions lowered interest rates not only in treaty ports but in their broader environs.⁴ In other words, this chapter indicates that native institutions were able to channel less expensive capital beyond the ambit of a foreign enclave.

Finally, this chapter investigates the nature of loan demand. There is an old debate on whether rural loans, which generally accrued a high monthly interest, were used primarily for consumption or for production.⁵ My research suggests a

³ This, somewhat unexpectedly, was the opinion of Leonard Wu, the leftist scholar affiliated with the IPR and one of the early exponents of the “usury” thesis. Leonard T. K. Wu, “The Crucial Role of the Chinese Native Banks,” *Far Eastern Survey* 4, no. 12 (1935): 89–93, <https://doi.org/10.2307/3023180>.

⁴ Wolfgang Keller and Carol H. Shiue, “The Economic Consequences of the Opium War,” Working Paper, Working Paper Series (National Bureau of Economic Research, October 2021), <https://doi.org/10.3386/w29404>.

⁵ John Lossing Buck, *Land Utilization in China: A Study of 16,786 Farms in 168 Localities, and 38,256 Farm Families in Twenty-Two Provinces in China, 1929-1933* (Council on Economic and Cultural Affairs, 1956), 461; Philip C. Huang, *The Peasant Economy and Social Change in North China* (Stanford: Stanford University Press, 1985), 189-

third possibility: financial settlement. The timing of borrowing for both individuals and businesses suggest that a key source of lending demand was the need to clear other, often non-interest-bearing, debts before settlement dates—either the *biaoqi* for major borrowers or the Spring Festival for individuals and small businesses. I believe the role of lending markets in allowing regular settlements and clearing is unexplored in the literature despite the voluminous research on traditional Chinese lending.

The primary contributions of this chapter are empirical: it offers a systematic and granular view of how Qing and Republican-era Chinese lending worked. In doing so, it introduces a number of heretofore unknown lending practices and relationships. But this empirical advance bears on a more abstract problem in the Chinese history field, namely, the usury debate.⁶ This chapter, building on several other recent, pathbreaking works on Qing-era lending,⁷ suggests that usury is a poor explanation for rural lending prices. It also demonstrates that financial institutions at least helped integrate rural and urban sectors and thus casts doubt on the contention that Chinese credit markets failed to penetrate the countryside.⁸ On the contrary, it argues that traditional financial institutions were key to capital creation in county seats and country villages alike, and that rural China would have been all the poorer and less able to develop without them.

This chapter is intimately related to the findings in the previous chapter on *biaoqi*. *Biaoqi* lending markets studied in Chapter XXX were the “core” of the lending market. By this I mean they were the most liquid, had the lowest interest

190. Arguing loans could be directed to productive purposes, see Ming-te Pan, “Rural Credit in Ming-Qing Jiangnan and the Concept of Peasant Petty Commodity Production,” *The Journal of Asian Studies* 55, no. 1 (1996): 94–117, <https://doi.org/10.2307/2943638>; Zhan Lin, *Gao Li Dai de Luo Ji: Qing Dai Minguo Min Jian Jie Dai Zhong de Shi Chang Ji Zhi = The Logic of Usury: The Market Mechanisms in Private Lending in the Qing Dynasty and the Republic of China*, Di yi ban (Beijing: Ke xue chu ban she, 2021), 151-162.

⁶ Debin Ma and Kaixiang Peng, “Agriculture,” in *The Cambridge Economic History of China: Volume Undefined: 1800 to the Present*, ed. Debin Ma and Richard von Glahn, *The Cambridge Economic History of China* (Cambridge: Cambridge University Press, 2022), 87–123, <https://doi.org/10.1017/9781108348485.004>.

⁷ Peng Kaixiang 彭凯翔, Chen Zhiwu 陈志武, and Yuan Weipeng 袁为鹏, “The Mechanisms of Rural Credit Market in Modern China—A Research Based on Raw Documents (近代中国农村借贷市场的机制——基于民间文书的研究),” *Economic Research Journal (经济研究)*, no. 05 (2008): 147–59; Zhiwu Chen, Kaixiang Peng, and Weipeng Yuan, “Usury, Market Power and Poverty Traps: A Study of Rural Credit in 1930s’ China,” *Frontiers of Economics in China* 13, no. 3 (September 15, 2018): 369–96, <https://doi.org/10.3868/s060-007-018-0019-6>; Zhan Lin, *The Logic of Usury: The Market Mechanisms in Private Lending in the Qing Dynasty and the Republic of China*, Di yi ban (Beijing: Ke xue chu ban she, 2021); Qiao, “Loans to Mongols,” XXX.

⁸ John Lossing Buck, *Land Utilization in China: A Study of 16,786 Farms in 168 Localities, and 38,256 Farm Families in Twenty-Two Provinces in China, 1929-1933* (Council on Economic and Cultural Affairs, 1956), 461; R. H. Tawney, *Land and Labour in China* (London: G. Allen & Unwin Ltd, 1932), 62; Philip C. Huang, *The Peasant Economy and Social Change in North China* (Stanford: Stanford University Press, 1985), 189-190; Philip C. Huang, *The Peasant Family and Rural Development in the Yangzi Delta, 1350-1988* (Stanford: Stanford University Press, 1990), 108-110.

rates, and the most specialized borrowers and lenders, most of whom were specialized financial institutions or major commercial firms. They were also physically located in central urban areas, either county, prefectural, or provincial seats, or else major market towns. Because of the detail in which Chapter XXX studies *biaoqi* lending markets, the *biaoqi* are not the focus of this chapter. Nevertheless, most generalizations about urban commercial lending in this chapter apply to *biaoqi* loans as well unless otherwise indicated. While this chapter should suffice for any reader interested in an overview of lending, readers who want to know in detail how commercial lending was connected to the payments system, trade credit, and futures markets are strongly advised to consult Chapter XXX as well.

The sources and methodology used in this chapter differ from those in the rest of the book. Though there is plenty of close, textual interpretation of primary sources, this chapter makes use of quantitative analysis more than other chapters. I have compiled a dataset for use in this chapter consisting of 610 unique loan contracts denominated in currency, of which 464 pay monthly interest and 146 pay annual interest. I referred to the database hereafter as “JSSLJC Loan Database” or “JLD” for short. When I use only part of the JLD for analyses specific to loans bearing monthly or annual interest, I will refer to the “JLD Monthly” or “JLD Annual.” In addition, I have compiled a database of 118 unique family division contracts from Shanxi merchant households, the “JSSLJC Family Division Database” or “JFDD.”⁹ But readers less interested in the statistics should have no fear; the main content of this chapter is written in plain English and accessible to any historian. Finally, this chapter also draws heavily on the Republican-era Nationalist government’s “*Shanxi Provincial Industry Gazetteer*” (山西省实业志) (“SXIG”).¹⁰ The SXIG is a snapshot of a point in time when the surveyors collected their data between 1931 and 1936. The numbers in the SXIG should not be read as precise representations of statistical aggregates that apply to all historical periods. But with that caveat in mind, the SXIG is invaluable for the overview it allows us to sketch of Shanxi finance.

The long history of lending

Chinese moneylending for interest goes back to at least the Western Zhou (1046-771 BCE). It has been widespread in China since the Spring and Autumn

⁹ JSSLJC, loan contracts; JSSLJC, family division contracts. The data entry for both datasets was mostly the work of my estimable RAs, Wang Kun, Wang Zhang, and Lu Yuming.

¹⁰ Shanxi Sheng di fang zhi ban gong shi (Taiyuan Shi, China), ed., *Minguo Shanxi Shi Ye Zhi*, Di 1 ban (Taiyuan Shi: Shanxi ren min chu ban she, 2012).

and Warring States periods (770-221 BCE), when merchants, nobles, and feudal lords made interested-bearing loans. In times of famine, Warring States sovereigns made grain loans to their subjects.¹¹ In this period collateralized loans also appeared, particularly using people as collateral.¹² The Han Dynasty saw the advent of lending based on collateralized portable property on a large scale. As such, China's first pawn shops were quite likely established during this period. In the Yuan dynasty, private lending networks expanded, while state lending reached its peak, with local governments receiving imperial permission to lend money for interest.¹³ During this time, Ortogh merchants became particularly active in Chinese lending markets.¹⁴ In the Yuan, we also begin to see numerous shops specializing in lending for interest.¹⁵ During the Ming, wealthy individuals made loans—usually on the basis of landed collateral but increasingly based on personal credit (or the credit of a guarantor).¹⁶ These practices continued throughout the Qing and Republican periods.

In addition to lending by private individuals or commercial establishments, dedicated lending institutions have a long history in China. These institutions grew in sophistication and specialization over time. The earliest dedicated lenders were

¹¹ Liu Qiugen 刘秋根, "Shilun zhongguo gudai gaolidai de qiyuan he fazhan (试论中国古代高利贷的起源和发展)," in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017); author Liu Qiugen 刘秋根, "Lun qingdai qianqi gaolidai ziben de huodong xingshi (论清代前期高利贷资本的活动形式)," in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017); author Liu Qiugen 刘秋根, "Mingdai gaolidai zhe de shehui goucheng (明代高利贷者的社会构成)," in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017).

¹² Liu Qiugen 刘秋根, *Zhongguo Dian Dang Zhi Du Shi*, Di 1 ban (Shanghai: Shanghai gu ji chu ban she : Xin hua shu dian Shanghai fa xing suo fa xing, 1995), 2-4.

¹³ Qiao Youmei 乔幼梅, "Songyuan shiqi gaolidai ziben de fazhan (宋元时期高利贷资本的发展)," *Zhongguo Shekexue (中国社会科学)*, no. 3 (1988): 209–22.

¹⁴ Liu Qiugen 刘秋根, "Lun yuandai siying gaolidai ziben (论元代私营高利贷资本)," *Hebei Academic Journal*, no. 3 (1993): 75–82. On ortogh, the largely Muslim and Uighur private merchants partnered with Mongol nobles, royals, or state officials, see Enerelt Enkhbold, "The Role of the *Ortoq* in the Mongol Empire in Forming Business Partnerships," *Central Asian Survey* 38, no. 4 (October 2, 2019): 531–47, <https://doi.org/10.1080/02634937.2019.1652799> and Elizabeth Endicott-West, "Merchant Associations in Yüan China: The 'Ortoy,'" *Asia Major* 2, no. 2 (1989): 127–54.

¹⁵ Liu Qiugen 刘秋根, "Lun yuandai siying gaolidai ziben (论元代私营高利贷资本)," *Hebei Academic Journal*, no. 3 (1993): 75–82.

¹⁶ Liu Qiugen 刘秋根, "Mingdai gaolidai ziben huodong xingshi (明代高利贷资本活动形式)," in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017).

pawnshops, which again quite possibly appeared in the Han though there is no hard proof of this. The earliest definite instances of institutional pawning, as well as lending on credit, are Buddhist monasteries during the Northern and Southern dynasties. English-language treatments often interpret these developments as “the Buddhism origin of pawnbroking in China,”¹⁷ but as my brief summary of pawning makes clear, this is a bit of an oversimplification. Pawning as a practice (and quite possibly as an institution) in China predates Buddhism, while pre-Tang monastic pawnbrokers were not specialized pawnshops; rather these monasteries combined pawning with storage and other economic activities.¹⁸ The first specialized, institutional pawnshops appeared in the Tang Dynasty (618-906 AD) and were known as *zhishe* (质舍) and *zhiiku* (质库). Some of these were monastic, but many were state-owned or private for-profit enterprises. Pawnshops continued into the Song and Yuan under the name of *jieku* (解库).¹⁹ It is more accurate to say that monasteries were an important intermediate step, as a non-specialized institution that engaged in pawning amongst other economic activities. In the Song dynasty, private and monastic pawnshops continued to increase.²⁰ At the same time, the Song expanded on Sui and Tang dynasty interest-bearing government lending by building quite large state-owned pawnshops.²¹

A perhaps more momentous Song-era innovation were the *jiaoyin pu* (交引铺). These shops specialized in trading gold and silver, and eventually tax receipts that evolved into a kind of quasi fiat currency known as *jiaoyin*. They extended at least a degree of working capital to merchants by cashing certain remittances that

¹⁷ Lien-sheng Yang, “Buddhist Monasteries and Four Money-Raising Institutions in Chinese History,” *Harvard Journal of Asiatic Studies* 13, no. 1/2 (1950): 174–91, <https://doi.org/10.2307/2718163>.

¹⁸ Liu Qiugen 刘秋根, *Zhongguo Dian Dang Zhi Du Shi*, Di 1 ban (Shanghai: Shanghai gu ji chu ban she : Xin hua shu dian Shanghai fa xing suo fa xing, 1995), 5-6.

¹⁹ Liu Qiugen 刘秋根, “Tangsong gaolidai ziben de fazhan (唐宋高利贷资本的发展),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017); Liu Qiugen 刘秋根, “Songdai yihou gongshangzhong de shengchanxing (宋代以后工商业中的生产性),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017); Valerie Hansen and Ana Mata-Fink, “Records from a Seventh-Century Pawnshop in China,” in *The Origins of Value : The Financial Innovations That Created Modern Capital Markets*, ed. William N. Goetzmann et al. (Oxford ; New York: Oxford University Press, 2005), 54–59.

²⁰ Liu Qiugen 刘秋根, “Liangsong siying gaolidai ziben chutan (两宋私营高利贷资本初探),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017).

²¹ Liu Qiugen 刘秋根, “Shilun songdai guanying gaolidai ziben (试论宋代官营高利贷资本),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017).

had yet to come due, much as modern banks do with letters of credit.²² The silverization of the Ming economy spurred another key institutional development: *qianpu*. These early banking institutions dealt in copper/silver exchange, made loans, and were the direct ancestors of the complex Qing-era native banks.²³ During the mid-Ming we also see the emergence of *yinhao* (银号), performing similar functions.²⁴ In the Qing, specialization intensified. A sophisticated banking system with numerous lenders specializing in different niches of commercial and agrarian lending operated in much of northern China by no later than the end of the Qianlong reign. This included *zhangju*, which evolved from their Ming-era predecessors specializing in “official loans,” to a Qing-era institution oriented toward financial and commercial clients.²⁵ It also included innovation on behalf of *qianpu* and *yinhao*, which began to make more and lower interest loans to commercial and even rural clients.²⁶ At the same time, the tradition of wealthy individuals and pawnshops making loans continued alongside these new institutions.²⁷ Indeed, the poems used as an epigraph for this chapter reflect the long history of wealthy individuals lending money.

Traditional Chinese loans

A loan was a transaction in which a lender gave a borrower some amount of principal, with the expectation that the principal would be repaid at some point in the future. Most loans also accrued either monthly or yearly interest. By at least the Warring States period (481-221 BC) loans were executed with a formal written

²² Liu Qiugen 刘秋根, “Zhongguo fengjian shehui zijin shichang fenxi: yi gaolidai ziben wei zhongxin (中国封建社会资金市场分析——以高利贷资本为中心),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017), 283-284; Liu Nuo 刘娜, “The Study on the Qianpu Yinhao in the Ming and Qing Dynasties (明清时期钱铺银号研究)” (Masters, Hebei University, 2019), 10.

²³ Liu Qiugen 刘秋根, “Zhongguo fengjian shehui zijin shichang fenxi: yi gaolidai ziben wei zhongxin (中国封建社会资金市场分析——以高利贷资本为中心),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017); Liu Qiugen (刘秋根), *Mingqing Gaolidai Ziben (明清高利贷资本)* (Shehui kexue chubanshe, 2000), 36-37.

²⁴ Liu Nuo 刘娜, “The Study on the Qianpu Yinhao in the Ming and Qing Dynasties (明清时期钱铺银号研究)” (Masters, Hebei University, 2019), 13-15

²⁵ Chen Tianyi 陈添翼, “Research on the Zhang Ju During the Qing Dynasties to the Republic of China (清代民国时期账局研究)” (Ph.D. Dissertation, Baoding, Hebei, Hebei University, Center for Song History, 2020).

²⁶ See Peng Kaixiang 彭凯翔, Chen Zhiwu 陈志武, and Yuan Weipeng 袁为鹏, “Commercial Interest Rates in China from the 17th to the Early 20th Century: A Study Based on the Evolution of Financial Organizations (十七至二十世纪初中国的商业利率变迁: 以金融组织演进为线索的考察),” *Jinrong Yanjiu 金融研究 (Journal of Financial Research)*, Forthcoming. This important new study finds that the development of more specialized financial institutions lowered interest rates from the mid-Ming to the ROC.

²⁷ Liu Qiugen (刘秋根), *Mingqing Gaolidai Ziben (明清高利贷资本)* (Shehui kexue chubanshe, 2000), 28-47.

contract. The *Shiji* celebrates the wise Feng Xuan's extending the term on loans for those with the means to pay them and burning the debt contracts on loans owed by the poor.²⁸ By the northern Song (960-1127), loans were often required to be documented.²⁹ In Qing and Republican-era China, a loan, especially loans denominated in currency, was generally established with a written contract known as a *jiyue* (借约). The SXIG writes, of monetary loans, "Usually the lender and borrowing peasant establish a contract stating the principal, interest, and term of the loan. If it is not repaid at term, a new contract is drawn up with the accumulated interest added to the principal and schedule for interest payment is set."³⁰ In other words, a loan was a contractual relation between borrower and lender that stated principal, interest, collateral, and term—though in practice many contracts did not specify a term. By at least the Northern and Southern dynasties, loan contracts followed fairly consistent formatting and language conventions. These conventions persisted through the Republican period.³¹ Figure 1, a loan contract from Qianlong 22 (1757) for 10 silver taels, is typical of the genre:

²⁸ "Thus, did those holding debt contracts as before gather. Those who could pay them had their term extended. As for those too poor to pay them, their contracts were taken from them and burned." (乃持券如前合之，能与息者，与为期；贫不能与息者，取其券而烧之。) Sima Qian, "Shiji: Liezhuan: Mengchangjun liezhuan (史记：列传：孟尝君列传)," trans. Sturgeon Donald, accessed September 16, 2023, <https://ctext.org/shiji/meng-chang-jun-lie-zhuan/zhs>, section 15.

²⁹ Liu Qiugen 刘秋根, "Liangsong siying gaolidai ziben chutan (两宋私营高利贷资本初探)," in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017).

³⁰ SXIG, 70-乙. "通常均须由借主及借款农民订立契约，将借款本金利息及償還期限，书於借约，至期不償以利作本，别立借契，訂期納息"。

³¹ Valerie Hansen, *Negotiating Daily Life in Traditional China: How Ordinary People Used Contracts, 600-1400* (New Haven: Yale University Press, 1995). Hansen includes Tang dynasty lending contracts written with extremely similar verbiage (p. 58-59). Some, though not all, contracts already displayed an early version of this basic format by the Han dynasty. Hugh T. Jr. Scogin, "Between Heaven and Man: Contract and the State in Han Dynasty China," *Southern California Law Review* 63, no. 5 (1990 1989): 1325-1404; Yu Zhenbo 于振波, "Qinhan Falu Yu Jingji Fazhan (秦汉法律与经济发展)," in *Qinhan Falu Yu Shehui (秦汉法律与社会)*, 2000, <http://www.guoxue.com/wenxian/nowwen/qhflysh/qhflysh6.htm>.

