Analysis on Debit and Credit in Ancient China

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Abstract: With the rapid development of the economy and the rise of network finance, people engage in more financial activities, and people are increasingly inseparable from the financial system. This paper mainly studies how to borrow and lend when people need capital turnover in ancient times. By understanding the financial activities of each dynasty and the perfection of financial institutions, people can have a clearer understanding of modern financial institutions. This paper is a diachronic study, mainly through the methods of literature analysis, case analysis and overview, to study how ancient people completed the lending behavior and how to formulate the lending system. This paper states that different lending systems have corresponding advantages and disadvantages. Before borrowing, people should first understand regulations and make adequate preparations, instead of blindly borrowing and leading to heavy debts and poor credit.

Keywords: ancient, private lending, financial lending, loan, credit institution

1. Introduction

During the Spring and Autumn Period, credit lending had already appeared. At that time, it was mainly agricultural loans, which were loans to poor farmers to support their livelihood when the crops were not ripe and the grain reserves were exhausted. After the summer and autumn harvests, the farmers would repay the principal and interest. This paper uses the method of literature analysis and overview to analyze the characteristics of lending activities in various Chinese dynasties: the Spring and Autumn Period and the Warring States period, the Qin and Han Dynasties, the Sui and Tang Dynasties, the Song Dynasty, the Yuan Dynasty and the Ming and Qing Dynasties. This paper cites some cases and combines the diachronic perspective to more clearly discuss the main forms and characteristics of lending in different periods. In addition, this paper also discusses the comparison of private lending and financial lending, further clarifying the advantages and disadvantages of the two lending methods. Through this paper, people can have a full understanding of ancient lending, so as to better understand the development of modern lending. At the same time, this paper will also allow archaeologists to better understand ancient economic activities and explore how ancient people conducted economic exchanges.

2. Dynasties in Which Private Lending Flourished

In thousands of years of Chinese history, borrowing and lending have never stopped. Where there is borrowing, there is lending, and borrowing and lending are equal. People in ancient feudal society

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believed in the idea of "karma" and "what you borrow must be repaid", so even if a farmer borrowed a loan, he would immediately save money to pay it back as soon as possible, rather than thinking of defaulting. If he did not pay clearly, the final retribution would be on his descendants. The belief between lenders and borrowers that "return the borrowed things on time, you'll be welcome next time" gradually developed into a spirit of the contract, that is, when you lend, both parties will sign a contract and keep it as evidence. Only by observing the contract can you not break your promise to others. In ancient times, there were two forms of lending: private lending and financial lending.

From the Spring and Autumn period to the Sui and Tang Dynasties, the popular way of lending was private lending. Private lending is a contract between lender and borrower. Whether the lender and the borrower form a loan relationship, the amount of the loan, the underlying of the loan, and the term of the loan depend on the written or oral agreement between the two parties. The earliest private lending behavior, namely the first accidental nongovernmental lending behavior, must have occurred between neighbors and relatives who were closely connected in production and life [1].

2.1. Private Lending in Spring and Autumn and Warring States Periods

During the Spring and Autumn Period and the Warring States Period, with the widening of the social gap between the rich and the poor and the development of the currency economy, some aristocrats or rich merchants accumulated a large amount of money capital. In addition to the production and circulation of commodity investment, most of these money capital is used for investment in the lending field, which promotes the rapid development of private usury [2]. Usury is a loan that charges a particularly high-interest rate. During this period, the lowest interest rate was 20 percent. At present, if the interest rate for a one-year loan exceeds 17.4 percent, it is considered usury. Usury, often in times of famine, war, and tyranny, helped to drive small producers to the brink of bankruptcy. At the end of the dynasty, famine and tyranny combined, small producers borrowed usury. Still, they were unable to pay off, thus making them displaced, which fully showed the negative role of usury capital in the ancient economy.

2.2. Private Lending in Qin and Han Dynasties

Usury caused the rich to get richer and the poor to get poorer, and even the occurrence of "lending and cannibalism". In order to maintain social stability, financial supervision was implemented in the Qin and Han Dynasties. In the Qin and Han Dynasties, mortgage lending was the main method. The usual collateral is nothing more than a dilapidated house and a few acres of land. If there is no collateral, the borrower may also pledge his children, his wife or himself [3]. At that time, people, rich and poor alike, liked to lend money to others to make huge profits. However, the Qin and Han Dynasties still controlled the economy, so it was impossible for merchants to get rich without limit. As for private lending, Emperor Wudi began to set a ceiling on interest rates for private lending. By Emperor Cheng of the Han Dynasty, the court even issued a document, "interest repayments and borrowers must not be allowed", to cancel the interest on debts already incurred by the private sector at one time. There is a Chinese folk saying that goes well: "Don't lend money, you will be rich in ten years, and poor in one year." This means that people are advised not to lend money. Once the principal is not returned, people will quickly turn from rich to poor [4].

