

Matthew Lowenstein's "Loans and Lenders: Specialization,
Competition, and Integration in Late Imperial and
Republican-Era Lending Markets"
Discussion

Thomas J. Sargent
Hoover Institution

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Smith, Darwin, von Mises, Arrow

Intellectual justifications for competitive market economies

- ▶ Adam Smith
- ▶ Kenneth Arrow: two fundamental theorems of welfare economics
- ▶ von Mises and Hayek
- ▶ Evolution versus mechanism design

Competitive markets and contracts

- ▶ Prices and quantities
- ▶ Complete means one market
- ▶ Contracts
- ▶ Clearing and price setting

Friedman versus Arrow

- ▶ Arrow – no bilateral trades, just a vast clearing mechanism
- ▶ Friedman – bilateral anonymous trades that require a commodity or fiduciary money

Imperfections

All general equilibrium models with complete markets are alike; each model with incomplete markets is incomplete in its own way.

Robert E. Lucas, Jr.

Imperfections and contracts

- ▶ A society is a collection of contracts
- ▶ Enforcement, verification, settling
- ▶ Contracts and competition

Approximations

Incomplete markets economies as approximations to complete markets economies

- ▶ Robert M. Townsend, *The Medieval Village Economy: A Study of the Pareto Mapping in General Equilibrium Models*, Princeton University Press, 1993.

Evolution versus mechanism design

- ▶ Walter Bagehot, *Lombard Street: A Description of the Money Market*, 1873.
- ▶ Stefano Ugolini, *The Evolution of Central Banking: Theory and History*, Palgrave Studies in Economic History, Springer Nature, 2017.

Matthew's Tools

- ▶ Prejudices (economic theories, hunches)
- ▶ Data
 - ▶ contracts
 - ▶ clearing arrangements
 - ▶ prices (interest rates)
 - ▶ text descriptions of arrangements, risks, ...

Matthew's Findings

- ▶ Pawn shops – collateral (Bengt Holmstrom)
- ▶ Trade Credit
- ▶ Means of final settlements
- ▶ Risk sharing
- ▶ Capital reallocation

Trade credit

- ▶ Promise now, settle later.
- ▶ In Qing economy
 - ▶ Trade occurred through credit (shexiao) throughout the year
 - ▶ Settlement happened later at predetermined dates (biaoqi fairs or festivals)

Trade credit

- ▶ Settlement agents, dates, places
- ▶ Ledgers
- ▶ Middlemen
- ▶ Settlements as sources of loan demand and market integrators

Resemblances to Townsend's finding

- ▶ Spatial integration of interest rates showing up in statistical rural and urban interest rates correlations
- ▶ Risk-sharing via long-term lending instruments (xianqi) banks to village lenders
- ▶ Seasonality in credit demands

Scholarship

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.

An electric charge attaches to Matthew's work

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.

R.H. Tawney, *Land and Labour in China*