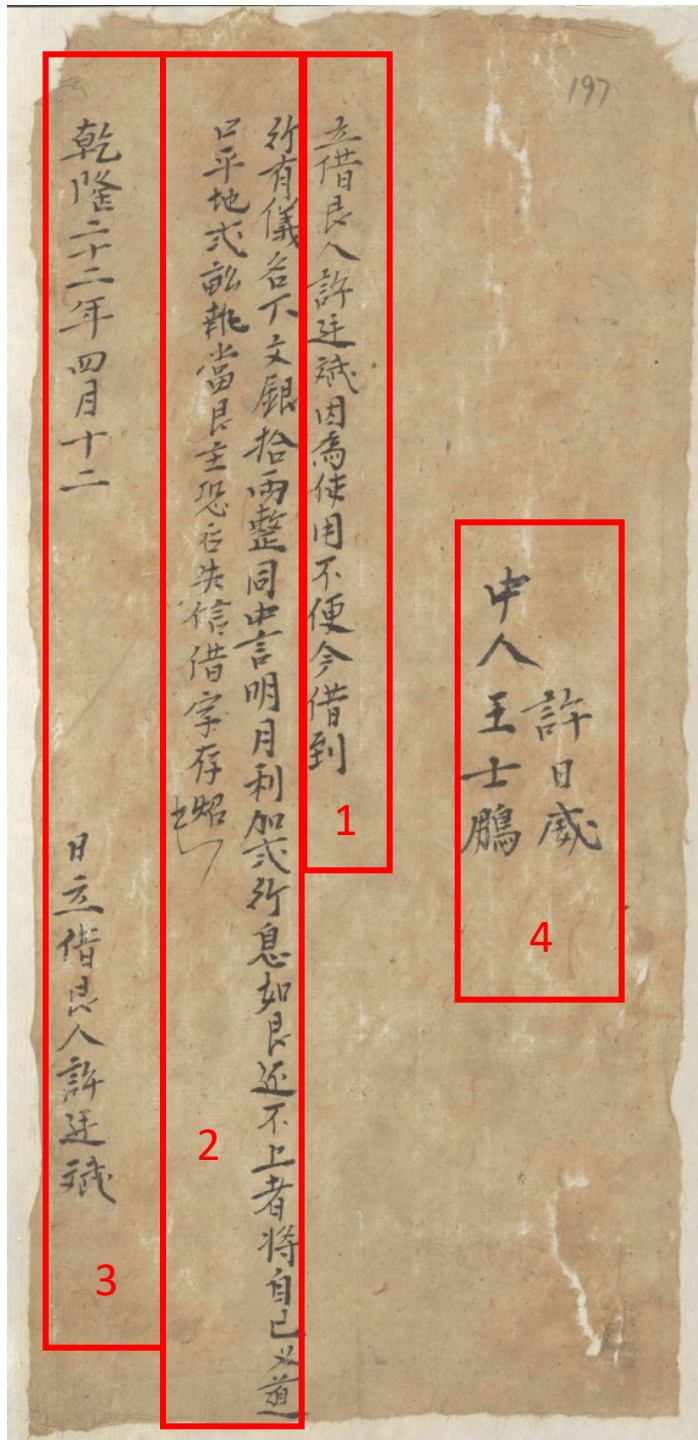


Figure 1. Source: JSSLJC, loans to individuals, 7. Notes: 1) 立借良「银」人许廷斌因为使用不便, 今借到。 “Originating a contract for a loan of silver to Xu Tingbin who is inconvenienced and short of funds. He is today borrowing from.” 2) 行有仪名下文「纹」银拾两整, 同中言明月利加式行息, 如良「银」不还不上者将自己义道口平地式亩执当。银主恐后失信, 借字存照。 “Xing Youyi pure silver in the amount of 10 taels exactly. It is clearly stated that this will accrue a monthly interest of 2%. In case the silver is not paid, the defaulting party has posted as collateral 2 mu of flat land at Yidaokou. Lest the lender be met with lack of faith, this written contract is being drawn up as documentation.” 3) 乾隆二十二年四月十二日 立借银人许廷斌 “Qianlong 22, 12th day of the 4th month [5/29/1757], originated with silver loan borrower Xu Tingbin.” 4) 中人许日威、王士鹏 “Middlemen Xu Riwei and Wang Shipeng”

The format and verbiage of the loan in Figure 1 are almost universal.³² Almost all Qing and Republican-era loan contracts start by stating the type of contract and the name of the borrower, as in Section 1. Section 2 then states the lender, the principal, interest, and collateral if any. If the loan is term-dated, the maturity will also go in Section 2 as will any other terms or idiosyncrasies of the loan agreement. This section typically ends with the verbiage, “oral testimony will not be relied upon, so we are drawing up this contract as proof” (空口无凭, 立借约存照) or something similar. Section 3 states the date that the contract is originated, while section 4 contains the “huaya” (画押)³³ of the “middlemen” (中人 *zhongren*) and, if used, the scribe (书人 *shuren*). Section 4 generally comes at the end of the document; its placement in Figure 1 is somewhat unusual.

Taxonomy of Loans

The Chinese-language literature tends to taxonomize loans along two axes: loans made in currency vs. loans made in kind; and collateralized vs. non-collateralized loans. The medium of the loan is useful in indicating what it was used for, while collateral requirements can tell us something about who had access to loans and how lenders managed their risk. The JSSLJC contains mostly monetary loans; in the addition to the 610 currency loans in the JLD, it contains 12 loans in kind, spanning Jiaqing 20 (1815) to 1939.³⁴ These loans are made in either grain, seed, or cotton. The small number of in-kind loans relative to currency loans may be indicative of their occupying a smaller share of the lending market. But part of this distribution is likely due to bias in the historical material: the SXIG implies that written contracts were not necessarily used when lending in kind.³⁵ I suspect both factors are at play; the Shanxi economy was sufficiently commercialized that currency loans may have been the norm by the Qing, but loans in kind are probably underrepresented in the JSSLJC.

The collateral or lack thereof gives us an indication of who could get loans and how loans were related to the rest of the economy. Table 1 shows the breakdown of currency loans by collateral in the JSSLJC documents. 293 of loans

³² The language is also quite similar to the verbiage used in land, *dian*, and ROSCA contracts.

³³ A *huaya* was a character made by the borrower and middlemen that served a similar role as a signature today. The *huaya* in the JSSLJC contracts was almost always “十”, though other characters might also be used. Liu Fangfei (柳芳菲), “Wanqing minjian xiguanfa de minsu tezheng: yi qingmo minchu minshi xiguan diaocha ziliao wei li (晚清民间习惯法的民俗特征——以清末民初民事习惯调查资料为例),” *Theory Horizon (理论界)*, no. 5 (2008): 131–33.

³⁴ JSSLJC, Other loans. There are 13 documents in this section, but one is a rental contract rather than a loan.

³⁵ SXIG, 70-乙.

were collateralized by land, 75 by other forms of property, and 242 were uncollateralized.

Borrower type	Land	Other	None	Total
Business	2	2	50	54
Hall	0	0	4	4
Individual	290	73	187	550
Other	1	0	1	2
Total	293	75	242	610

Table 1. Loans by collateral type. Source: JSSLJC, Loan contracts.

These proportions are broadly consistent with a description in the *SXIG*, “As for collateral, it used to be that land was the most popular. In recent years since the massive fall in land prices, land is suddenly difficult to collateralize. Other than land-based loans, there are also loans based only on credit.”³⁶ The use of agricultural land as collateral is critical; it shows that the loans in the JSSLJC were at least in large measure flowing to the agrarian sector. Moreover, it shows that land, which could be sold or mortgaged as a *dian* in lively land markets,³⁷ could also be hypothecated for loans. This suggests a degree of integration between different factor markets; no one would agree to a usurious loan if they could get a better deal raising money through a live sale. Nor would anyone lend too cheaply if the return on buying or renting property was more attractive.

Biaoqi loans: the “core” of Shanxi lending markets

Biaoqi loans were granted by dedicated financial institutions operating in commercial hubs with *biaoqi* settlement fairs. These were usually quarterly settlement fairs, referred to as the spring, summer, fall, and winter *biao*. There were three main types of loans. Annual loans were made at a *biaoqi* and came due to at the *biaoqi* four quarters later. Thus, an annual loan made at the fall *biaoqi*

³⁶ “至於抵押品，以前以田地最受歡迎，自近年地價大落以後，農民以地抵押，頓成困難，除田地以外，亦有僅憑信用借款者”。*SXIG*, 70-乙。

³⁷ On *dian* see Cao Shuji 曹樹基 and Liu Shigu 劉詩古, *Chuantong Zhongguo Diqun Jiegou Ji Qi Yanbian 传统中国地权结构及其演变 (The Structure and Evolution of Land Rights in Traditional China)* (Shanghai: Shanghai Jiaotong Daxue Chubanshe 上海交通大学出版社 (Shanghai Jiao Tong University Press), 2014); Philip C. Huang, *Code, Custom, and Legal Practice in China: The Qing and the Republic Compared*, Law, Society, and Culture in China (Stanford, Calif.: Stanford University Press, 2001), 94-98; Philip C. Huang, *Chinese Civil Justice, Past and Present*, Asia/Pacific/Perspectives. (Lanham, Md.: Rowman & Littlefield, 2010), 236-238; Taisu Zhang, *The Laws and Economics of Confucianism: Kinship and Property in Pre-Industrial China and England*, Cambridge Studies in Economics, Choice, and Society (Cambridge, United Kingdom: Cambridge University Press, 2017), 35-63.

would come to term, at the fall *biao* of the following year. A *manjia* loan was a loan due at the next *biaoqi*. These could be anywhere from three months to a week in term length, depending how close the next *biaoqi* was. *Manjia* loans were largely made to meet settlement obligations at an upcoming *biaoqi* that firms could not pay out of operating cash. Finally, *biaoqi* markets had monthly interest rates; these were forward looking three *biaoqi* (i.e. nine months) in advance. They allowed firms to borrow for terms between the *manjia* and one year. *Biaoqi* loans are covered exhaustively in Chapter XXX, so I will not go into great detail about them here.

Biaoqi loans were core to the system for several reasons. First, both lenders and borrowers were largely major financial institutions or commercial trading firms. Second, *biaoqi* were located in urban trade hubs. Third, the *biaoqi* lending markets were what made the entire system of trade credit and settlements possible. They also connected the lending market to other financial markets in exchange and grain futures.³⁸ This does not mean that large and wealthy firms did not borrow outside of *biaoqi* markets; they assuredly did. But I believe that the capital one could raise from *biaoqi* was limited to trade financing or in order to roll over trade financing. To expand operations one had to raise equity or go to the *ex-biaoqi* commercial lending market.

I will also stress several differences between *biaoqi* and other commercial loans. First, *biaoqi* loans are an unusual exception to the rule that all loans were originated by a *jiyue*, or “loan contract.” The JSSLJC has absolutely no *biaoqi* loan contracts; given the size of the *biaoqi* market and the over 600 loans in the entire collection, this is telling. It seems, rather, that *biaoqi* borrowers issued “notes” (票) to investors. Two of these notes can be seen in the JSSLJC, one of which I analyze in detail in Chapter XXX.³⁹ In this sense, the *biaoqi* loan market worked more like a commercial paper market than a loan market. This also explains why *biaoqi* loans are so rare in the JSSLJC collections of notes; as with remittance notes, borrowers were extremely diligent about destroying them after they had been repaid. I should also stress that this does not mean commercial paper could only be issued by *biaoqi* borrowers. There are other interest-bearing notes in the JSSLJC.⁴⁰ Moreover, the notes bear a striking resemblance to the Shandong debt financing discovered by Pomeranz—suggesting commercial paper markets existed even where no *biaoqi* were held at all. Nor does it mean *biaoqi* loans were exclusively a form of commercial paper. I believe, and this is admittedly speculative, that *biaoqi* borrowers may have received loans from lenders with

³⁸ See Chapter XXX.

³⁹ Chapter XXX, XXX. JSSLJC, loans from businesses, 105-106.

⁴⁰ See, for example, JSSLJC, loans from businesses, 20.

whom they had a long working relationship without formal documentation beyond an account book entry.

Qixian: China's long-term mortgage

A hitherto unknown type of loan was a *qixian* (期限), or *xian* for short, with a literal meaning close to “term dated.” The *qixian* was nothing less than China's home-grown version of a long-term mortgage. A *qixian* contract was distinct from a *jiyue*, with verbiage referring to the establishment of a “*xian* contract” (限约 *xianyue*) rather than a loan contract (Figure 2). In a *xian* loan, a principal of a certain amount would be lent to the borrower to be paid back in installments over several years. The principal on the contract would be higher than the actual sum of money delivered to the borrower, allowing the lender to profit from the discount.⁴¹ A literal reading of *qixian* contracts makes most appear to be interest-free loan. But a *wenshiziliao* article on pre-1949 rural lending in Wanquan county tells us that this was not the case:

Qixian contracts. These were commonly seen throughout the county. When money lent, a guarantor would be called to execute the contract. The term and the principle would be clearly stated, while the interest would be written into the principal amount and nothing would be written separately indicating the interest rate. For a loan of five yuan, the principle would be written as eight yuan, to be repaid at maturity.⁴²

Wanquan county, right next to Zhangjiakou, was in the heart of Shanxi merchant activities and its lending practices were likely representative of Greater Shanxi. Indeed, the popular sources provide ample evidence of such lending activity dating. **Error! Reference source not found.** shows an example of precisely such a *xian* for a 10-year loan comes from Jiaqing 24 (1819):

⁴¹ I suspect the idea and the name of a *qixian* loan derives from Chinese bankruptcy practices dating to the Ming dynasty, in which a defaulting party would agree to pay a certain amount of their debt in installments. The contractual agreement to pay in installments was at least sometimes called a *xianyue* (限约). See Wang Qingyuan 汪庆元, “Huishang huipiao zhidao ji qi lishi yiyi (徽商会票制度及其历史意义)” *Renmin Zhengxie Bao: Xueshu Jiayuan* (人民政协报: 学术家园), May 2001, <http://www.xhfm.com/2005/1220/683.html>.

⁴² “期限文书。在全县较为多见，借钱时请保立契，言明期限和金额，并将利息写入本钱之内，不另写息，如借五元写成八元，到期归还。” Wang Wenhan 王文汉, “Jiefangqian Woxian Nongcun Jiedai Fangshi (解放前我县农村借贷方式),” in *Wanquan Wenshi Ziliao* (万全文史资料), ed. Bian Huaxu 边华旭 and Ni Changyou 倪昌有, 2 (Zhongguo renmin zhengzhi xieshang huiyi hebeisheng wanquanxian weiyuanhui wenshiziliao zhengji weiyuanhui (中国人民政治协商会议河北省万全委员会文史资料征集委员会), 1988), 48–53.

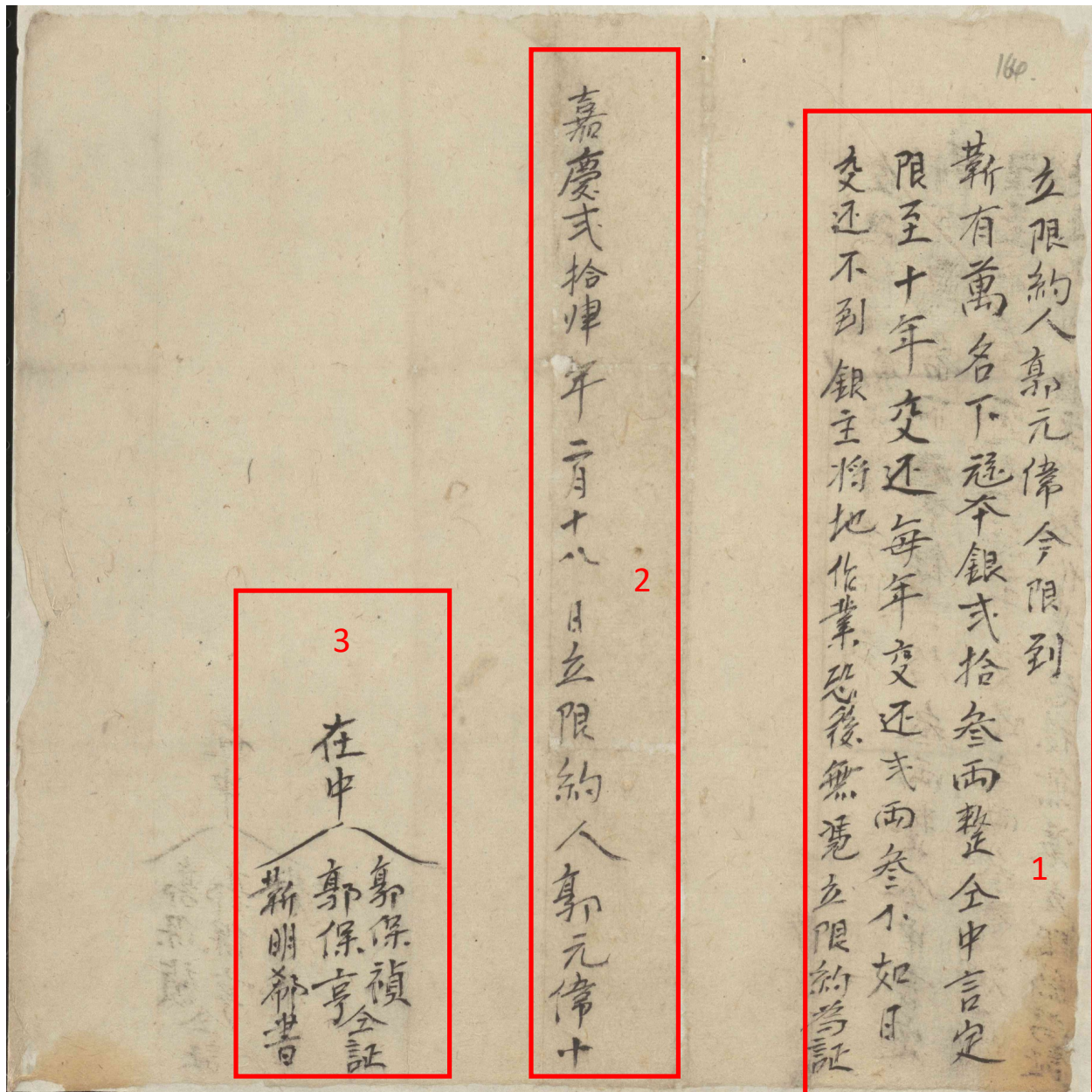


Figure 2. Source: JSSLJC, 与借约相关的延伸借约图片, 4. Notes: 1) 立限约人郭元伟今限到, 靳有万名下系元本银式拾叁两整, 同中言定限至是年交还, 每年交还式两叁钱, 如日交还不到, 银主将地作业, 恐后无凭, 立限约为证。” Originating a xian contract with Guo Yuanwei, who today will xian: a principal of 23 silver taels from Jin Youwan. It is clearly agreed that the term will be ten years. Each year 2.3 taels will be repaid. If this is not repaid upon being due, the lender will be entitled to take possession of [the borrower's] land. Oral testimony will not be relied on, so this xian contract is being drawn up as proof.” 2) 嘉庆式拾肆年二月十八日立限约人郭元伟「十」。“3/13/1893, established xian contract with Guo Yuanwei [十].” 3) 在中人: 郭保祯、郭保亨, 同证, 靳明祹。” Middlemen: Guo Baozhen, Guo Baoheng as witnesses. Jin Mingxi as scribe.”

This remarkable document is a contract for a ten-year loan based on agricultural land for a principal of 23 silver taels. The loan was backed by Guo Yuanwei's farmland, although the precise size and borders of the plot were not specified. This

may indicate that the lender had a lien over all of Guo's property, but this was not necessarily the case. It may simply have been understood in the context of that community which plot of land Guo Yuanwei owned. It appears at first blush to be interest-free, but the *wenshiziliao* quoted above shows us that this was not so. The actual amount of money that Guo Yunwei received from Jin Youwan was less than the loan's 23 tael face value. This discount meant that the Jin was earning an interest, though we have no way to tell how much. In any event, the *xian* was in effect a fixed-rate 10-year mortgage on a plot of farmland: identical in all but name to a contemporary mortgage.

Nor was this contract unique. The JSSLJC contain numerous examples of *xian* contracts. The earliest is from Qianlong 31 (1766), though it goes by the name *ba* (拔) rather than *xian*. Table 2 shows how this practice continued throughout the Qing period, while the *wenshiziliao* indicates they continued to be common in the Republican period.