2.3. Private Lending in Sui and Tang Dynasties

In the second era of unification——the Sui and Tang Dynasties, the imperial court was the main provider of private lending, which was attributed to Emperor Taizong. As the Tang Dynasty was spending so much money on the war, Emperor Taizong thought of a way to make money by forcing officials at all levels to borrow money from the imperial court [5]. According to the regulations, nine officials from each Yamen were appointed as the main lenders. Each of them had to borrow 50,000 wens from the court and pay 48,000 wens of interest to the court every year, with an annual interest rate of 96 percent. In order to encourage them to actively repay capital and pay interest, Emperor Taizong included them in the Ministry of Civil Affairs as candidates, and after paying interest for a year, they could be appointed to official positions [6].

3. Dynasties in Which Financial Lending Flourished

Only when private lending occurs in large quantities and gradually becomes a universal social reality, can it lead to the management or action of such lending by the official accordingly. Only when private lending becomes a profitable business for those who have the ability to lend property will some institutions specializing in private lending emerge. Only banks and other financial institutions can engage in financial lending. Therefore, the lender of the loan contract can only be a national commercial bank or other financial institution that can operate credit business according to law. In ancient times there were no banks, but there were lending institutions opened by the imperial court. From the Song Dynasty to the Qing Dynasty, financial lending was more common, and more and more lending institutions appeared.

3.1. Financial Lending in Song Dynasty

The core lending institution of the Song Dynasty was the library of proofreading [7]. In the early days of the Northern Song Dynasty, due to frequent wars, there were orphans everywhere. The wealth of the orphans was so large that it was useless to keep it in hand, so it was better to lend it out by the library and earn some interest. This would not only give the orphans a larger share of the property, but some of the interest would be used for public use, increasing the Treasury's revenue. With the state as the back of the collection, there was no worry about the return of the principal and interest. In addition to this, there was the Southern Song Dynasty's pawn shop, which was not only engaged in mortgage loans but also made interest-free loans to the poor.

3.2. Financial Lending in Yuan Dynasty

The Yuan Dynasty set up official credit institutions, called Jiedian Bank, which mainly dealt with property guarantee lending and ordinary credit lending. In Yuan Dynasty, the property guarantee loan was mainly the chattel mortgage loan handled by the pawn industry with fixed organization and operation rules. In addition, there is no fixed organization and operating rules for personal property, real estate and personal collateral lending. In the loan contract documents of Yuan Dynasty, in addition to the name and address of the borrowers and creditors, the type, quantity or amount of the loan, they mainly agreed on the interest rate, the way of interest payment, the loan term or return date, and the guarantee clauses of debt performance. In credit lending, the third-party guarantee clause is an essential element of the contract [8].

3.3. Financial Lending in Ming and Qing Dynasties

During the Ming and Qing Dynasties, a new credit institution appeared: the money shop [9]. Money shops not only exchanged money but also made loans and issue checks. However, the loans made by money houses are usually large loans, which were basically to trade with firms and are seldom visited by ordinary people. Besides, in the Ming and Qing Dynasties, in order to control risks, credit institutions such as pawnshops would charge differential interest rates for customers with different risks and borrowing amounts.

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4. A Comparative Analysis of Private Lending and Financial Lending in Ancient China

From the Spring and Autumn Period to the Qing Dynasty, the ancients used both private lending and financial lending. Although both the two lending methods could get money, their operation modes and risks were quite different. First of all, a private loan contract can be established orally rather than in writing, while a financial loan is established when both parties reach an agreement on the main terms of the contract and must be established in written form. Secondly, the loan contract of private lending comes into effect when the lender provides the loan, while the financial institution is the loan contract of the lender, and the contract is established when the parties reach a written agreement on the loan. Thirdly, the loan contract of a private loan may not stipulate the payment of interest, but the borrower of a financial loan must pay interest to the lender [10]. Fourthly, private lending has no mandatory legal provisions on the lender and is agreed upon freely by both parties. However, in financial lending, the lender should issue the loan to the borrower in accordance with the loan contract. If the lender fails to provide the loan in full and on time and causes losses to the borrower, the lender will be liable for breach of contract and compensate for the losses.

5. Conclusion

This paper mainly discusses the behavior of private lending or financial lending in each dynasty. It analyzes in detail that private lending was more common in the Spring and Autumn period to the Sui and Tang dynasties, and the emergence of financial institutions from the Song Dynasty to the Ming and Qing Dynasties led to the prevalence of financial lending. At the end of the paper, it also focuses on the comparison of private lending and financial lending, and expounds the advantages and disadvantages of these two lending methods. Generally speaking, financial lending is safe and reliable, but the borrowing threshold is high and the pace of lending is slow. Private lending, although simple and fast lending procedures, but high-interest rates and unreliable lenders account for the majority. Therefore, when choosing the loan method, borrowers must choose the loan institution suitable for themselves according to their actual situation. Due to the limited historical literature, the cases involved in this paper are not rich enough, and the analysis is not detailed enough. In the future, when archaeologists have the conditions to excavate more ancient economic activities, researchers can make a better interpretation and analysis on debt and credit in ancient China.

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