Reign	Borrower type	Lender Type	Principal	Denomination	Term (years)	Collateral
Kangxi	Individual	Individual	8	Silver taels	1.00	
Qianlong	Individual	Business entity	265	Silver taels	3.00	Land
Jiaqing	Individual	Individual	23	Silver taels	10.00	Land
Daoguang	Individual	Business entity	16,000	Copper cash	3.25	
Daoguang	Individual	Individual	3,000	Copper cash	0.83	
Daoguang	Individual	Individual	3,000	Copper cash	1.00	
Daoguang	Individual	Individual	2,000	Copper cash	0.67	Rosca share
Daoguang	Individual	Individual	2,500	Copper cash	0.75	
Daoguang	Individual	Individual	29,000	Copper cash	3.00	
Xianfeng	Business entity	Business entity	700,000	Copper cash	3.00	
Xianfeng	Individual	Individual	15	Silver taels	0.58	
Xianfeng	Individual	Individual	15,100	Copper cash	0.25	
Xianfeng	Business entity	Individual	30,000	Copper cash	1.83	
Xianfeng	Individual	Individual	15,000	Copper cash	4.00	
Xianfeng	Individual	Individual	50,000	Copper cash	3.00	
Xianfeng	Individual	Individual	55,930	Copper cash	0.25	
Xianfeng	Individual	Individual	11,000	Copper cash	0.75	Land
Xianfeng	Individual	Individual	4,000	Copper cash	0.58	
Xianfeng	Individual	Individual	150	Silver taels	10.00	
Xianfeng	Individual	Business entity	2,200	Copper cash strings	1.08	Land and Buildings
Xianfeng	Individual	Individual	3,200	Copper cash	1.00	
Tongzhi	Individual	Individual	21,000	Copper cash	0.33	

Tongzhi	Individual	Individual	11,000	Copper cash	3.00	
Tongzhi	Individual	Individual	2,500	Copper cash	0.58	Land
Guangxu	Individual	Individual	8,000	Copper cash	2.00	
Guangxu	Individual	Individual	2,000	Copper cash	0.58	
Republic	Business entity	Hall entity	282	Silver taels	13.00	
Republic	Individual	Business entity	7	Silver dollars	1.00	
Republic	Individual	Hall entity	31	Silver dollars	0.50	Land
Republic	Individual	Hall entity	70	Silver dollars	0.50	Land
Republic	Business entity	Individual	25	Silver dollars	8.00	
Unavailable	Individual	Business entity	24	Silver taels	10.00	

Table 2. *Qixian* loans in JSSLJC. JSSLJC, loan contracts related to loan extensions, loans from individuals, loans from halls.

Table 2 summarizes all 32 *qixian* loans in the JSSLJC. *Xian* loans, as other loans, could be made by a variety of actors, individuals as well as hall and commercial entities. Two of the lenders on the *xian* contracts (Zhang Diangong and Jin Mingzhang) also appear as major lenders of interest-bearing loans in the normal loan contracts. We can thus see that the *xian* market was integrated with the rest of Shanxi lending; business capital, hall entities, and individuals alike were willing to offer *xian* loans to those with sufficient reputation or collateral, usually land. We also see that terms could be anywhere from a few months to as long as 13 years, with an average of about three years. I suspect these were often granted to individuals either to start a business or to open up new farmland—this would explain why the best *wenshizilaio* record of *xian* loans is in the frontier area of Wanquan county, where numerous Shanxi immigrants and land reclamation companies opened new farmland during the Qing.⁴³

The discovery of *xian* is extremely important. It proves that Chinese society, contractual practices, and markets were perfectly capable of accommodating a market in long-term rural debt. This overturns a number of theories (discussed in the conclusion) that Chinese institutions were irredeemably oriented toward short-term loans urgently needed for consumption. At the same time, I hasten to add that we should not overinterpret this discovery. I have found no evidence at all of *xian* loans outside of Shanxi. While I suspect they were common enough to be part of any professional or semi-professional lender's toolkit, they probably made up a small portion of overall lending. We can therefore safely say that long-term rural lending was widespread in Shanxi, where Chinese financial innovation was most advanced, and that moreover Chinese institutions could make such loans without the introduction of western-style banking. But it is an open question whether this

⁴³ Yi Wang, *Transforming Inner Mongolia: Commerce, Migration, and Colonization on the Qing Frontier* (Lanham, Maryland: Rowman & Littlefield, an imprint of The Rowman & Littlefield Publishing Group, Inc, 2021).

financial innovation spread to or had any influence at all in the great majority of the country.

Annual loans

Since one of the alleged failures of the Chinese financial system was its inability to provide loans at rates below marginal returns on capital, it is striking to loans made on an annual basis at very attractive rates—as low as 3.3% per year. The JSSLJC contains 67 loan contracts that show interest accruing annually, summarized in Table 3:

Borrower	Average Interest (%)	Average Principal (taels)	Counts
Business entity	6.82	541.70	10
Individual	16.76	113.83	55

Table 3. Summary of annual loans. Interest is average annual interest rate, principal is average principal in taels with cash loans converted to taels at a rate of 1000:1. Source: JSSLJC, loan contracts

These loans accrued interest on an annual basis, referred to as the *changnian* rate. This nomenclature comes directly from the *biaoqi* system and is an indication of the influence the system was starting to have in the wider world of commerce, even outside *biaoqi* hubs or core financial institutions. Moreover, average rate on annual loans was 15.23% by count and 8.55% by principal. If these are higher than loans today, they are a far cry from “3% per month,” and could easily support commerce and industry. These loans thus serve as irrefutable evidence of reasonably priced lending available to peasants and business entities alike.

A note from 1847, during the Daoguang reign, shows a hall entity lending 1,000 silver taels to the Jiyigong Company (集益公记) at a mere 3.3% per year:

Bearing this note, borrowing

From Fu Yuanbao Hall a principal of 1,000 taels of colorless silver. The interest is clearly state at an annual rate of 3.3%, with the maturity fixed for one year to this date, to be redeemed at the Pingyao County seat. Do not lose this note.

The measurements shall be done according to Taiquanmao’s 50 tael red copper scale and shall be measured fully.

Handled by Zuo Liji

10/18/2047 contracted [sealed] Jiyigong Co.⁴⁴

The loan requires no collateral at all and only accrues interest of 3.3% per year. It is also made from a hall entity, as are the majority of such low-interest, annual commercial loans. What we are seeing here is evidence of a quite large market in commercial paper, invested in largely by hall entities. A successful *zihao* could tap into *tanghao* wealth to fund operations with debt, at quite reasonable rates. The idea that Chinese institutions were incapable of fostering debt markets that could be used in production or commerce is simply not true; on the contrary, commercial debt markets relying entirely on indigenous institutions and practices were critical to late Qing and Republican-era trade.

At times, even individuals could access annual loans. One loan contract from Daoguang 3 (1823) shows an individual named Zhao Tiande (赵天德) borrowing money from Li Xuecheng (李学成). The loan required no collateral and accrued interest at 10% per year:

Executing a contract with Zhao Tiande, who is today borrowing from under Li Xuecheng's name a principal of 73 silver taels. It is clearly stated that the loan will accrue an annual interest of 10%.

Oral testimony will not be relied upon, so this contract is being drawn up as proof.

7/8/1823 Contract executed with Zhao Tiande

Middlemen: Lei Qi (十), Zhang Dezhong (十), Shen Yili (十),
Shen Kaichang (十)

6/28/1824 paid interest of 7 silver taels (on this day also paid interest of 300 cash)⁴⁵

In this contract, Zhao Tiande borrows the substantial amount of 73 silver taels, due one year later. He pays his interest, totaling 7.3 taels, in a mix of currencies: 7 silver taels and 300 copper cash (worth 0.3 taels). If the 10% yearly interest seems high by today's standards it is certainly a good deal lower than the rates we usually

⁴⁴ JSSLJC, Loan contracts, loans from businesses, 20.

凭票借到，阜元宝堂本无色宝银一千两整，言定长年三厘三毫行息，期至来年兑日，在平交还，勿误此据。其平照泰泉茂 50 两红铜码足兑。左立基经手。道光二十七年九月初十日立集益公记。

⁴⁵ JSSLJC, Loans between individuals, 17.

立借约人赵天德今借到

李学成名下本白银柒拾叁两整，言明年壹分行息

空口无凭，立借约为证

道光三年六月初一日 赵天德立

中见人 雷起 (十)、张德重 (十)、申诒礼 (十)、申开畅 (十)

道光四年六月初二日取利白银柒两 (当日取本银叁百文)

attribute to Qing-era loans. The fact that no collateral was put down on such a large loan indicates Zhao Tiande had an excellent reputation and was possibly a businessman.

In the rural economy, religious associations provided many loans at low annual interest rates. I suspect these were quasi-charitable associations connected to a village temple. We can get an especially detailed view of low-interest religious association lending through a series of contracts made by a Guanyin Society between the years 1857 and 1936. The loan contracts appear to be from a continuous association, known as the Guanyin Society (观音会) or Guanyin Hall (观音堂). It was closely affiliated with the Liu and Xing lineages, as most of its borrowers and guarantors are of these surnames. The contracts also reflect the religious nature of the institutions; 15 of the 23 loan contracts from the Guanyin society originate in the week of the Lantern Festival (元宵节), on the 16th day of the first lunisolar month. This festival had strong associations with the Boddhisatva Guanyin in Huizhou.⁴⁶ In southern China and in Chinese diaspora communities, the practice of Guanyin temples making charitable loans on Lantern Festival—a practice known as “lending the temple treasury” (借库 *jiekū*) continues to this day.⁴⁷

The Guanyin Society is notable for issuing loans with small principal that nonetheless charged annual interest. This is distinct from most annual loans, which were on average larger than monthly loans. Sometimes the Guanyin Society appears to be lending pocket money. For example, in 1857 it lent a trifling 0.8 in silver taels at 18% annual interest:

Originating a contract with Liu Baguang, who is inconvenienced
Borrowing today from the Guanyin Deity Society 0.8 taels of silver. It is
clearly stated that after a full year the loan will accrue an interest of 18%. If
principal and interest are not repaid, his own threshing grounds shall be
willingly forfeit to the guarantor to dispose of.

⁴⁶ “Yuanxiaojie de Gushi: Guanyindeng Hui de Youlai (元宵节的故事：观音灯会的由来),” Fenghuangwang (凤凰网), February 3, 2012,

https://fo.ifeng.com/special/sushibaoweizhan/sushijiankang/detail_2012_02/03/12278225_0.shtml.

⁴⁷ Lu Hui'en (卢慧恩), “Simalu Guanyintang huifu ‘kaiku jie hongbao’ yu 200 ren qingzao paidui ru chang (四马路观音堂恢复‘开库借红包’逾 200 人清早排队入场),” Lianhe zaobao (联合早报), February 16, 2022,

<https://www.zaobao.com.sg/realtime/singapore/story20220216-1243259>; Yang Yuanying 杨苑莹, “Shendu

Foshan: Dianji Li de Foshan: Giang Yi Guang Ronggui ‘Guanyin Kaiku’ Chang Yi Ci Meiwei Shengcai Yanxi (深读佛山 | 典籍里的佛山：逛一逛容桂‘观音开库’尝一次美味生菜宴席),”

Sina, February 17, 2023,

<https://cj.sina.com.cn/articles/view/5787187353/http%3A%2F%2Fcj.sina.com.cn%2Farticles%2Fview%2F5787187353%2F158f1789902001ku7l>.

Guarantor Liu Weiguang
2/10/1857⁴⁸

This loan appears to be partly charitable in nature; though it charges a highish annual rate, it would be very rare to be able to borrow such a small amount at the annual rate from other institutions. Liu Baguang quite possibly had a small but urgent expenditure that was made possible at lower cost than a monthly rate, thanks to the Boddhisatva's mercy. And yet, "charity" does not quite seem to capture the nature of the institution. If we examine the rest of the loans from the Guanyin Society, we can see that the names of middlemen and borrowers tend to repeat. For example, in a loan made in Xianfeng 6, on the 16th day of the first lunisolar month, the two middle-men were Liu Yizhan (刘以旃) and Xing Kezheng (邢可正).⁴⁹ Both men borrowed money from the society two and three years later, respectively. Fully 58 years later, Xing Kezheng's descendants defaulted on the debt (which was 4 taels) and agreed with the society to clear the debt for a sum of 2.4 silver taels.⁵⁰ This tells me that the Guanyin Society was a cooperative fund in which members of the temple—likely any household that paid the regular temple fee—were entitled to borrow a sum of its funds when they needed it; quite possibly because of desperation but perhaps even for business needs. This also explains why the Guanyin Society took collateral on loans; a loan was a mercy granted by Boddhisatvathe , but society members were still expected to pay it back.⁵¹ Indeed, the Xing family debt was partially forgiven only after 58 years of staying current on interest payments. The most salient communal aspect of the association is the low principal. Everyone in the Guanyin Society knew one another, were households that paid into the temple and so likely owned land, and were presumably at least somewhat motivated by piousness to repay loans owed to Guanyin. For this reason, the society could afford to make small loans. For most lenders, the transaction costs on loans of such small principal would have

⁴⁸ JSSLJC, Loans to other institutions, 7.

立揭银人刘把光因为不便
今揭到观音神会元系银八钱整，同中言明年满一分捌厘行息，恐后本利不上，情愿
将自场基一方保人查银贖业
保查银人刘位光
咸丰柒年正月十六日立

⁴⁹ JSSLJC, loans from other institutions, 5.

⁵⁰ JSSLJC, loans from other institutions, 10-13.

⁵¹ This is very similar to ROSCAs, which also took property as collateral. See Matthew Lowenstein, "Risk Management in Prewar China: A Study of Rotating Savings and Credit Associations (ROSCAs) in Qing Dynasty and Republican-Era Shanxi Province," *Business History* 0, no. 0 (June 27, 2023): 1–27, <https://doi.org/10.1080/00076791.2023.2222662>.

prohibitively high, or at least necessitated monthly interest rates at the higher end of the spectrum.

In sum, at all ends of society, loans were available for terms of one year at surprisingly reasonable rates. Gatekeeping, religious institutions offered small loans at extremely low rates to faithful, tithe-paying landowners in rural society. Individuals with sound reputation could also borrow at attractive rates for terms of one year. Businesses, meanwhile, could tap into *tanghao* capital to borrow quite phenomenal sums of money at extremely low rates. This does not mean that low-interest, annual loans were the norm. Most loans accrued interest monthly and the average interest on annual loans was still over 16% for individuals, as Table 3 shows. Nevertheless, the Chinese financial system could, when conditions warranted and given enough capital, provide loans at well below what the previous scholarship has thought of as the floor on Chinese rates. This is powerful evidence that Chinese rates were responsive to supply and demand and were certainly not “fixed” by usurious practices or feudal customs.

Loans in kind

The lending market examined thus far in this chapter is the market in monetary loans, that is, loans denominated in silver taels, copper cash, or, after the Republican period, silver dollars. But a significant number of loans were made not in currency, but in kind. The most common denomination of in-kind loans was grain, followed by cotton. Grain lending played an essential role in the Shanxi economy. According to one survey in the 1930s, grain lending was almost as widespread as currency lending, with 48% of rural households owing grain debts compared to 56% owing monetary debts.⁵² Grain lending does indeed resemble the more conventional understandings of rural Chinese lending and gives us an indication of what the lending market was like for those with little property, at the margins of society.

Many grain loans accrued no interest at all. A wheat loan made in Tongzhi 8 (1869) shows how a grain loan might tide a family past the hungry period:

Establishing a wheat lending contract with Ma Youjiao. Because he is short of funds and inconvenienced, he is today borrowing from

The Sanyi Co., two *dou* (plus four *dou*) [in total about 60 L]. It is clearly stated that there is no interest. The borrower willingly pledges one mu of well land on the eastern side of the village. Its eastern boundary is Huang Runyue, its western boundary is Ma Baoshan, its southern boundary is the

⁵² Jinzheng Li, *Jie dai guan xi yu xiang cun bian dong: min guo shi qi hua bei xiang cun jie dai zhi yan jiu*, Di 1 ban, Hebei da xue bo shi wen ku (Baoding: Hebei da xue chu ban she, 2000), 16.

irrigation ditch, and its northern boundary is the weir. Its boundaries are clearly delineated. As per custom, the loan will be repaid after the summer harvest. If the wheat is not repaid, the creditor will receive usufruct rights over the land. Oral testimony will not be relied upon, so this contract is being drawn up as documentation.

5/14/1869, established wheat lending contract with Ma Youjiao
Middlemen Huang Xiaoye, Huang Ruijian⁵³

This loan contract is for a non-interest-bearing loan of wheat, to be repaid after the summer harvest. Such a loan can to some extent be considered a non-market form of mutual assistance, since the price of credit is not being used to equilibrate supply and demand. But it is striking to see that the lender is a business entity. These are the kinds of firms that in the conventional understanding are supposed to bleed the peasants dry. Clearly, it was in the interest of some firms—quite likely a grain trader—to keep poorer peasants afloat in hard times.

At the same time, many grain loans also charged interest. Grain loans frequently come under fire in the literature for their usurious interest rates. Leonard Wu's (吴半农) seminal 1936 article on “usury capital” describes grain loans as one of several types of usury whose “exorbitant” rates were bankrupting the countryside and ruining the Chinese peasantry:

...grain dealers, or landlords who are cornering grain, extend credit to peasants in summer when money or grain is urgently needed. In the autumn, when the crop is harvested, the creditors receive back both the principal and interest in grain...the amount of the grain they receive is usually more than double the amount lent in the summer. This is not only to be ascribed to the exorbitant interest rate. It is much more the result of the tremendous difference of prices before and immediately after the harvest...⁵⁴

Wu well understands the logic of grain loans. They charge a high nominal interest because of price changes before and after the harvest. Even if the amount of wheat in the lender's inventories has doubled, the value of his inventories has not. But Wu turns this logic on its head, and makes it sound like a kind of ruse, as if moneylenders were using price fluctuations to fleece the peasantry of ever more grain. Wu writes, “With this doubled amount of grain in their hands, the grain

⁵³ JSSLJC, loan contracts, Other loans, 3.

立借麦文约人马友蛟因为使用不便今借到

三益号小麦式斗（加四斗），同中言明并无利息，情愿执当村东井地一亩，其地东至皇润月，西至马保山，南至渠，北至堰，四至分明。行老依旧言明收夏之后交还，如还麦不上麦主耕种。恐口无凭，立约为照。

同治八年四月初三日立借麦文约人马友蛟「十」

中人皇小业、瑞见

⁵⁴ Leonard T. K. Wu, “Merchant Capital and Usury Capital in Rural China,” *Far Eastern Survey* 5, no. 7 (1936): 63–68, <https://doi.org/10.2307/3021284>.

dealers can either sell to the grain exporters for cash or store in warehouses for further lending the next summer.” This makes little sense; the amount of cash that grain dealers can get for grain depends on the price. In a commercialized economy, if we want to know how much interest was actually being charged on grain loans, we must convert principal, interest, and repayment into monetary value.

The seemingly obvious point, that seasonality in grain prices means expected real rates on grain loans were significantly lower than nominal rates has been underappreciated by the scholarship (starting with Wu himself). I have not found data for “farm gate” prices, but a Nankai University survey reported Tianjin wholesale prices from 1928 and 1934. During this period, wheat prices were in secular decline which makes seasonality hard to detect. Adjusting for secular trends, Table 4 shows seasonal price declines of about 15% and 12% in red and white wheat, respectively.

Month	Red wheat (%)	White wheat (%)
January	1.84	2.11
February	1.96	2.37
March	(0.93)	(3.11)
April	(2.23)	(0.39)
May	(8.23)	(4.77)
June	(3.81)	(4.38)
July	1.26	0.69
August	2.67	3.51
September	(0.71)	0.38
October	(0.81)	0.73
November	7.76	0.58
December	1.23	2.28

Table 4. Average monthly % change in Tianjin wholesale wheat prices from 1928 to 1934, after seasonal decomposition adjusting for secular trends over the time period. Source: 南开指数资料汇编 1913 年-1952 年, 包括天津批发物价指数、天津工人生活费指数、天津批发物价、天津零售物价.pdf, 84-89. Seasonal decomposition performed by python statsmodels package.

Non-decomposed changes are on the order of about 6% from peak to trough.⁵⁵ But adjusting for the long-term downward trend in grain prices, we get price declines of 11.4% and 8.17% declines in red and white wheat, respectively, in the first half

⁵⁵ Unlike Lillian Li, I find the price trough for wheat comes in June or July; Li found the wheat price floor occurring in September. These differences could be due to regional variation, differences between Qing and Republican era markets, or simply noise in the different data sets. Lillian M. Li, “Grain Prices in Zhili Province, 1736–1911: A Preliminary Study,” in *Chinese History in Economic Perspective*, ed. Thomas G. Rawski and Lillian M. Li (Berkeley: University of California Press, 1992), 70–100.

of the year. Peak to trough drops are even steeper, an average of 15.2% and 12.65%, respectively. These numbers must surely be a considerable underestimate, since facilities in Republican-era Tianjin would have been much more advanced than Qing-era, rural Shanxi (or other less developed regions, even in the Republican period). I expect a grain rate charging nominal interest of ~40% over six months would have been equivalent to real rates on the order of anywhere between 20% to 35% over the period. This would put them in the upper end of currency loan interest rates, but not so high as to make implausible supply and demand explanations (modulo risk and transaction costs) for the rates charged.

In conclusion, for peasants living close to subsistence, without a sound reputation, business interests, or significant property, loans in kind were a source of credit in times of severe distress. Sometimes, these loans were granted for free as a form of charity. Other times, they charged quite exorbitant rates. Nevertheless, even high-interest lending was almost certainly adaptive for the Chinese economy. At the very least, it was preferable to starvation. Moreover, the knowledge that in times of crisis one could resort to high-interest loans allowed poorer peasants to take more risk in normal times. In this way, it was essential to “social reproduction.”⁵⁶ Finally, interest rates on these loans—as crushing as they were—appear to be explainable by supply and demand; China was poor and lending to the poorest of the poor was expensive. Exploitative social relations are extraneous as a causal explanation for high rates.

The structure of Chinese lending markets: individuals, institutions, and market integration

We can divide the lending market into three broad segments. At core were *biaoqi* loans. These were made in highly liquid markets in annual, *manjia*, and monthly loans. The primary borrowers were financial institutions and major commercial firms. The main lenders were *qianzhuang*, *yinhao*, *zhangju*, though wealthy hall entities could participate via subscriptions to commercial paper. Chapter XXX covered *biaoqi* loans extensively, and so we will not focus on them here. The second main lending segment were commercial loans, meaning loans to businesses that were extended outside of the *biaoqi* system. The third segment of the market was loans to individuals—largely peasants with their own property, but also individual merchants. At the same time, lending markets can also be

⁵⁶ Fang Xing 方行, “Qingdai qianqi nongcun de gaolidai ziben (清代前期农村的高利贷资本),” *Studies In Qing History (清史研究)*, no. 3 (1994): 11–26; Fang Xing 方行, “Qingdai qianqi nongcun gaolidai ziben wenti (清代前期农村高利贷资本问题),” *Economic Research Journal (经济研究)*, no. 4 (1984): 58–64; Zhang Zhongmin 张忠民, “Qianjundai zhongguo shehui de gaolidai yu shehui zai shengchan (前近代中国社会的高利贷与社会再生产),” *Researches In Chinese Economic History (中国经济史研究)*, no. 3 (1992): 143–51.

segmented based on whether they were urban—meaning based in county seats, cities, or major market towns—or rural, meaning based in the countryside. It would be convenient for historians if there were an identity between urban and commercial lending or rural and agrarian lending, but unfortunately this was not the case. Urban lenders sent agents to the countryside to broker loans, while rural borrowers including countryside firms. At the same time, the Shanxi countryside was unusually commercialized; many households from rural villages participated actively in commerce. It is impossible to avoid generalizing terms such as “rural lending” or “agrarian sector”; readers should keep in mind that these concepts are porous. They denote general tendencies rather than absolutely categories. This further means that to appreciate the extent of competition and integration, we must examine the specific types of lenders in close detail.

Different individual and institutional lenders occupied overlapping but distinct niches in Qing and Republican-era Shanxi lending markets. This enabled a high degree of specialization and broad loan penetration throughout society, even as it meant lending remained competitive; interest rates and loan allocation were determined by markets rather than merely custom or social relations. We can taxonomize lenders into four main types: individuals, hall entities, business entities, and communal associations. Business entities can be further subdivided into various, specialized financial institutions and purely commercial enterprises such as shops or trading firms. Table 5 summarizes the main lenders that I have identified in the popular sources, gazetteers, and *wenshiziliao* accounts, as well as their target markets. Target markets are, I hasten to emphasize, not exclusive markets but merely the primary set of borrowers served by different lenders, much as today some banks specialize in commercial clients, others in mortgages, but most do a mix of both.

Lender	Type	Primary target market
Modern banks	Financial institution	Industrial and commercial
Yinhao	Financial institution	Industrial, biaoqi, commercial
Qianzhuang	Financial institution	Biaoqi, commercial
Business entities	Non-financial firms	Commercial
Individuals	Individuals	Rural individuals
Hall entities	Hall entities	Biaoqi, commercial, individual
Pawnshops	Financial institution	Individuals
Urban zhangju	Financial institution	Biaoqi
Rural zhangzhuang	Financial institution	Rural commercial and rural individuals
Religious associations	Communal institution	Rural individuals

Table 5. Main lenders and primary target market. This table shows rough orientations of where a lender would specialize in lending to. These categories are not exclusive. For example, though *Qianzhuang* were decidedly oriented toward commercial lending, they were also an important source of rural loans.

We thus see a range of institutions and actors providing loans to different parts of the market. Financial institutions included banking institutions such as modern banks, *yinhao*, and *qianpu* or *qianzhuang*; as well as pawnshops and *zhangzhuang*. Commercial enterprises such as grain merchants or general stores also did a brisk business in deposits and loans, especially in communities underserved by financial institutions. Individuals as well as the *tanghao* of wealthy households were active lenders. Finally, *huishe* and religious associations were key, more communally-based sources of credit.⁵⁷

These different institutions not only dealt with overlapping sets of borrowers, but also had direct relations with one another. Core financial institutions, namely, *qianpu*, *yinhao*, and certain *zhangju* with direct access to *biaoqi* lending markets, lent mainly to commercial and other financial clients. But Figure 3 shows how they also channeled lending capital into the countryside and more grassroots urban lenders (such as urban pawnshops).

⁵⁷ Most financial *hui* were organized as ROSCAs; these were one of the most important vehicles for accumulating monetary savings and distributing credit in pre-1949 China. Their organizational structure and method of loan allocation is sufficiently idiosyncratic that they will not be the focus of this chapter. They are nonetheless important to the lending market inasmuch as they offered alternative sources of funding and so competed with lenders. ROSCAs provided attractive rates on savings and credit; also, as with loans they required land as collateral. In that sense they competed with lenders for collateral as well for borrowers. Matthew Lowenstein, "Risk Management in Prewar China: A Study of Rotating Savings and Credit Associations (ROSCAs) in Qing Dynasty and Republican-Era Shanxi Province," *Business History* 0, no. 0 (June 27, 2023): 1–27, <https://doi.org/10.1080/00076791.2023.2222662>; Lowenstein XXX.

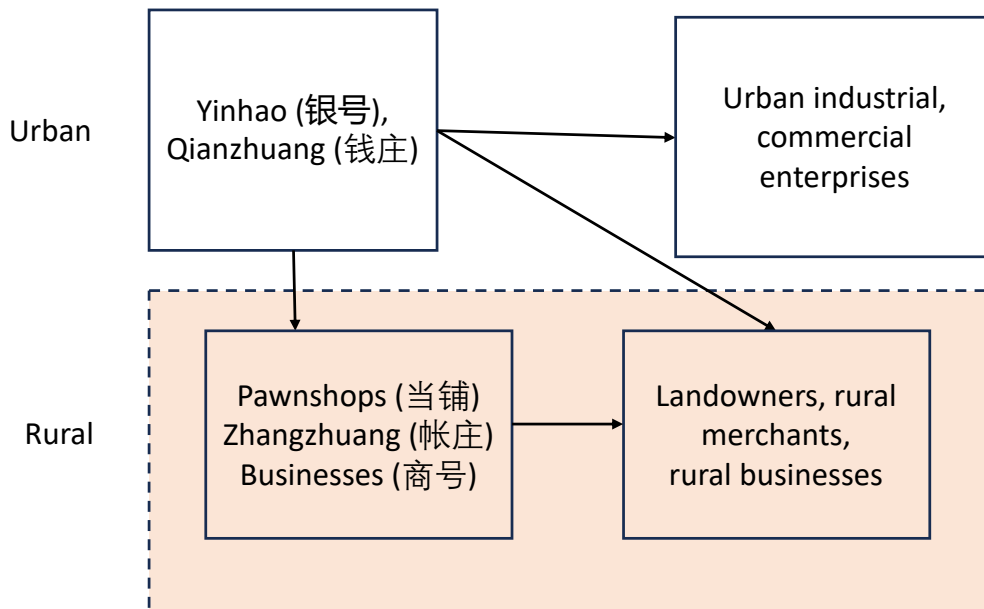


Figure 3. Relationship between urban and rural lenders. Arrows represent direction of lending. But any arrow could also be "reversed" in the form of deposits. That is, just as zhangzhuang borrowed from urban qianzhuang, so they also parked idle capital with them.

As Figure 3 shows, core institutions extended some loans to rural peasants directly. More importantly, they made numerous loans to financial institutions within the countryside, which in turn funded agriculture or handicrafts. This also makes sense; it is similar to the way in which urban wholesalers supplied trade credit to village retailers and it would be strange if trade credit flowed freely between county seat and village, but financial capital did not. Conversely, rural financial institutions often kept depository accounts at urban financial institutions.⁵⁸ In this way, excess capital in the countryside could return to the urban center and be redeployed into commerce or industry. In short, not only were lending institutions not siloed into urban/commercial and rural (or village)/agricultural spheres, but they actively integrated these spheres, channeling capital between the two to wherever returns were most attractive.

The rest of this section substantiates and elaborates on these claims. It first introduces the various classes of lender, and then delves into the evidence for integration between commercial and rural institutions.

Individuals

Most grassroots lenders were simply individuals who contracted to lend money under their own name rather than on behalf of an institution. In some ways, this is unsurprising. The traditional interpretation frequently speaks of landlords

⁵⁸ See Chapter XXX for a description of a pawnshop that kept an account with a *qianzhuang*, through which it lent money into the *manjia* market.

and rich peasants as usurers.⁵⁹ Without endorsing the normative or social implications of the terminology, the basic understanding is consistent with much lending going between individuals without institutional intermediation. Figure 4 shows that over half of lenders in the JSSLJC were individuals, but owing to the smaller sizes of individual loans, most loans by principal were made by businesses.

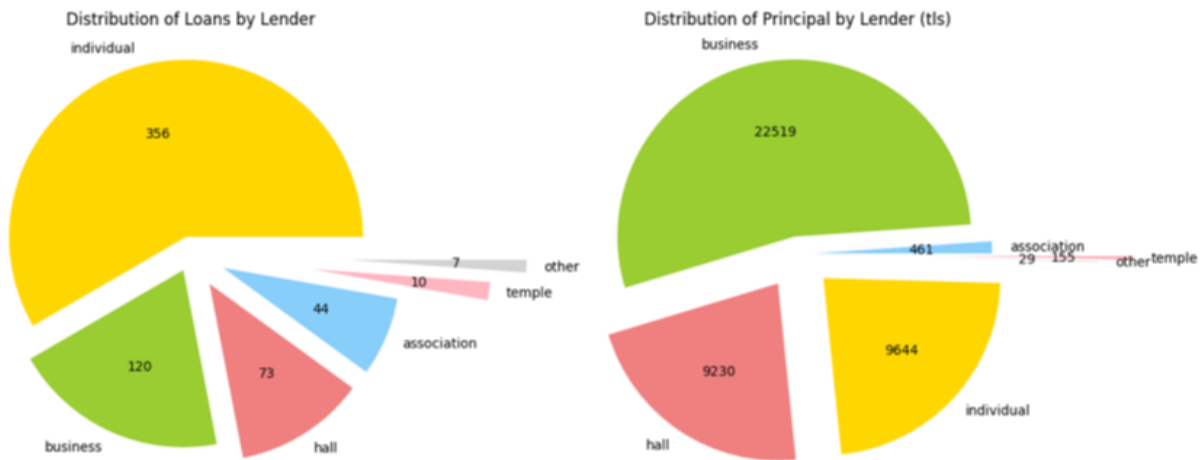


Figure 4. Distribution of loans by lender based on counts (left) and principal in silver taels (right). Loans made in copper cash converted at a rate of 1000:1. Source: JSSLJC, loans.

Figure 4 tells us that lending markets to a large degree were not institutionalized. Most loans—and this would have been especially true in the countryside—were made by individuals rather than businesses or even hall entities. But because of the larger amounts of capital controlled by institutions, and therefore larger size of institutional loans, institutional lenders were still more important in determining where capital went.

Individuals were especially important sources of loans for other individuals. Table 6 is a contingency table that elaborates on the relationship between different lenders and borrowers.

⁵⁹ Leonard T. K. Wu, "Merchant Capital and Usury Capital in Rural China," *Far Eastern Survey* 5, no. 7 (1936): 63–68, <https://doi.org/10.2307/3021284>.

		Borrower				
		Individual	Business	Hall	Other	Total
Lender	Individual	342	13	0	1	356
	Business	93	22	4	1	120
	Hall	54	19	0	0	73
	Association	44	0	0	0	44
	Temple	10	0	0	0	10
	Other	7	0	0	0	7
	Total	550	54	4	2	610

Table 6. Contingency table of lenders vs. borrowers in JSSLJC loan contracts. Source: JSSLJC, loan contracts.

Table 6 tells us that not only were individuals the most common sources of lending (by number of loans), but that they were especially likely to make loans to other individuals. This makes intuitive sense, since individuals need less capital than businesses, and so are less likely to borrow from institutional lenders. But these niches were hardly exclusive. Table 6 also shows that individuals also made plenty of loans to business entities and vice versa. Even if a local landowner or wealthy merchant was a village's lender of first resort, borrowers could also go to shops, merchants, or even the *qianzhuang* in the county seat in search of better rates.⁶⁰

Though we cannot know how representative a sample the JSSLJC contracts are, the numbers broadly match Republican-era data. Table 7 shows the results of a National Agricultural Research Bureau (中央农业实验所) survey of Shanxi rural lending in the 1930s.

Loan source	Share (%)
Bank	4.9
Cooperative	1.3
Pawnshops	18.9
Qianzhuang	13.1
Shops	11.4
Landlords	14.4
Rich peasants	13.4
Businessmen	22.6

Table 7. Sources of rural lending, 1935. Source: SXIG, 71 乙.

Slightly over half of all rural loans came from individuals, with pawnshops, *qianzhuang* and shops important runners up. I suspect proportions are by loan

⁶⁰ See appendix XXX for Chi-squared test.

rather than principal, otherwise I would expect to see amounts in silver yuan rather than just percentages. In any case, the study is yet more evidence for distinct, yet overlapping, segments of the lending market. We can see that *qianzhuang* were not the principal player in rural markets, but they were nevertheless a significant source of lending. Thus is also evidence for the connections between urban, commercially oriented financial institutions and the rural economy described in the beginning of this section. When returns were high enough—which they often were—*qianzhuang* would lend directly into the rural economy.

Hall entities

Chapter XXX studies the hall entity, or *tanghao* (堂号), in detail, including its lending activities. As Table 6 shows, hall entities were more likely than individuals and even *zihao* to lend to businesses. I believe this reflects the fact that many Shanxi hall entities were asset managers of merchant households, and so had significant capital and good relations with the business community. Many hall entities were also equity investors in commercial enterprises and frequently made loans to their investees.⁶¹ That such entities should lend frequently to individuals but be more oriented than individual lenders to the commercial lending sector seems, again, intuitive. Figure 5 shows a boxplot (excluding outliers) of the size of loans in silver taels by different lenders. It makes clear how hall entities resembled business entities in their lending behavior more than individuals. In contemporary parlance, we might consider both *zihao* and hall lenders to be something like “professional investors,” allocating larger sums to larger borrowers.

⁶¹ Chapter XXX.

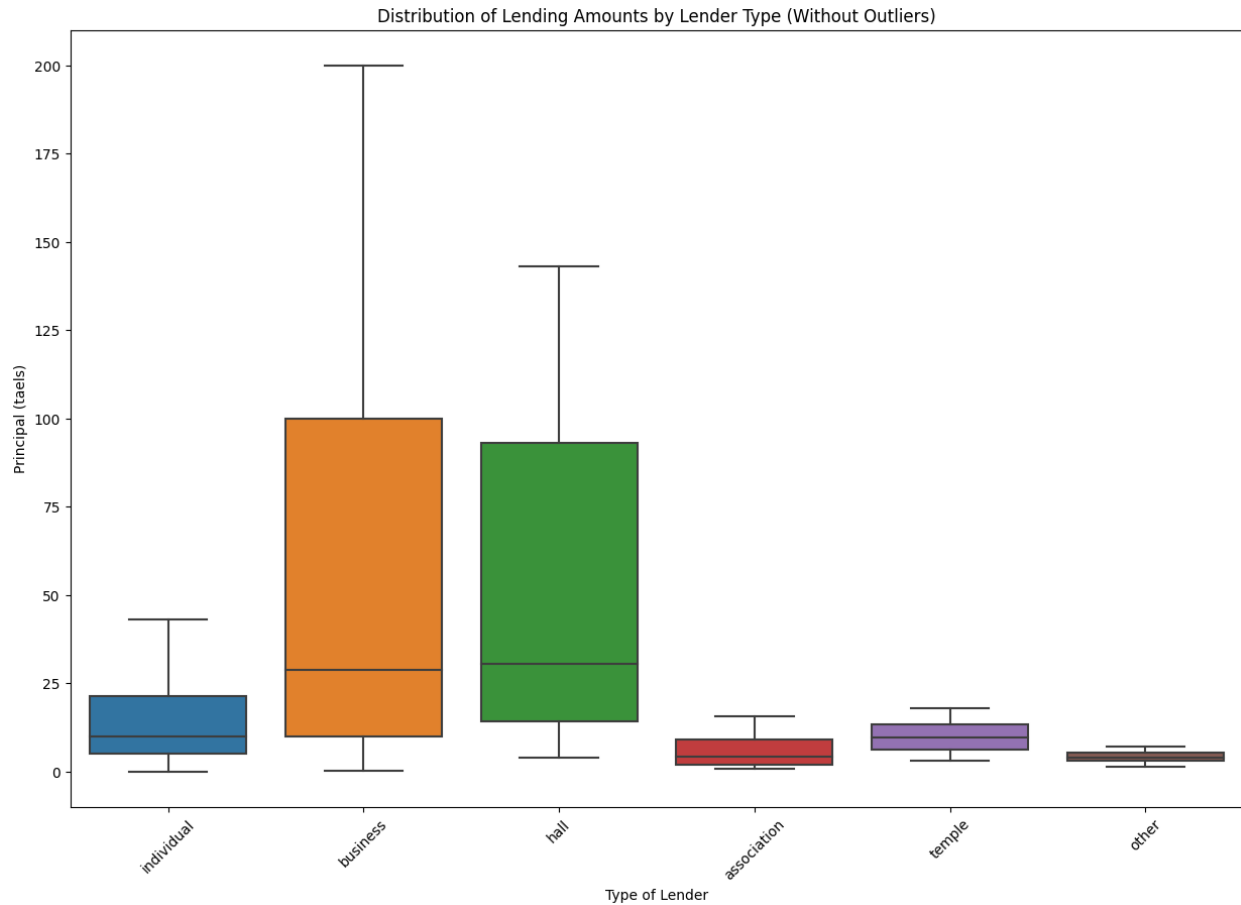


Figure 5. Principal size of loans by lender type. Copper and silver dollar loans converted at a rate 1000:1 and 7.15:1, respectively. Source: JSSLJC, loan contracts.

Figure 5 suggests that individuals tend to lend small amounts to other individuals, while the larger size of loans made by businesses and hall entities indicate that they are engaged in much more commercial lending. The implications for market integration also merit attention. Hall entities were of course investors in business entities and asset managers for wealthy households. Many dividends from business entities would have been paid to hall entities, as would the equity of a business once it was discontinued. Hall entity lending was one way to redeploy returns on capital into the economy. Finally, these findings substantiate claims made in Chapter XXX about the Hall entity. They show that hall entities were more than a mere name for a person's household, they indicated a greater formality and degree of investment sophistication; this is why hall entity lending looks more like commercial lending than it does like individual lending.

Qianzhuang and Yinhao

I consider the *Qianzhuang* (also known as *qianpu*, *qianzhuo*, *qianju*, *qianhang*, and *qiandian*) and *yinhao* the two “core” institutions of indigenous Chinese finance. The paper they issued was money good in a broad catchment area of their market.⁶² Meanwhile, their deposits could be used for general settlement and clearing and at times functioned as “account book” money.⁶³ A typical *qianzhuang* made loans to its corporate clients, particularly those that had an account transfer (i.e. depository) relationship with it. A *wenshiziliao* account of Shenghengtai (生恒泰) confirms the difficulty in getting a *qianpu* loan. Shenghengtai was a major *qianpu* in the center of Wei County (蔚县) near Zhangjiakou, well within Great Shanxi (and had its own *biaoqi* settlement fair). According to the account, “It was not everyone who could have account transfer or borrowing relationships with Shenghengtai *qianpu*. The most important prerequisite was to have an excellent credit. To start an account transfer or borrowing relationship also required a guarantor.”⁶⁴ Most of those with excellent credit, particularly by loan amount, would have been commercial or small industrial firms, followed by landowners.⁶⁵ In the Republican period, *yinhao* proliferated; they played much the same role in the economy as *qianzhuang* but were larger, incorporated as limited liability corporations, and ultimately came to control more capital than the *qianzhuang* industry. The SXIG data in Table 8 shows global lending estimates by lender and borrower.

⁶² See Chapter XXX.

⁶³ See Chapter XXX.

⁶⁴ “能与升恒泰钱铺建立倒帐与借贷关系，并非人人可，作为主要条件之一，即必须人格好，讲信用。开始建立倒帐或借贷关系时，还须有可靠的担保人。” Zhou Qingxi (周清溪), “Shenghengtai Qianpu (升恒泰钱铺),” in *Weixian Wenshi Ziliao Xuanji* (蔚县文史资料选辑), 8 (Zhongguo renmin zhengzhi xieshang huiyi hebeisheng weixian weiyuanhui wenshiziliao weiyuanhui (中国人民政治协商会议河北省蔚县委员会文史资料委员会), 1990), 160–62.

⁶⁵ One account of Ha’erbin *qianzhuang* explicitly states that most loans went to depository commercial clients. I believe this to have been generally the case. “Loans, then, were made out of excess *qianzhuang* capital. And lent to the business clients that they had relations with” (放款则是以钱庄多余的财力借给往来商户使用) in Yuan Xuejun 袁学军, “Qianzhuozi, Qianzhuang, Huobi Jiaoyisuo (钱桌子•钱庄•货币交易所),” vol. 15, *Ha’erbin Wenshi Ziliao: Jingji Shiliao Zhuanji* (哈尔滨文史资料经济史料专辑) (Ha’erbin: Ha’erbin chubanshe (哈尔滨出版社), 1991), 166–83.

	Banks	Yinhao	Qianzhuang	Other lenders	Total
Industrial	2,279,259	7,950,566	327,333		10,557,158
Commercial	4,539,147	4,701,212	9,311,939	12,218,922	30,771,220
Individual	100,000	70,800	10,264		181,064
Rural	74,887	551,811	1,411,935	12,951,797	14,990,430
Government	1,047,896	644,611	384,631		2,077,138
Interbank	378,000	1,387,614	1,456,549		3,222,163
Total	8,419,189	15,306,615	12,902,652	25,170,719	61,799,174

Table 8. Global lending estimates. This is based on a number of statistics in the SXIG. Rural loans are estimated by dividing total loans from yinhao and qianzhuang to peasants by the percentage of rural lending from qianzhuang. Other lenders are estimates of loans from individuals not captured in the table. Other lenders loans to the rural sector a simply a plug, arrived at by subtracting our total loan estimate from the bank, yinhao, and qianzhuang rural loans. Other lenders loans to the commercial sector are arrived by multiplying other lenders loans to the rural sector by the proportion of individual loans to commerce vs. individuals in the JSSLJC database. Source: 山西省之金融業, p. 16-17; SXIG, 71 乙.

The Qianzhuang and Yinhao industry (or “yinqian” industry 银钱业 as it was known) commanded a total of 37 million silver dollars in loans outstanding, nearly half of the industry. It was easily the most important single source of lending in the entire market (commercial, rural, and urban individual loans combined). The *yinqian* industry made most of its loans to commercial and industrial enterprises, but still made nearly 2 million yuan (a little under 7%) of its loans to agriculture. Even qianzhuang and yinhao had slightly different focuses, with yinhao much more likely to lend to industry and less likely to lend to agriculture. This once again highlights how different lenders targeted distinct but overlapping niches.

As we will see below, *qianzhuang* and *yinhao* were far more important to the rural economy than their mere direct lending would indicate. Many of their commercial and industrial clients were *zihao* located in the countryside or urban areas. These could borrow from *qianzhuang* and *yinhao*, and then relend them to peasants, artisans, or urban individuals who could not get loans from banking institutions directly. In this way, money flowed from the “core” *biaoqi* markets to more peripheral borrowers. Nor was this flow of capital unidirectional. When the countryside had excess capital, rural shops or lenders would deposit funds with their *qianpu* in the county seat, allowing those funds to be redeployed into urban commerce or other rural areas in the region.

Zhangju and Zhangzhuang

Zhangju (账局), also known as zhangzhuang (账庄) or jiedaizhuang (借贷账), are difficult to describe. They refer to any non-pawnshop, specialized financial institution that did not join the local bank association (such as Baofengshe in Guihua or the Banker's Guild/Association in Shanghai). Their deposits could not be used for settlements and clearing, nor could they participate directly in futures markets. As such, *zhangju* were known colloquially as “don't-join-the-associations” (不入行 *buruhang*) or “can't participate” (不伸手 *bushenshou*; literally, “can't stick their hands in”).⁶⁶ The *zhangju* in Beijing, Zhangjiakou, and parts of central Shanxi tended to be large institutions, primarily oriented toward urban commercial lending and, critically, provided capital to the *qianzhuang* industry.⁶⁷ In these major hubs, they were a kind of banker's bank. Beijing *zhangju* also did a brisk business in “official lending” (官贷 *guandai*). These were high-interest loans to officials who needed capital to cover expenses and, more importantly, buy gifts for officials in the capital while waiting to receive their commission.⁶⁸ Large urban *zhangju* were well capitalized, often with over 10,00 taels in capital.⁶⁹

At the same time, there were numerous small *zhangju*—often referred to as *zhangzhuang*—that targeted parts of the market underserved by larger financial institutions. These could be in urban areas or the countryside but were more numerous in the latter. During the Republican period, the *zhangzhuang* of Wenshui are the best attested to. One account explains, “Zhangzhuang set up in the countryside were far more numerous than those in the cities... These *zhangzhuang* were far from the county seat and officials did not bother them. Their scale was

⁶⁶ Jia Hanqing (贾汉卿), “Guihua Jinrong Shihua (归化金融史话),” in *Zhonghua Wenshi Ziliao Wenkui (中华文史资料文库): Vol. 14, Jingji Gongshang Bian (经济工商编)*, ed. Quanguo zhengxie wenshiziliao weiyuanhui (全国政协文史资料委员会), vol. 14 (Zhongguo wenshi chubanshe, 1996), 293–309; Cheng Jianmin 成建民, “Jiefangqian Wenshui Chengxiang Jinrongye Zhuangkuang (解放前文水城乡金融业状况),” in *Wenshi Wenshi Ziliao 文水文史资料*, vol. 12 (Wenshui xian zhengxie wenshiziliao bianweihui, 1992), 1–42.

⁶⁷ Huang Jianhui 黄鉴晖, “Qingdai zhangju chutan (清代帐局初探),” *Historical Research (历史研究)*, no. 4 (1987): 111–24; Huang Jianhui 黄鉴晖, “Jinshang zai qingdai jinrongye de diwei he zuoyong fenxi (晋商在清代金融业的地位和作用分析),” *On Economic Problems (经济问题)*, no. 4 (2007): 125–27.

⁶⁸ Bu Zhaoxiang 卜兆祥, “Hua Shuo ‘Zhangju’ (话说‘账局’),” in *Lianhu Wenshiziliao (莲湖文史资料)*, 7 (Zhongguo renmin zhengzhi xieshang huiyi xi'anshi lianhuqu weiyuanhui wenshiziliao yanjiu weiyuanhui (中国人民政治协商会议西安市莲湖区委员会文史资料研究委员会), 1992), 110–18.

⁶⁹ Chen Tianyi 陈添翼, “Research on the Zhang Ju During the Qing Dynasties to the Republic of China (清代民国时期账局研究)” (Ph.D. Dissertation, Baoding, Hebei, Hebei University, Center for Song History, 2020), 63–65.

manifestly smaller than those set up in the cities...⁷⁰ The account continues, “The greater majority of borrowers were peasants. Most of these used property or land as collateral. They also lent to rural businesses and those in small handicrafts.”⁷¹ In other words, small country *zhangzhuang* acted as dedicated lenders to the rural economy. Another account from Wenshui recalled that, “Below the *yinhao*, there were over 30 *zhangzhuang* that set up shop in the countryside. They directly made loans to peasants.”⁷² Surveys conducted by the Eighth Route Army found *zhangzhuang* exploiting the peasants with usurious lending in the Taihang mountains, thus demonstrating the wide reach of this institution into some of Shanxi’s most remote and impoverished regions.⁷³

The popular sources confirm these accounts. One loan contract in the JSSLJC even specifies that its lender is a *zhangzhuang*:

Originating a loan contract for hard cash with Liu Yunchang, who today is borrowing from East Jiuzhishe

Tianyuyong *zhangzhuang* principal of 27 seventy-two silver dollars. It is clearly stated that the term of the loan will be six and a half months. The loan will accrue a total *manjia* interest of 3.075 silver dollars to be paid in full at maturity. In case principal and interest are not paid in full, a 0.8 plot of land at the southern end of Xiangle township as well as 3.75 mu of wheatfield are pledged as collateral along with the red deed to the property and the borrower shall be able to take possession of this land for his own use. In case documentation is needed, this contract is drawn up as proof.

⁷⁰ “设于农村的帐庄，远比设于城内的为多。这些帐庄大部是独资或以一户之资本为主，少量组合他人资本的合资。这些帐庄远离县城，官方不加过问，它们的规模显著小于设于城内的，但和城内的银行号庄来往密切。” Cheng Jianmin 成建民, “Jiefangqian Wenshui Chengxiang Jinrongye Zhuangkuang (解放前文水城乡金融业状况),” in *Wenshi Wenshi Ziliao* 文水文史资料, vol. 12 (Wenshui xian zhengxie wenshiziliao bianweihui, 1992), 1–42.

⁷¹ “放款利率浮动性很大，一般为一分五厘，也有一分八厘、二分、二分五厘的，甚至有三分，四分五厘者。放款对象大部分是农民，其中房地产抵押者尤多，也放给农村商号店铺及小手工业者。” Cheng Jianmin 成建民, “Jiefangqian Wenshui Chengxiang Jinrongye Zhuangkuang (解放前文水城乡金融业状况),” in *Wenshi Wenshi Ziliao* 文水文史资料, vol. 12 (Wenshui xian zhengxie wenshiziliao bianweihui, 1992), 1–42.

⁷² “这些银号下面，农村设有三十多个账庄，与农民直接发生借贷关系”。从前文水城内的钱行多 Mu Zhaoqian 穆照谦 and Pan Zhaoyuan 潘照远, “Congqian Wenshui Chengnei de Qianhang Duo (从前文水城内的钱行多),” in *Wenshui Wenshiziliao: Jinian Kangri Zhanzheng Shengli 40 Zhou Nian* (文水文史资料: 纪念抗日战争胜利40周年), vol. 1, 1984, 34–35.

⁷³ Zhongguo renmin yinhang hebeusheng fen hang (中国人民银行河北省分行), *Jinan yinhang* (冀南银行), 1st ed. (Shi jia zhuang: Hebei renmin chubanshe (河北人民出版社), 1989), 432.

Republic 21, 15th day of the 11th month of the lunar calendar [12/12/1932],
 contract originated for a loan of hard cash with Liu Yunchang
 Guarantor Li Youzhong
 Scribe Li Xihou⁷⁴

This contract records a loan from Tianyuyong, a rural *zhangzhuang* in the village of East Jiuzhishe, outside of Fenyang county. The loan is made to Liu Yunchang, a landowner with property in Xiangle township, opposite East Jiuzhishe on the other side of the Ciyao River. The loan is for 27 silver dollars in full-bodied silver coin (i.e. containing 0.72 silver taels) and backed by 4.55 mu of farmland. We also see that the loan has a term of six and a half months; that is, it falls due at the summer *biao* and accrues a *manjia* interest of 3.075 silver dollars, equivalent to a monthly rate of 3.13%. The contract demonstrates how *zhangzhuang* operated in the countryside, supplying loans at steep rates to peasants with good enough land to pledge as collateral. The *zhangzhuang* were not quite banks; they did not issue many notes or provide settlement and clearing services. But they did mean that, at least in some parts of Shanxi, rural communities had specialized, professional lenders in addition to pawnbrokers.

Even these rural, small-scale *zhangzhuang* maintained intimate relationships with urban financial institutions. Table 9 presents a survey of Wenshui *zhangzhuang* loans and deposits:

	Deposits	Loans
Residents	71,509.30	
Peasants		87,620.06
Commercial	31,814.00	50,039.00
Interbank	40,166.00	44,483.00
Total	143,489.30	182,142.06

Table 9. Sources of deposits and use of loans for Wenshui *zhangzhuang*, 1935. Amounts in silver dollars (銀元). Source: SXIG, pp. 71-72 (辛)。

⁷⁴ 立借现银洋约人刘运昌今借到东九支「枝」社

天裕永账庄本 72 银洋式拾柒元，同中言明六个半月为期，共满加利洋叁元 X 角七分五厘，到期如数清还。至期本利不到，随抵押香乐镇村南八角地，麦地三亩七分五厘，随代原地红契一张，许银主执业自便，恐后无凭，立借约为证。

民国二十一年阴历十一月十五日 立借现银洋人刘运昌十
 代还保人李有忠十
 李喜侯代笔

Table 9 demonstrates *zhangzhuang* depended on interbank lending for 28% of its deposits and fully 22% of its loan book. This represents borrowing from other financial institutions, largely urban *qianzhuang*. They also do an enormous amount of interbank *lending*, likely to both urban institutions and to each other. In short, *zhangzhuang* were a gateway between urban and rural finance, allowing capital to flow between these distinct segments of the economy. At the same time, nearly half of all *zhangzhuang* lending went to peasants. Once again, we see how financial institutions were able to pipe capital from urban, core areas of the economy into the countryside, where it could be loaned into the agrarian sector.

Business entities

The *zihao* business entities studied in Chapter 1 were another critical source of lending, both for individuals as well as for other *zihao*. Figure 6 shows a contract between the Fengyugong Co. (丰裕公号) and an individual named Zhao Chang'an (赵昌安) originated on the 5th day of the 12th month of Daoguang 25 (1/2/1846).

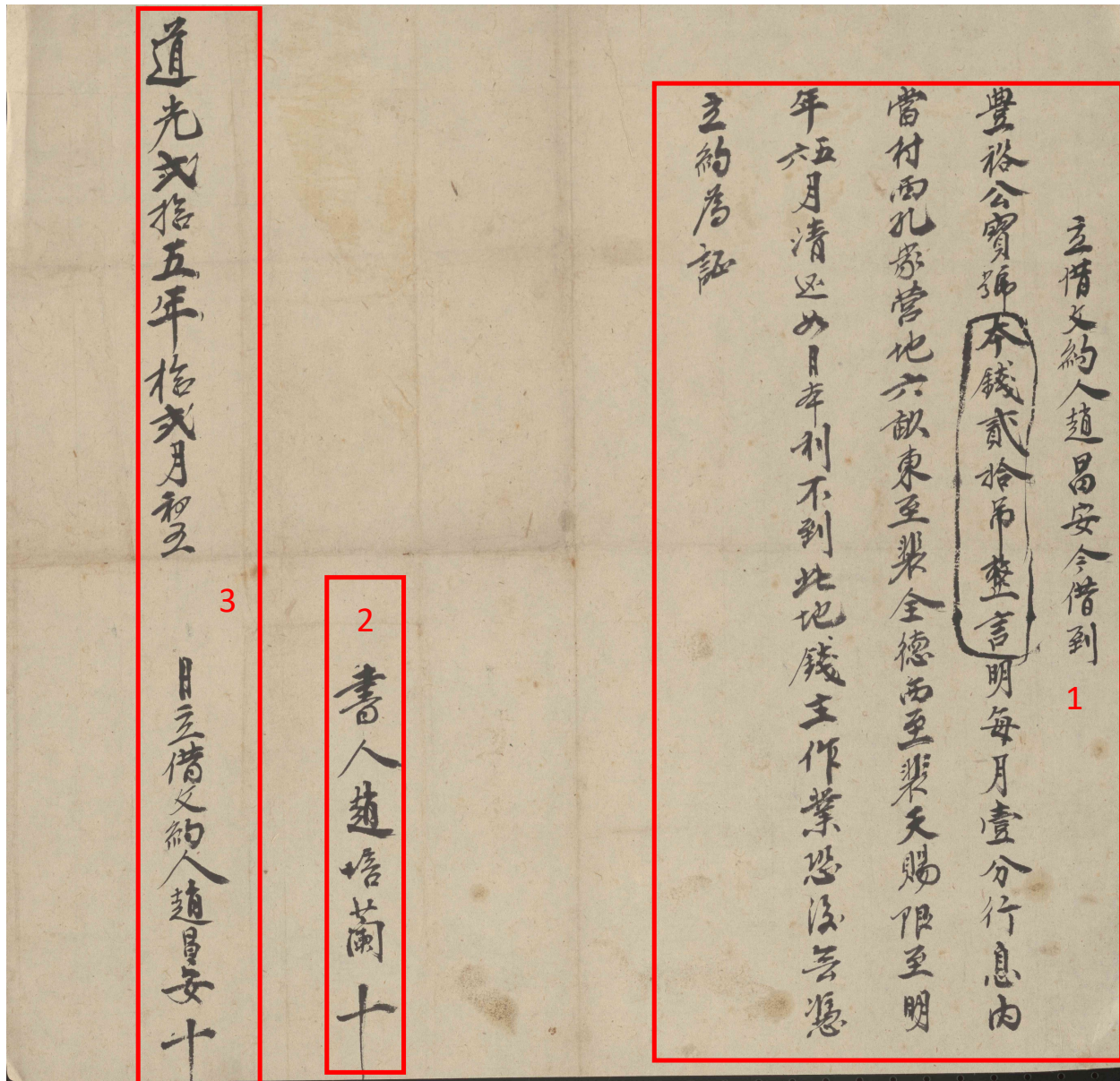


Figure 6. 1) 立借文約人趙昌安今借到，丰裕公寶號本錢貳拾吊整，言明每月一分行息，內當村西孔家六畝，東至梁全德西至裴天賜，限至明年五、六月清還，如日本利不到此地錢主作業，恐后无凭，立約为证据。Originating a loan contract with Zhao Chang'an, who is today borrowing from the honorable Fengyugong Company a principal of 20,000 strings of copper. It is clearly stated that the interest shall accrue a monthly interest of 1%. As collateral, the Kong family plot of land on the western side of the village is pledged amounting to 6 mu. Its eastern border is Liang Quande. Its western border is Pei Tianci. The maturity is the fifth and sixth month of next year. If the principal and interest are not paid at that time, the creditor shall take possession of the collateralized land. Oral testimony will not be relied on, so we are drawing up this contract as documentation. 2) 書人 趙培蘭 「十」。Scribe Zhao Peilan. 3) 道光貳拾五年拾貳月初五日立借約人趙昌安「十」。On the 5th day of the 12th month of Daoguang 25, loan contract established with Zhao Chang'an. Source: JSSLJC, loan from businesses, 19.

The contract is a loan between the Fengyugong Co. and an individual named Zhao Chang'an. It is made right before year end, likely because Zhao Chang'an needed funds to clear yearly debts. The loan is backed by land as collateral, and it is due the "fifth or sixth month," after harvest time. The borrower was thus likely a peasant or at least a landowner, though he may very well have been engaged in

commerce as well. The interest rate, at 1% per month for a copper loan, is not at all high and would have been well within returns on capital, even average returns let alone marginal returns, for many productive agricultural or commercial enterprises.

Fengyugong and other businesses like it played a crucial role in the economy as lenders. Businesses of all kinds, particularly shops, served as a gateway between core financial institutions in urban areas and rural lending. In Wenshui, such shops were more or less the same as *zhangzhuang* in their financial operations:

Alongside village and market *zhangzhuang* were commercial shops spread throughout all the villages that did a lending business on the side. These shops were mainly in commerce. They sold miscellaneous goods, they were general stores and clothiers, they sold oil, alcohol, rice, and noodles. At the same time, they did a side business in loans to varying extents.⁷⁵

Even some rural industrial or handicrafts business, such as vinegar and liquor breweries, sugar processors, and pharmacies made interest-bearing loans when it was profitable. As with *zhangzhuang*, these shops could also tap urban capital markets to make loans. The account continues, “When they did not have enough capital, they went to the urban banking industry or rural *zhangzhuang* to borrow, or else they siphoned off from their working capital by extending payables.”⁷⁶ In other words, urban *qianzhuang* and *yinhao* helped fund these shops, which could reloan that capital in the countryside, either to peasants or to rural merchants and artisans. Yao Shuyi, a contemporary Chinese literary critic, describes his grandparents’ country store as “being like a small village *qianzhuang* for the surrounding area,” because it engaged in precisely this kind of lending, and also accepted interest-bearing deposits.⁷⁷

The data in the SXIG corroborates both the role of country stores and their links to the urban financial institutions. Unfortunately, the Gazetteer surveyed a limited number of shops from nine counties, and so the data is incomplete. Nevertheless, it gives us a good sense of the kinds of financial activities that these shops engaged in. Table 10 shows the sources of deposits and recipients of loans.

⁷⁵ “与村镇帐庄同时并存的是遍布各村的商店铺号兼营的借贷。” Cheng Jianmin 成建民, “Jiefangqian Wenshui Chengxiang Jinrongye Zhuangkuang (解放前文水城乡金融业状况),” in *Wenshi Wenshi Ziliao 文水文史资料*, vol. 12 (Wenshui xian zhengxie wenshiziliao bianweihui, 1992), 1–42.

⁷⁶ “资本不足时也向城内钱行农村帐庄借入, 或挪用托欠城内商号的赊购货款。” Cheng Jianmin 成建民, “Jiefangqian Wenshui Chengxiang Jinrongye Zhuangkuang (解放前文水城乡金融业状况),” in *Wenshi Wenshi Ziliao 文水文史资料*, vol. 12 (Wenshui xian zhengxie wenshiziliao bianweihui, 1992), 1–42.

⁷⁷ “双盛永可以“赊销”、可以“存款”, 也可以“借贷”, 就像是刘各庄以及周边村落的一个小钱庄。” Shuyi Yao, *Xun Chang Bai Xing Jia*, Chu ban, Xian Dai Zhongguo Hui Yi Lu Cong Kan 002 (Taipei Shi: Ren jian chu ban she, 2010).

	Deposits	Loans
Residents	15,189.00	
Commercial	85,660.00	66,018.00
Peasants	36,753.00	73,439.00
Government	41,967.00	17,593.00
Interbank	16,850.00	1,200.00
Total	196,419.00	158,250.00

Table 10. Partial survey of sources of deposits and loans in silver dollars (銀元) of shops performing financial functions, 1935. Residential deposits are largely landlords but also include merchants and urban dwellers. Source: SXIG, pp. 77-79 (辛).

We can see that 8.5% of their funding comes from other financial institutions, which is mostly *qianzhuang* and *yinhao*. Meanwhile, most of the business lending goes into commerce and loans to peasants. Table 10 is also interesting in that it shows that deposits exceeded loans. Clearly, these businesses also used their deposits to fund non-financial operations. This also shows how capital in the countryside could be deployed directly into trade by way of deposits at commercial enterprises. Indeed, we can think of the deposit-taking activity of such shops as a sponge, soaking up savings of the peasantry and excess capital of rural shops. When country shops could no longer absorb all this capital, it would find its way to the urban center in the form of deposits at *qianzhuang*, *yinhao*, and, later, modern banks.

Pawnshops

In the late Qing and Republican period, pawnshops set up shop in both urban markets and the countryside. Indeed, as Table 7 shows they were the single most important rural lender after individuals. The high Qing was the high watermark for the Shanxi pawn industry. In Guangxu 31 (1887), the province was home to 1,713 licensed pawnshops, but this number was certainly much higher—probably several multiples higher—from the early Qing through the Tongzhi reign. During the Republican period, the decline of licensed pawnshops accelerated. By 1921, the number of pawnshops in the province had dwindled to only 731. This decreased further to 660 in 1927 and bottomed out in 1933 at 306. By 1935 the number of licensed pawnshops had recovered slightly to 436.⁷⁸ Pawnshops made loans based on valuables, grain, and especially on clothing and farmland.⁷⁹ Most pawnshops

⁷⁸ SXIG, 82-85 辛.

⁷⁹ Chai Yuan 柴垣, “Shuoxian ‘Qianzhuang’ ‘Dangpu’ Yu ‘Liangdian’ (朔县‘钱庄’‘当铺’与‘粮店’),” in *Shuozhoushi Shuochengqu Wenshiziliao*, 2 (Zhongguo renmin zhengzhi xieshang huiyi shuozhou chengqu weiyuanhui 中国人民政治协商会议朔州市朔城区委员会, 1990), 45–50; Zhang Zhaochu 张肇础, “Guihuacheng de Diandangye (归化城

were located in the countryside, though urban pawnshops tended to be larger, resulting in roughly equal volumes of urban and rural pawnshop lending. However, given the larger size of urban commercial markets and the prominence of *qianzhuang* and *yinhao* in them, pawnshops played a proportionally more critical role in the countryside and, as Table 7 demonstrates, in the peasant economy especially.⁸⁰

Whether in urban or rural markets, pawnshops maintained close relationships with *qianzhuang* in financial centers. This enabled them to borrow from *qianzhuang* when they needed additional capital or to park excess capital in *biaoqi* lending markets. The Wenshui *wenshiziliao* sources state, “When their capital was insufficient, they often took loans from Huiyuan, Juyuantai, Hejuyong, Heboli, and other *yinhao* and *qianzhuang* in the wenshui city center to recirculate.”⁸¹ We should not think of pawnshops or other rural lenders as “monopolizing” loans in a rural market; on the contrary, they were conduits for capital to flow from larger, more urban markets into the countryside. In the Republican period, pawnshops relied on urban financial institution for 19.15% of their loans.⁸² Loans from firms accounted for another quarter of short-term borrowings. Since roughly 2/3 of pawnshop capital was debt, this means urban financial institutions accounted for over 10% of all pawnshop capital.⁸³ The upshot is, even when core financial institutions did not lend to agriculture directly, they supported financial institutions that did. Conversely, when pawnshops had no outlet for their own capital, they invested back in urban commercial markets.⁸⁴

Associations (会社 *huishe*)

A final source of lending were associations, or *huishe*. The most common *huishe* were Rotating Savings and Credit Associations (ROSCAs), reported to have

的典当业),” in *Hohhot Wenshi Ziliao* (呼和浩特文史资料), vol. 10 (Hohhot shizhengxie wenshiziliao weiyuanhui (呼和浩特市市政协文史资料委员会), 1995), 97–102.

⁸⁰ Liu Qiugen 刘秋根, “Qingdai chengshi gaolidai ziben (清代城市高利贷资本),” *Researches In Chinese Economic History* (中国经济史研究), no. 4 (1996): 82–93; Liu Qiugen 刘秋根, *Zhongguo Dian Dang Zhi Du Shi* 中国典当制度史 (*The Institutional History of Chinese Pawnbrokers*), Di 1 ban. (Shanghai: Shanghai gu ji chu ban she : Xin hua shu dian Shanghai fa xing suo fa xing, 1995), 272–286.

⁸¹ “资本不足用时经常向城内的汇源、镇源泰，合聚永和溥利等银号钱庄周借贷款。” Cheng Jianmin 成建民, “Jiefangqian Wenshui Chengxiang Jinrongye Zhuangkuang (解放前文水城乡金融业状况),” in *Wenshi Wenshi Ziliao* 文水文史资料, vol. 12 (Wenshui xian zhengxie wenshiziliao bianweihui, 1992), 4.

⁸² SXIG, 93-94(辛).

⁸³ SXIG, 92-94(xin)

⁸⁴ See the letters from the Wenshui pawnshop Hengyi Pawn and its correspondent bank Baohuitong in Pingyao in Chapter XXX. The correspondence revolves around in an account that Hengyi kept at Baohuitong, allowing it to invest in the *manjia* market.

included between 8% and one quarter of Chinese households.⁸⁵ These, however, did not engage in pure lending. Rather, they distributed interest-bearing credit in turns or through competitive bidding. Nevertheless, it is important to mention ROSCAs since they would have, in effect, competed with other lenders—though again, they were mainly open to those with some means, particularly land, and of sound reputation in the community.⁸⁶ But in addition to ROSCAs, there were also plenty of societies that did make true loans, in which they signed *jiyue* for borrowers. Many of these societies were religious, such as the Guanyin Societies discussed in the annual loans section above. Other Buddhist lenders included the “Society of the White-Robed Goddess” (*baiyishenhui* 白衣神会). This was another name for Guanyin, and these societies were likely also associated with Guanyin or “grandmother temples” (奶奶庙 *nainai miao*) temples and shrines. One white-robed goddess society loan for 5,000 copper cash comes from 1915:

Originating a loan contract with Yang Chengsi, because he is short of funds and inconvenienced, to borrow today from

The Society of the White-Robed Goddess, principal of exactly 5,000 copper cash. It is clearly stated the loan will accrue an annual interest of 15%. If the interest is not forthcoming, he pledges his own 0.7 mu parcel of well-watered land on the pair of hillsides. Its northern boundary is Jin Huozhi, its southern boundary are the cliffs, its eastern boundary is the small road, its western boundary has not yet been opened. Oral testimony will not be relied on, so we are drawing up this loan contract as proof.

3/24/1915.

The ritual nature of the loan is evident. This loan, and indeed all three of the JSSLJC loans from the White-Robed Goddess societies, were made on the 9th day of the second month, ten days before the Bodhisatva’s birthday. As in the annual loan studied above, the principal here is tiny. This is a general pattern in loans from religious societies. Whether from Guanyin, the God of Wealth, the Horse King, or various other temple societies, principal amounts tend to be smaller than in loans from other kinds of lenders. This again, likely indicates the partial “mutual aid” function of the societies. At the same time, since such societies were likely only open to tithe-paying members of a local temple, they were in a sense gatekept and

⁸⁵ Rotating Savings and Credit Associations (ROSCAs) in Prewar China: Communal Finance and the Roots of Economic Development XXX.

⁸⁶ Matthew Lowenstein, “Risk Management in Prewar China: A Study of Rotating Savings and Credit Associations (ROSCAs) in Qing Dynasty and Republican-Era Shanxi Province,” *Business History* 0, no. 0 (June 27, 2023): 1–27, <https://doi.org/10.1080/00076791.2023.2222662>; Lowenstein XXX; Zongpei Wang, *Zhongguo Zhi He Hui* (Nanjing: Zhongguo he zuo xue she, 24); Kellee Tsai, *Back-Alley Banking: Private Entrepreneurs in China* (Ithaca: Cornell University Press, 2002); Kellee Tsai, “Banquet Banking: Gender and Rotating Savings and Credit Associations in South China,” *The China Quarterly*, no. 161 (2000): 142–70; Sidney Gamble, “A Chinese Mutual Savings Society,” *The Far Eastern Quarterly* 4, no. 1 (1944): 41–52, <https://doi.org/10.2307/2048986>.

consisted of people who knew one another. This lowered the transaction costs that would have otherwise made such tiny loans prohibitively expensive.

Borrowers: Who gets a loan?

This section looks at the kinds of actors who got loans, as well as the sources of lending demand. In other words, who gets a loan and why? At a high level, we can discern three types of borrowers. The first are businesses, that is, the *zihao* studied in Chapter 1. The second are individuals. These two types of borrowers are clearly distinguishable in lending contracts, some of which are signed in the name of a *zihao* while others are signed with a personal name. Third, we at times see state institutions borrowing. State borrowers became more important clients of traditional Chinese firms during the Republican period, but never came close to the scale of loans made to private borrowers. This is because both regional and central authorities were increasingly likely to raise funds via modern banks and local bond markets.⁸⁷ The question of who has access to loans is of critical importance to economic, social, and political history. It tells us where the financial system was channeling capital and the extent to which capital was accessible by different parts of society. The sources of lending demand have similarly important social implications. A society in which borrowers are investing loan capital to expand production is likely to be on a different, more favorable trajectory than a society in which loans are primarily a means to stave off disaster for households living on the brink of starvation. Ultimately, this section finds that the lending market was accessible to firms and individuals with property—either agricultural land, commercial investments, or both. Finally, it identifies a hitherto overlooked but critical source of demand for monetary loans: settlements and clearing. This suggests that loans were frequently used to smooth over receipts and expenditure mismatches at year end; in other words, they were critical to all economic activity in both urban and rural areas, including consumption, production, and investment. Loans made in kind are more consistent with the scholarship attributing loan demand to urgent consumption needs.

We can look at both the JSSLJC and the SXIG data to get a sense of how much lending capital went to firms as distinct from individuals. Table 11 shows

⁸⁷ The development of the bond market and the relationship between the state and modern banks are beyond the scope of this book, but readers are urged to consult an already rich literature on the subject. Jun Hu, *Zhongguo Cai Zheng Shi* (Shanghai: Shang wu, 9); Linsun Cheng, *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897-1937*, Cambridge Modern China Series (Cambridge, UK ; New York: Cambridge University Press, 2003); on foreign bond issuance see Ghassan Moazzin's splendid monograph of the Deutsche-Asiatic Bank, Ghassan Moazzin, *Foreign Banks and Global Finance in Modern China: Banking on the Chinese Frontier, 1870-1919*, Cambridge Studies in the Emergence of Global Enterprise (Cambridge ; New York, NY: Cambridge University Press, 2022).

that in the JSSLJC database of monetary loans, individuals and *zihao* make up 90.2% and 8.9% percent of borrowing by loans and 49.7% and 46.9% of borrowing by principal (in silver taels), respectively.

	Loans	Principal (tls)	% Loan counts	% Principal (tls)
Business	54	19696.88	8.85%	46.85%
Hall	4	1300	0.66%	3.09%
Individual	550	20876.17	90.16%	49.66%
Other	2	165.125	0.33%	0.39%

Table 11. Breakdown of borrowers of monetary loans. Source: JSSLJC, loan contracts.

In other words, most borrowers are individuals, but when *zihao* borrow they tend to so in much larger amounts. I suspect the JSSLJC is biased in favor of individuals, because loan contracts from specialized urban financial institutions to commercial clients that were made in the normal course of business were likely destroyed after the loan was repaid. Similarly, such loans may not have involved formal contracts, but simply *jietiao* (借条), since they were conducted between businesses affiliates with high trust and longstanding relationships.

The SXIG is problematic. It does not break out the lending market into commercial and individual or rural sectors. All it gives us to go on in estimating the size of commercial vs. rural lending markets are a few, unreliable proxies. First, the gazetteer lists the sources of loans to peasants by percentage (see Table 7 above). It also reports hard numbers for outstanding balances of peasant loans owed to financial institution. In theory, we might hope to get the size of the total rural lending market by dividing, for example, the amount of *qianzhuang* loans to peasants by the percentage of peasant loans that come from *qianzhuang*. In practice, when we do this for multiple categories of lender we arrive at wildly different estimates (Table 12).

(A) % of peasant loans from Qianzhua ng	(B) Qianzhuang loans to peasants (ex yinhao)	(C) Qianzhuang + yinhao loans to peasants	(B) ÷ (A) Total rural lending (low)	(C) ÷ (A) Total rural lending (high)
13.1%	1,411,935.24	1,963,746.38	10,778,131. 60	14,990,430. 38

Table 12. Estimate of total rural lending in silver dollars (銀元), ~1935. Source: SXIG, 71 乙; SXIG 30-33 辛; SXIG, 176-179 辛。

I suspect that the percentages in Table 7 are based on polling data and reflect something like percentage of loans made in a given year rather than a balance of loans outstanding. Nevertheless, if we take the estimate based on *qianzhuang* loans, we arrive at a total rural lending market of 10-15 million yuan. If we compare this to the commercial loans made by dedicated financial institutions, we arrive at a total of about ¥ 18.6 million. This is undoubtedly an underestimate, since individuals, hall entities, and other commercial enterprises also made commercial loans which would not be captured in the gazetteer data. If we assume that wealthy individuals lent as much money to businesses as to other individuals (as indicated by the JSSLJC), we arrive at a higher estimate. Per Table 7, Individuals made up 50.4% of rural lending, or slightly more than ¥ 5.4 million. If we add that to our commercial lending volume again, we can estimate total commercial lending at about ¥ 24 million. This puts commercial lending at no less than 55% of the traditional lending market, and perhaps over 60%. These calculations are meant to be advisory. They are useful as indications that commercial lending made up the lion's share of all loans in the Qing and Republican period, while individuals (including private merchants but largely comprising the agrarian sector) received a significant but substantially smaller share of Shanxi lending capital.

This analysis is supported, and somewhat complicated, by another set of primary sources in the JSSLJC: household division contracts, or *fenjia shu* (分家书). A household division contract divided the wealth of a hold household between the sons so that they could start their new households. It also frequently set aside assets to take care of any parents still alive. When a household had debts outstanding, they were usually paid off before division.⁸⁸ But sometimes debts were apportioned in the contract between the sons. Figure 7 gives us an example of a household division contract that makes provisions for the repayment of the household debt:

⁸⁸ Fenjia, XXXX

way of knowing about the family's borrowings. It is also significant that the family's main wealth appears to have been tied up not in land, but in the equity of a *zihao*, the Guangxing company. I believe merchant families were less likely to discharge debt prior to division, since equity in companies was more difficult to parcel up than farmland. In short, family division contracts are likely to reflect loans payable for wealthier families involved in commerce with large loans outstanding. In total, 36 out of 118 unique merchant household division contracts show loans outstanding. This is high considering that most loans were short-term and that loans were often repaid before family division.⁸⁹ It suggests an active loan market that most families involved in commercial enterprise participated in.

	Cash loans	Silver loans
Counts	14.00	22.00
Average	(347,284.50)	(697.13)
Average land (mu)	39.27	28.19
Average equity (tls)	453.85	399.31
Average equity (cash)	456,428.57	290,454.55
Average silver loans (tls)	(633.53)	(697.13)
Average cash loans (cash)	(347,284.50)	(142,718.91)

Table 13. Summary of family assets with loans outstanding in family division contracts. Source: JSSLJC, *fenjia* contracts.

As Table 13 shows, the volume of borrowings was prodigious. Households with loans outstanding borrowed an average of 697 silver taels or 347,000 copper cash. As expected, these households are relatively wealthy, with significant landholdings and even more significant equity investments in commercial enterprises. This data does not tell us anything about the average borrower; for reasons stated above, it is unlikely to reflect households with small loans, who would have comprised families of more modest means. But it does show that wealthy families depended on the lending market as a source of credit. This means that loans cannot have merely been oriented toward usury or dire emergencies. Nevertheless, the question remains, why did merchants and peasants take loans?

Loan demand: why get a loan?

I believe that a major source of loan demand—possibly the single largest source, at least in Greater Shanxi—was settlements and clearing. Businesses and

⁸⁹ David Wakefield, *Fenjia: Household Division and Inheritance in Qing and Republican China* (Honolulu: University of Hawai'i Press, 1998), 109-111.

individuals accumulated a myriad of financial obligations in the course of a regular year. At settlements dates (such as the Biaoqi or *biaqi* studied in Chapter XXX) or at Spring festival (especially for individuals in rural communities), these debts had to be settled. They could sometimes be rolled over, but often at least a portion of them had to be discharged in hard currency. Just as the *manjia* market studied in Chapter XXX allowed major firms and financial institutions to meet *biaqi* settlement obligations, lending markets enabled individuals, households, and smaller firms to meet year-end settlement obligations. This marks a radical departure from the extant scholarship, which from at least the 1930s has recognized only two categories of loan: consumption loans and production loans.⁹⁰ Of course people also borrowed to consume and to invest. But to appreciate the usefulness of the lending market it is vital to understand this third source of demand.

Trade credit in the Chinese economy

To understand why it makes sense that loans should be oriented toward settlements, we must first situate loans within the wider world of Chinese credit. In terms of volume and frequency of use in the economic life of firms, merchant families, and peasants alike, trade credit was probably much more important than lending. Trade credit arose from the normal course of business, when sellers gave merchandise to buyers and agreed to take payment at a later date (usually at a settlement date). Buying and selling on credit was known as *shexiao* (赊销).⁹¹ A sale on credit would result in a receivable (外该 *wai gai*) on the buyer's balance sheet, which could also be transferred to a bank as a deposit. The prevalence of credit and account transfers as opposed to cash, as well as the importance of settlement dates, in wholesale *biaqi* markets is well covered in Chapter XXX. Here we should add that this system of trade credit was also key to the rural economy. I suspect that a majority of purchases, excepting major commitments like land transactions, in rural markets were settled with credit. This credit would not have to be repaid until certain settlement dates: the *biaqi* in major Shanxi commercial hubs, while smaller county and rural markets might settle at the *biaqi*, the “three holidays,”⁹² twice yearly, or simply at year-end.

⁹⁰ John Lossing Buck, *Land Utilization in China: A Study of 16,786 Farms in 168 Localities, and 38,256 Farm Families in Twenty-Two Provinces in China, 1929-1933* (Council on Economic and Cultural Affairs, 1956), 461-466.

⁹¹ Variants include *shezhang* (赊账), *shemaishemai* (赊买赊卖), *shegou* (赊购), *shehuo* (赊货), *sheqiain* (赊欠), and *fangzhang* (放账). Liu Qiugen finds that credit transactions in commerce were extremely common by at least the Ming. Liu Qiugen 刘秋根, “Mingdai gongshangye yunxing yu gaolidai ziben (明代工商业运行与高利贷资本),” in *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017).

⁹² I.e. Dragon Boat Festival, Mid-Autumn Festival, and Spring Festival. See Peng Kaixiang XXX.

The prevalence of credit in even petty retail and rural transactions is apparent in Chinese-language scholarship on rural lending as well as in studies of Qing-era account books.⁹³ Indeed, one of the most common account books extant from Qing and Republican-era traditional *zihao* are “client accounts”; essentially, records of payables and receivables for transactions made on credit.⁹⁴ Figure 8 shows an easy to understand, simple example of a purchase on credit for a small amount of cloth from an unnamed shop.

⁹³ Jinzheng Li, *Jie dai guan xi yu xiang cun bian dong: min guo shi qi hua bei xiang cun jie dai zhi yan jiu*, Di 1 ban, Hebei da xue bo shi wen ku (Baoding: Hebei da xue chu ban she, 2000), 80-81. Peng Kaixiang 彭凯翔 and Chen Tiantian 陈甜甜, “Wanqing Huizhou Nonggong Zhong de Xingbie Yu Shenfen: Yi Qianxian Wangshi Zhangbu Wei Heixin de Yanjiu (晚清徽州农工中的性别与身份——以黟县汪氏账簿为核心的研究)” (Working paper, n.d.).

⁹⁴ Matthew Lowenstein and Shuji Cao, “Business Accounting at Fengshengtai in Late Imperial China: Is There New Evidence of Double-Entry Bookkeeping?,” *Business History Review*, February 10, 2023, 1–33, <https://doi.org/10.1017/S0007680522000563>; Cao Shuji (曹树基), Li Jinzhang (李锦彰), and Wang Guojin (王国晋), “One Transaction, Recorded Twice: Qing-Era Double-Entry Bookkeeping in the Accounts of the Fengshengtai Company (‘同一账，记两簿’：清代丰盛泰号账本的复式簿记),” *Researches in Chinese Economic History (中国经济史研究)* 5 (September 15, 2021): 5–23.

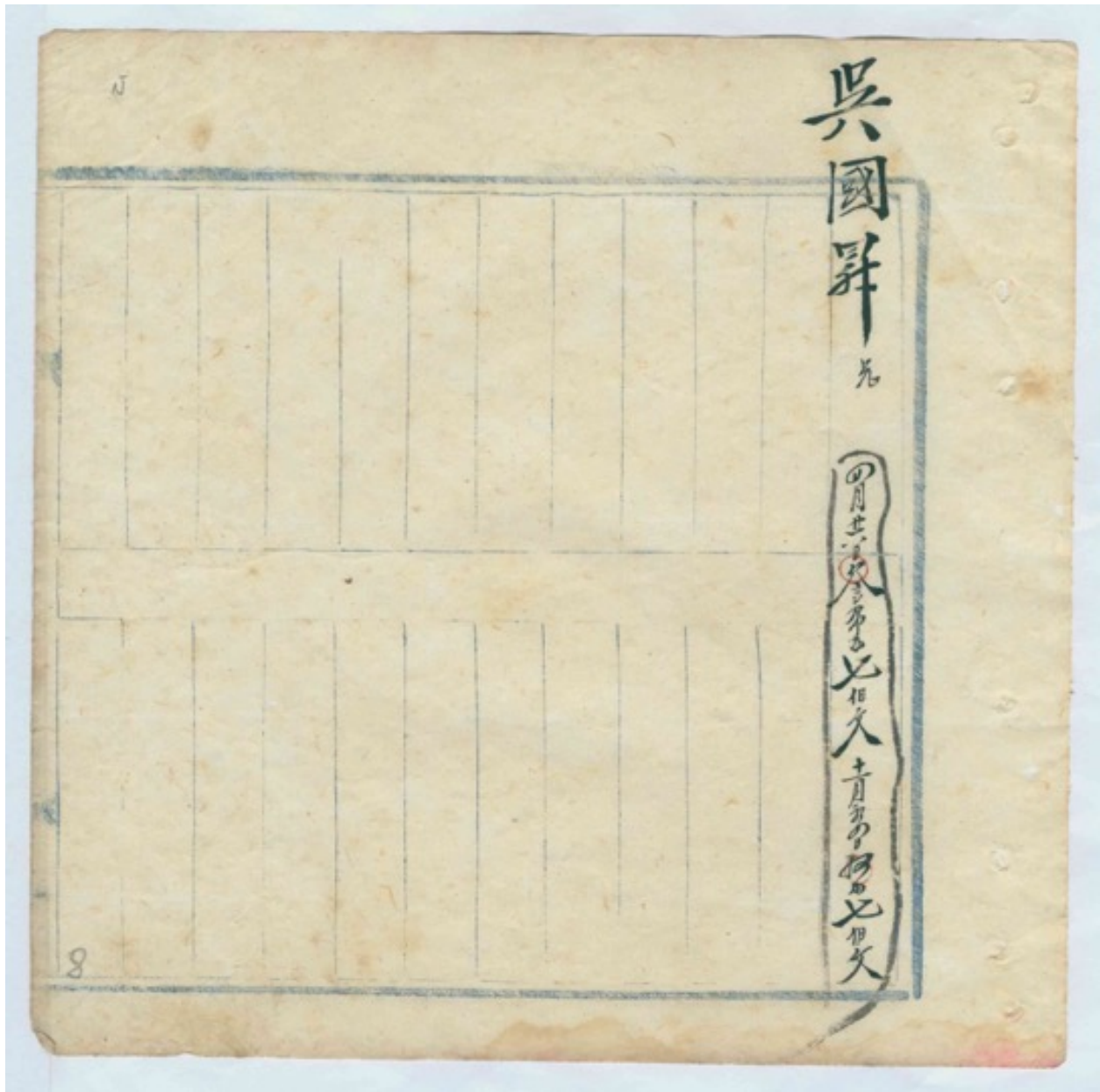


Figure 8. 1) 吳國兄。"Mr. Wu Guosheng." This is the name of the customer. 2) 四月廿六日，欠言布七伯文。"4/26, owing yan cloth of 700 cash. 3) 十一月初四日收钱七佰文。11/4 received copper of 700 cash. Source: 1、同治五年某杂货商号人名往来账, 15.

On the 26th day of the fourth month of Tongzhi 5 (1866), a Mr. Wu Guosheng purchased 700 copper cash worth of cloth from a general store. He did not pay cash, and so an "owing" entry was recorded in his account. On the 11th month, shortly before year end, Mr. Wu repaid his debt in full. The entry for his purchase and his payment were circled together in dark black, indicated his account was closed. It cannot be stressed enough how typical this entry is; the impression that one gets from reviewing *zihao* account books is of an economy in which credit was essential to commerce; though the frequency of credit vs. cash or note transactions

surely varied from place to place, in at least some markets many and perhaps even most transactions in both wholesale and retail were made with an accounting entry: that is, on credit.

Gazetteers and *wenshiziliao* also record the practice of conducting trade in credit and repaying at specific dates. In Qingpu County, now a district of Shanghai, the practice was to collect debts at the three holidays:

When customers do not make transactions in cash, this is called “fang zhang” or “shezhang.” It is standard practice on three festivals of Dragon Boat Festival, Mid-Autumn Festival, and Year end [i.e. Spring Festival] to recall these. This is called “demanding debts.” On New Year’s Eve, they will press their debtors especially urgently.⁹⁵

In other words, retail was mostly done on trade credit; at the holidays and on New Years Eve in particular, shopkeepers would hurriedly press their customers to repay their debts. In the north, an account of Weicheng in Shaanxi province tells a similar story. Interestingly, the account claims that most urban retail sales were done in cash, but that peasants relied on trade credit:

Most recipients of trade credit were rural residents. Some would enter the city to buy things but had no cash. Businesses would record this in an account book and wait until after the wheat harvest or year-end, when they would send an employee into the countryside to collect the debts.

These debts were largely settled in grain, by debt-collectors sent to the countryside with carts for shipping it back to market.⁹⁶ The 1930s industrial gazetteers contain the most systematic reports of trade credit and repayment practices. Some counties transact largely in cash (meaning, by the time the gazetteers were compiled, nationalist government paper currency). But others continued long-standing practices of using trade credit. The entry for Gaochun county, now a district of Nanjing, states that commercial transactions used both cash and credit, but rural residents relied on trade credit:

Rural residents purchase goods on credit from shops and then incur a debt outstanding. Credit is given on the basis of an IOU made out to a specific

⁹⁵ “顧客不以現錢交易曰放帳曰賒帳，例於端午中秋歲底，三節索取之，謂之討帳，除夕尤急切追債者。” Yongliu Jin and Ding Yu, (*Minguo*) *Qingpu Xian Xu Zhi: 24 Juan*, electronic resource (Beijing Shi: Beijing Ai ru sheng shu zi hua ji shu yan jiu zhong xin, 2009), <http://server.wenzibase.com>.

⁹⁶ “賒銷對象多是農村人。一些人進城买东西無現錢，商號記入帳中，待麥收後或年終派伙計下鄉收帳。” Yang Zhenzhong 楊振中, “Shexiao (賒銷),” in *Weicheng Wenshiziliao*, 3 (Zhongguo renmin zhengzhi xieshang huiyi xianyangshi weichengqu wenshiziliao gongzuo weiyuanhui (中國人民政治協商會議咸陽市渭城區文史資料工作委員會), 1996).

party or else with an account entry. Usually there is no specific due date, rather every year at year end all debts have to be paid back completely.⁹⁷ In other words, in the countryside purchases were made simply in trade credit. Someone with a sound reputation had no need to pay in cash except at year end, when they cleared all their debts outstanding.

The system of trade credit allowed wholesale and urban markets to fund retail commerce and trade in the countryside. Retailers—in rural and urban markets—could purchase inventories from wholesalers on credit, who would then extend credit to their own customers.⁹⁸ A poignant family history written by literary scholar Yao Shuyi illustrates the flow of trade credit from city to countryside in vivid detail. Yao's grandfather and great-uncle were the founders of Shuangshengyong (双盛永), the most important *zihao* in his native village of Liugezhuang (刘各庄), near Luanzhou in present-day Hebei province (then Zhili). According to Yao, not only did Shuangshengyong supply most of the village's material needs (except coffins, which they did not sell), it also provided much-needed milling services. Almost all its transactions, purchases as well as sales, were done on credit:

According to standard commercial practice of the time, small shops, both their wholesale purchasing of inventories and retail selling of goods, used the “trade credit” methods. That is to say, both in buying and selling transactions were usually just entered into an account, which was “settled” at year end.⁹⁹

In other words, Shuangshengyong received credit from its suppliers, and in turn was able to supply trade credit to the countryside.

The system of trade credit, like that of paper notes, economized on the need for silver bullion or copper coins. In this way, it greased the wheels of commerce and production throughout the empire. Trade credit was different from lending; a loan was a contract to borrow a sum of money or goods that often incurred interest, while trade credit was a purchase whose payment was deferred. But, as we will see, lending and trade credit were intimately related.

⁹⁷ “乡户向商店赊欠货物经该店允可，认名放帐立摺或记帐，平时即无限制，以每年年终结束所有欠款一律付清。” *Zhongguo Shi Ye Zhi. Jiangsu Sheng*, Chu ban, *Quan Guo Shi Ye Diao Cha Bao Gao 1* (Shanghai: Shi ye bu guo ji mao yi ju, 22), Chapter 4, 78.

⁹⁸ For retailers using trade credit for financing, see Xie Xiuli 谢秀丽, “The Study on the Trade Credit between Merchants in the Early Qing Dynasty (清代前期商人之间的商业信用关系研究),” *Journal of Henan University (Social Science)* (河南大学学报(社会科学版)), no. 1 (2007): 78–87.

⁹⁹ “按照当时的商业规矩，小铺批量进货和零售都是采用“赊销”的方式，也就是说，买和卖都是平时“记账”年底“结账”。” Shuyi Yao, *Xun Chang Bai Xing Jia*, Chu ban, *Xian Dai Zhongguo Hui Yi Lu Cong Kan 002* (Taipei Shi: Ren jian chu ban she, 2010).

Currency loans as a means of trade debt

As we have just seen, in the normal course of the year a Chinese farmer or merchant was likely to accumulate both debts payable and receivable. Even a humble peasant would likely have a stack of notes redeemable at a *qianpu* in the county seat (and possibly at a local shop or pawnshop, albeit perhaps at a discount). At the same time, they would owe money for products and services purchased on credit. A thrifty household or firm might try to have receipts in excess of payments come Spring festival, but at times a cash deficit would be unavoidable. In this case, a household or firm without liquid savings would have to borrow. Figure 9 breaks out the timing of loans for individuals and businesses by count and by sum.

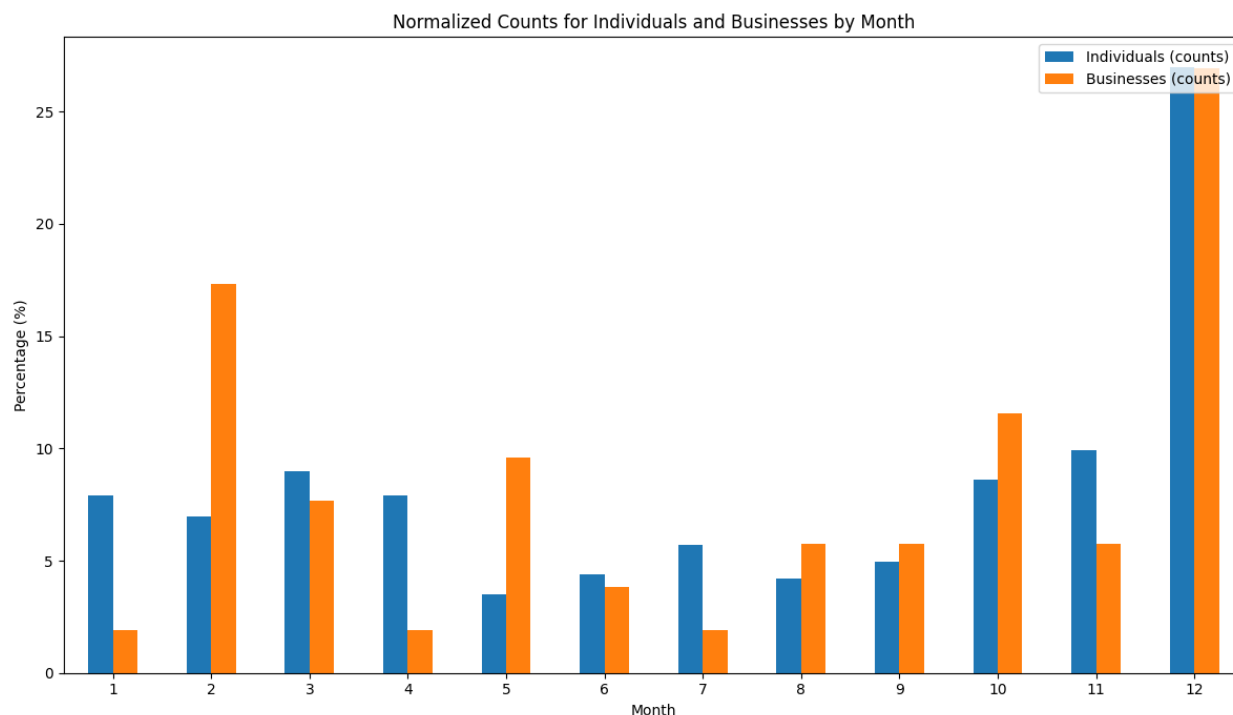


Figure 9. Distribution of month of origination in JSSLJC loan contracts by individual and business borrowers. Excludes loans made in intercalary months. Source: JSSLJC, loan contracts.

The pattern is clear; loan origination clusters in the eleventh and twelfth months, especially for individuals. Figure 9 shows that individual borrowers received 39% of loans by count in months 11 and 12. (This number would be 43% by principal volumes in silver taels). These months could potentially be when grain was scarce. But that hardly explains why businesses borrow so much currency loans at year end. The pattern suggests that a crucial driver of loan demand was to clear year-end debts. If this is so it would suggest a much more functional rural financial system than has previous been recognized. It meant that farmers of means and

respectability could borrow on trade credit throughout the year, for consumption or investment, and only have to borrow currency for interest at year end. Lending was a kind of lubricant that allowed the system of trade credit to function smoothly.

Interest rates and market integration

If lending markets were competitive and well-integrated, and in lubricating the trade credit system enabled the country to sustain high levels of output and consumption, we are left with a new problem: interest rates. Most of the scholarship on traditional Chinese lending has focused on the high and, often, allegedly usurious level of Chinese interest rates. High rates, so the argument goes, stymied development by making productive investment unprofitable. These high rates were sustained by feudal exploitation or involution. Philip Huang explains: ...for a poor peasant family farm with surplus labor...it made sense to continue using that labor as long as the marginal product of labor remained above zero...the same logic applied to usurious interest rates. Though a capitalist enterprise would not normally tolerate interest rates higher than the prospective returns to invested capital, a hungry family can be made to bear almost any interest rate.¹⁰⁰

In other words, rates on lending were arbitrarily high because they were set by some mechanism of the old, “semi-feudal” or “involutioned” social structure, rather than market forces. A number of recent, quantitative studies have made many of these explanations all but untenable, showing that land distribution patterns make feudal exploitation an especially dubious driver of interest rates.¹⁰¹ Moreover, the qualitative description of lending markets in this chapter has already provided highly compelling evidence for competitive lending markets with an impressive degree of integration between urban, commercial centers and the countryside. We are thus left with a question: what were the drivers of interest rates?

¹⁰⁰ Philip C. C. Huang, “Further Thoughts on Eighteenth-Century Britain and China: Rejoinder to Pomeranz’s Response to My Critique,” *The Journal of Asian Studies* 62, no. 1 (2003): 157–87, <https://doi.org/10.2307/3096139>.

¹⁰¹ Peng Kaixiang 彭凯翔, Chen Zhiwu 陈志武, and Yuan Weipeng 袁为鹏, “Commercial Interest Rates in China from the 17th to the Early 20th Century: A Study Based on the Evolution of Financial Organizations (十七至二十世纪初中国的商业利率变迁: 以金融组织演进为线索的考察),” *Jinrong Yanjiu 金融研究 (Journal of Financial Research)*, Forthcoming; Peng Kaixiang 彭凯翔, Chen Zhiwu 陈志武, and Yuan Weipeng 袁为鹏, “The Mechanisms of Rural Credit Market in Modern China—A Research Based on Raw Documents (近代中国农村借贷市场的机制——基于民间文书的研究),” *Economic Research Journal (经济研究)*, no. 05 (2008): 147–59; Zhiwu Chen, Kaixiang Peng, and Weipeng Yuan, “Usury, Market Power and Poverty Traps: A Study of Rural Credit in 1930s’ China,” *Frontiers of Economics in China* 13, no. 3 (September 15, 2018): 369–96, <https://doi.org/10.3868/s060-007-018-0019-6>; Zhan Lin, *The Logic of Usury: The Market Mechanisms in Private Lending in the Qing Dynasty and the Republic of China*, Di yi ban (Beijing: Ke xue chu ban she, 2021).

This section provides further evidence that markets set lending rates by regressing monthly interest rates against borrower type and currency. As Table 14 shows, copper cash loans were approximately 0.3% more expensive per month than silver tael loans.

OLS Regression Results

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=====
Dep. Variable:   monthly_interest   R-squared:           0.211
Model:          OLS   Adj. R-squared:   0.206
Method:        Least Squares   F-statistic:       41.17
Date:          Sun, 03 Sep 2023   Prob (F-statistic): 1.44e-16
Time:          11:25:24   Log-Likelihood:   -225.73
No. Observations: 310   AIC:              457.5
Df Residuals:   307   BIC:              468.7
Df Model:        2
Covariance Type: nonrobust
=====

```

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=====
              coef   std err      t   P>|t|   [0.025   0.975]
-----+-----
const          1.6215   0.057   28.446   0.000   1.509   1.734
currency_copper_cash  0.3018   0.065   4.643   0.000   0.174   0.430
borrower_type_business -0.7504   0.106  -7.074   0.000  -0.959  -0.542
=====

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=====
Omnibus:          87.835   Durbin-Watson:      1.899
Prob(Omnibus):    0.000   Jarque-Bera (JB):   335.422
Skew:             1.168   Prob(JB):           1.46e-73
Kurtosis:         7.529   Cond. No.           4.84
=====

```

Table 14. Regression of monthly interest against borrower type and currency. Dataset of 310 loan contracts includes only individual and business borrowers and also excludes silver dollar loans.

During the Qing, copper cash was in secular decline against silver.¹⁰² Clearly, interest rates incorporate the fact that over the long run copper is a depreciating

¹⁰² Hu Yuefeng 胡岳峰, "Research on the Exchange Rate Fluctuation between Silver and Copper Coin in the Qing Dynasty (1644-1911) (清代银钱比价波动研究 (1644-1911))" (Doctoral degree, Shanghai, East China Normal University, 2021).

currency. If interest rates were governed by social relations, either of the moral, exploitative, or involuted kind, they were social relations that heeded the laws of supply and demand.

These findings make sense considering other discoveries in this book. Chapter XXX and this chapter, taken together, emphasize the fact that the same institutions active in lending markets also participated in exchange futures. It would make little sense if supply and demand governed the price of one but not the other, for it mean for-profit institutions leaving lucrative opportunities on the table.

It should be clear now why the older paradigm of the lending market is unsustainable. If rural markets were both competitive and integrated with urban markets, it should not be possible for custom, monopoly, or exploitation to defy market forces and set arbitrarily high interest rates. This intuition is supported, moreover, by a series of relatively new, extremely important quantitative studies of lending rates. Chen Zhiwu, Peng Kaixing, and Yuan Weipeng find that interest rates are inversely related to land ownership consolidation: in other words, the larger the landlords, the lower the interest rates. This suggest that capital scarcity rather than exploitation was driving rates. Similarly, Lin Zhan's magisterial work on "the logic of high-interest lending," finds that lenders were much more likely to be killed in debt disputes than borrowers; this, again, seems inconsistent with the exploitation or monopoly thesis.¹⁰³

Quantifying the rural urban divide

This chapter has already uncovered how the financial "plumbing" of late imperial China could pipe capital between urban and rural markets. Data from the SXIG showing the rural and urban interest rates of each county in Shanxi between ~1931-1936 can help us approach the matter quantitatively. I should caution here that there is far too little data to draw any dispositive conclusions. Moreover, the SXIG offers a snapshot of interest rates rather than a time series. Nevertheless, the numbers are suggestive. Figure 10 reflects the correlation between urban and rural interest rates:

¹⁰³ Zhan Lin, *The Logic of Usury: The Market Mechanisms in Private Lending in the Qing Dynasty and the Republic of China*, Di yi ban (Beijing: Ke xue chu ban she, 2021), 34. George Qiao finds that this applies to inter-ethnic trade as well; Han merchants trying to collect debt from Mongols frequently ran into intimidation and violence. See Qiao, XXX.

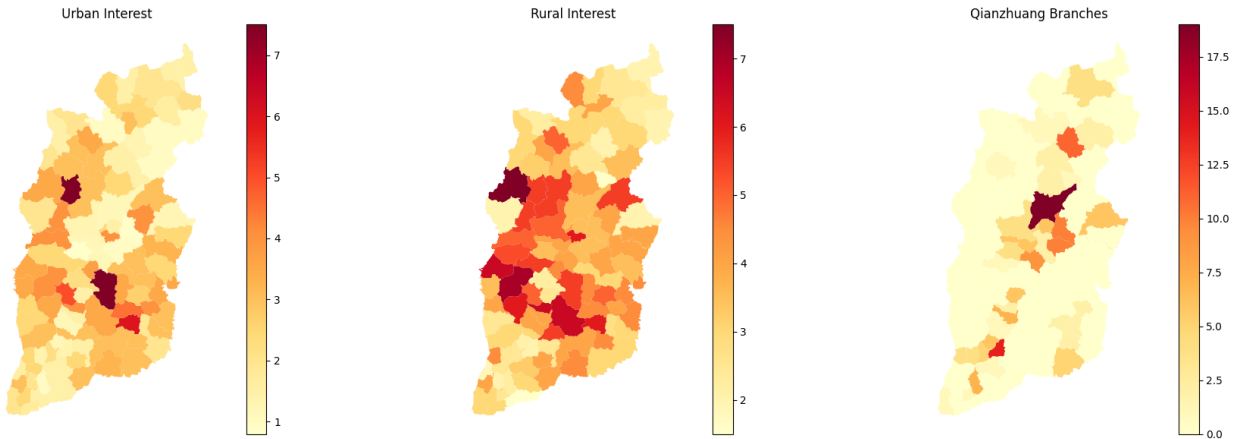


Figure 10. Choropleth maps of Shanxi urban interest rates, rural interest rates, and number of qianzhuang branches. Rural and urban rates show a strong correlation with each other, as well as significant spatial autocorrelation. They are also negatively correlated with qianzhuang branches, indicating that financial institutions may lower borrowing costs. Source: SXIG, pp. 63-67 (辛).

We see that both high rural and urban rates tend to be seen along the Taihang and Taishan mountains and middle of the southern part of the province. We also see that rates are “spatially autocorrelated,” meaning high rates tend to cluster with high rates and low with low. Another way of thinking about this, is the rates in one county help “predict” the rates in its neighboring counties. A simple OLS regression (see Appendix I) confirms our visual impression. It returns an R-squared of 40%, and a coefficient of 0.6746 for urban interest. This means that every 1% change in urban interest is associated with a 0.67% change in rural interest. The p-value is 0, meaning the correlation is extremely unlikely to be due to chance.

If we factor in the spatial dynamics of each county and control for spatial autocorrelation in rural interest rates (i.e., if we assume that rural rates are also impacted by rates in neighboring counties), our R-squared goes up to over 45% and our p-values stay extremely low (see Appendix 2). In layman’s terms, this means that variation in urban interest rates along with neighboring rural rates explains 45% of the variation in rural rates. These results are surprising in light of John Buck’s conclusions that, “There is in no sense a national credit market and funds available for in one part of a province are not to any extent available for lending elsewhere, so that the interest rates vary considerably over short distances.”¹⁰⁴ Though our results do not say much about a national market, they do show that credit markets in one locale were to a degree integrated with neighboring urban and rural markets. Even if interest rates changed over short distances, they did not change so much as to be unrelated to neighboring interest rates. We also see that unlike in Shandong, there are no clear sub-regions at all. This may be due to Shanxi’s relative political unity under Yan Xishan, and as such offers further

¹⁰⁴ John Lossing Buck, *Land Utilization in China: A Study of 16,786 Farms in 168 Localities, and 38,256 Farm Families in Twenty-Two Provinces in China, 1929-1933* (Council on Economic and Cultural Affairs, 1956), 463.

support to Pomeranz's political explanation for Shandong credit market fragmentation.¹⁰⁵

The SXIG also gives us a clue as to the association between financial institutions and interest rates. Unfortunately, it gives no data at the county level on rural lending institutions. But even at the urban level, the number of *qianzhuang* branches in a county is associated with lower urban rates and lower rural rates. The easiest way to appreciate these relationships is visually. Figure 10 above shows a heat map of rural rates, urban rates, and *qianzhuang* branches per county. It shows that high rural rates and urban rates tend to pool in similar areas, while areas with more *qianzhuang* tend to have lower interest rates. A variety of regression models bear this out. A spatial lag OLS finds model that a *qianzhuang* branch predicts lower rural interest rates by about 0.0775% per month per branch, when adjusting for spatial autocorrelation of rural rates (See Appendix 3). These associations are even clearer for urban rates, where using almost any model we can find *qianzhuang*, *yinhao*, and banking activity associated with lower interest rates. The point is not to try to calculate the precise impact of financial institutions with interest rates. Rather, these regressions illustrate the fact that the more financial institutions set up shop and conduct business in a given area, the lower the urban and rural interest rates tend to be.

Interpreting these results is tricky. As always, correlation does not imply causation. It could be that areas with lower rates attract more financial institutions. In theory, rates might be *even lower* with no *qianzhuang* at all! But given our qualitative analysis above showing competitive institutions vying to fund borrowers, this seems unlikely. The simplest explanation is that Chinese financial institutions were effective at providing loans to borrowers who needed them. Moreover, interest rates were set by competitive markets, and not be custom or monopolist fiat. This suggests that while China was poor, its poverty was not caused by some kind of essential dysfunction in its financial or social system; there was no usury, absence of markets, or involution in its lending system, neither at the urban nor rural level.

Conclusion

This chapter has examined the institutional plumbing of lending in late Qing and Republican era China. It has discovered a “core” of urban, commercial financial institutions known as *qianzhuang* and *yinhao*, which interacted with a network of more grassroots lenders, including pawnshops, *zhangzhuang*, and

¹⁰⁵ Kenneth Pomeranz, *The Making of a Hinterland: State, Society, and Economy in Inland North China, 1853-1937* (Berkeley: University of California Press, 1993), 27-69.

country businesses. These institutions lent money to both commercial establishments and individuals, including merchants and peasants. At the same time, they were joined by a series of more grassroots lenders, including individuals, hall entities, associations and societies, and religious institutions. The result was a lending market that was both integrated and competitive. It was integrated in the sense that the financial plumbing allowed capital to flow easily between commercial and agrarian or rural and urban markets. It was competitive because while different lenders occupied different market niches, these niches overlapped considerably such that different kinds of institutions competed for the same borrowers in any segment of the market. Finally, I demonstrate how this financial system was essential to the traditional Chinese economy, no less than the irrigation system was vital to agriculture. Credit and capital were vastly more plentiful in all sectors of the economy because of these impressively sophisticated institutions and lending practices.

This discovery bears on an old debate with high stakes not only for late imperial Chinese economic and business history, but for social and political history of modern China as well. For some scholars, lending at the grassroots was not a market at all, but merely a form of exploitation or “usury.” The *locus classicus* for the usury argument is probably R.H. Tawney’s seminal study of *Land and Labour in China*:

[T]he rates at which loans are made naturally tend to be exorbitant. In reality...no market rate can be said to exist...What the peasant pays is dictated by his necessities, and by the ability of the lender to take advantage of them.¹⁰⁶

This point of view became common in the 1930s, with scholars blaming usury on a feudal social order. For these scholars, financial institutions did not serve the rural economy, rather, they starved it to concentrate their own landholdings or to shuttle capital out of the countryside into Shanghai.¹⁰⁷ This theory of Qing and Republican-era lending has remained influential in how scholars interpret the history of the PRC. For some, it is one of the proximate causes of peasant anger at

¹⁰⁶ R. H. Tawney, *Land and Labour in China* (London: G. Allen & Unwin Ltd, 1932), 62. I have no doubt that the rural poverty Tawney witnessed was real. But his explanation for this poverty—that no *market* for credit existed—is dubious. Not only does it not fit the historical record that I examine in this chapter, but it does not follow from Tawney’s own survey. In the same chapter in which Tawney draws his conclusion, he enumerates the long list of institutional lenders at the grassroots and their connections to urban credit markets. But he believes that because Chinese peasants do not account separately for capital investment and income, lending rates fail to transmit information about where investment is needed in the economy. Note that if this were true, then Tawney’s favored solution—public funding of rural credit cooperatives—would do little to solve the problem.

¹⁰⁷ Leonard T. K. Wu, “Rural Bankruptcy in China,” *Far Eastern Survey* 5, no. 20 (1936): 209–16, <https://doi.org/10.2307/3023358>.

the old order and, thus, for the communist revolution.¹⁰⁸ Moreover, it demonstrates that private financial markets were incapable of fostering sustained economic development since they (1) directed capital to usury rather than to productive investment and (2) were priced too high, above the cost of capital for productive investment and, therefore, (3) only attracted borrowers who needed money for survival or “social reproduction.”¹⁰⁹ The upshot is that only a strong, centralizing state capable of breaking the power of the feudal landlords and users could usher in economic development.

For other scholars, particularly those based in China, late imperial lending seems more consistent with economic dynamism and free markets. Liu Qiugen’s magisterial studies of “usury” retain the Marxist distinction between usury capital and capitalist lending. But he finds that high-interest lending changed over time, becoming more intimately associated with the pre-industrial agrarian and small producer economy, and fostering economic development during the Ming and Qing dynasties. His enthusiasm is qualified, however, by a belief that Chinese usury capital failed to transform completely into “lending capital,” in that it was never able to allocate and price capital solely on borrower credit and risk.¹¹⁰ Other

¹⁰⁸ Chee Kwon Chun, “Agrarian Unrest and the Civil War in China,” *Land Economics* 26, no. 1 (1950): 17–26, <https://doi.org/10.2307/3159327>; William Hinton, *Fanshen: A Documentary of Revolution in a Chinese Village* (Berkeley: University of California Press, 1997), 130.

¹⁰⁹ Joe Studwell, *How Asia Works: Success and Failure in the World’s Most Dynamic Region* (London: Profile Books, 2013), 20; Xing Fang and James H. Cole, “Why the Sprouts of Capitalism Were Delayed in China,” *Late Imperial China* 10, no. 2 (1989): 106–38, <https://doi.org/10.1353/late.1989.0008>. Philip Huang arrives at similar conclusions; for Huang, “involution” meant that credit markets could not penetrate the rural economy, stymying economic development. Philip C. Huang, *The Peasant Economy and Social Change in North China* (Stanford: Stanford University Press, 1985), 189–190; Philip C. Huang, *The Peasant Family and Rural Development in the Yangzi Delta, 1350–1988* (Stanford: Stanford University Press, 1990), 108–110; Chao Zhongchen 晁中辰, “Qingdai you ‘KangQian shengshi,’ weihe meiyou jindai gongye: yi qing qianqi gaolidai wei yanjiu (清代有‘康乾盛世’,为何没有近代工业——以清前期高利贷为研究中心),” *Social Science Journal (社会科学辑刊)*, no. 4 (2010): 194–98. Fang Xing 方行, “Qingdai qianqi nongcun gaolidai ziben wenti (清代前期农村高利贷资本问题),” *Economic Research Journal (经济研究)*, no. 4 (1984): 58–64; Fang Xing 方行, “Qingdai qianqi nongcun de gaolidai ziben (清代前期农村的高利贷资本),” *Studies In Qing History (清史研究)*, no. 3 (1994): 11–26; Zhang Zhongmin 张忠民, “Qianjundai zhongguo shehui de gaolidai yu shehui zai shengchan (前近代中国社会的高利贷与社会再生产),” *Researches In Chinese Economic History (中国经济史研究)*, no. 3 (1992): 143–51; Christopher Mills Isett, *State, Peasant, and Merchant in Qing Manchuria, 1644–1862* (Stanford, Calif: Stanford University Press, 2007) can be read in this way too since they insist on the importance of interest rates in excess of returns on industry. But these scholars, the problem seems to be capital scarcity (i.e. poverty), not lending itself. Moreover, they acknowledge the importance of even “usurious” lending in social reproduction and general economic output. I thus see them as an intermediate step between the old understanding of usury and the newer literature on lending.

¹¹⁰ Liu Qiugen (刘秋根), *Mingqing Gaolidai Ziben (明清高利贷资本)* (Shehui kexue chubanshe, 2000); Liu Qiugen 刘秋根, *A study of traditional financial lending in China (中国传统金融借贷研究)*, Di 1 ban, Hebei da xue Song shi yan jiu zhong xin bo dao cong shu (Beijing: 中国社会科学出版社 Beijing, 2017; Chen Tianyi 陈添翼 and Liu Qiugen 刘秋根, “Jiadao Shiqi Beijing Zhangju de Gongshangye Jiedai Yanjiu 嘉道时期北京账局的工商业借贷研究 [A Study on Industrial and Commercial Lending of Beijing Zhangju (Accounting Bureau) in Jia-Dao Period of Qing

scholars, largely coming from an economics background, go further than Liu. Recently, Peng Kaixiang Chen Zhiwu and Yuan Weiping suggest transaction costs, rather than feudal oppression, as a cause of high interest rates. They also find that interest rates vary inversely related to land consolidation: in other words, the larger the landlords, the lower the interest rates. This suggest that capital scarcity rather than exploitation was driving rates; a theory which, if true, is entirely consistent with free markets.¹¹¹ Lin Zhan’s study of “the logic of high-interest lending,” shows how even high interest loans will increase investment in new output by allowing agents to smooth consumption and because *marginal* returns on investment will often exceed even extremely high short-term borrowing costs.¹¹²

This chapter provides strong, novel evidence for a market-based understanding of Qing and Republican-era lending. It does so by demonstrating the specific institutional mechanisms for transmitting capital between different sectors of the economy. It thereby demonstrates competitive markets in lending as well as market integration. Of course, it is still true that China in the Qing and Republican era was poor and short of capital relative to today; loans were expensive, and the life of a peasant was onerous. But there was nothing about traditional Chinese institutions or lending practices that prevented loans from seeking their highest return; on the contrary, the prosperity of the Qing and the stirrings of dynamic growth in the Republican period would have been impossible without lending markets to integrate the rural and urban economies.

Dynasty],” *Hebei Shifan Daxue Xuebao (Zhexue Shehui kexue Ban)* 河北师范大学学报(哲学社会科学版 *Journal of Hebei Normal University (Philosophy and Social Sciences Edition)*, no. 6 (2020): 35–47.

¹¹¹ Peng Kaixiang 彭凯翔, Chen Zhiwu 陈志武, and Yuan Weipeng 袁为鹏, “Commercial Interest Rates in China from the 17th to the Early 20th Century: A Study Based on the Evolution of Financial Organizations (十七至二十世纪初中国的商业利率变迁: 以金融组织演进为线索的考察),” *Jinrong Yanjiu* 金融研究 (*Journal of Financial Research*), Forthcoming; Peng Kaixiang 彭凯翔, Chen Zhiwu 陈志武, and Yuan Weipeng 袁为鹏, “The Mechanisms of Rural Credit Market in Modern China—A Research Based on Raw Documents (近代中国农村借贷市场的机制——基于民间文书的研究),” *Economic Research Journal* (*经济研究*), no. 05 (2008): 147–59; Zhiwu Chen, Kaixiang Peng, and Weipeng Yuan, “Usury, Market Power and Poverty Traps: A Study of Rural Credit in 1930s’ China,” *Frontiers of Economics in China* 13, no. 3 (September 15, 2018): 369–96, <https://doi.org/10.3868/s060-007-018-0019-6>.

¹¹² Zhan Lin, *The Logic of Usury: The Market Mechanisms in Private Lending in the Qing Dynasty and the Republic of China*, Di yi ban (Beijing: Ke xue chu ban she, 2021), 161-162.