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# *A Preliminary Analysis of Folk Credit Practices in Modern Shandong (1912–1938)*

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***Abstract:*** Based on materials from the Records of Civil Customary Law Investigations, this study focuses on the formation logic, practical patterns, and regional differences of folk credit practices in Shandong from 1912 to 1938. By analyzing the impact of political upheaval, economic transformation, and social structural changes on credit practices, the paper reveals the diverse manifestations of credit customs in areas such as agricultural production, commercial transactions, and private lending. Special attention is given to the local knowledge systems reflected in debt repayment principles, interest rate norms, and forms of collateral. The paper provides a critical examination of usury while also considering its functional role in maintaining local economic order. Through a contextualized historical analysis, the study offers a multidimensional perspective for understanding the economic-cultural characteristics of modern Shandong and the modern transformation of traditional legal customs.

***Keywords:*** Records of Civil Customary Law Investigations, credit customs, regional variation

## 1. Introduction

Credit customs, as informal rules and practices spontaneously formed in civil and commercial activities, exhibited significant dynamism and regional diversity in modern Shandong. Although not codified in official statutes, this customary system played a vital role in regulating creditor-debtor relationships in social practice. Due to its unique historical circumstances, modern Shandong became a region marked by conflicting forces. The expansion of the commodity economy coexisted with the fragility of smallholder agriculture across the land of Qilu, resulting in differentiated credit practices across regions. This paper takes the credit customs of modern Shandong as its object of study, aiming to trace their origins and content to understand the region's economic transformation and social tensions amid the interplay of tradition and modernity.

## 2. The diverse causes behind the emergence of credit customs

### 2.1. Political causes

#### 2.1.1. Disordered policies

Since the late Qing Dynasty, Shandong served as a testing ground for the New Policies. However, these policies often failed to suit local conditions and were poorly implemented due to rampant

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corruption. The populace suffered immensely. After the 1911 Revolution, Shandong did not enter an era of peace and freedom but instead fell into new waves of turmoil. From 1912, when the Shandong provincial government severed ties with the Qing, to 1928, when the last warlord ruler Zhang Zongchang fled the province, Shandong saw seven different warlords—such as Zhou Ziqi, Jin Yunpeng, and Zhang Huaizhi—take office in rapid succession [1]. Under warlord rule, heavy taxation and erratic policy changes became the norm, pushing tax burdens well beyond the capacity of the common people.

#### 2.1.2. Breakdown of government control

A defining feature of Shandong society during this period was the pronounced tension between the populace and local authorities [2]. Not only was the government incapable of maintaining public order and safety, it often actively destabilized society through military campaigns. For nearly 30 years in the first half of the 20th century, continuous warfare between rival warlords plunged Shandong into a state of economic and social crisis. From 1912 to 1923, only one year saw actual fiscal revenue exceed the projected budget. Most years ran fiscal deficits, often significantly larger than any surplus [3]. During Han Fuju's administration, though some excessive taxes were abolished, his substantial military expansion drained government finances, keeping the provincial treasury in chronic deficit.

### 2.2. Economic causes

#### 2.2.1. A changing commercial landscape

Since the late Guangxu era of the Qing Dynasty, Shandong had been an economically vibrant province with bustling trade. Commercial centers like Yantai, Jiaozhou, Zhoucun, and Weixian flourished. From 1929 to 1937, inland commerce in Shandong began to rise as domestic stability improved, and the transport role of the Jiaozhou–Jinan and Tianjin–Pukou railways became prominent. In 1934, beyond well-established commercial hubs such as Qingdao, Weihaiwei, Jinan, Yantai, and Zhoucun, Shandong had 856 newly emerging commercial towns and about 22,000 shops across the province [4]. This burgeoning business environment stimulated the development of a commodity economy, led to the proliferation of new commercial enterprises, and significantly increased trade volume. Consequently, commercial disputes surged, prompting merchant communities to devise systems for credit enforcement to safeguard their interests.

#### 2.2.2. Flaws in the traditional economy

Despite these commercial developments, smallholder agriculture remained dominant in most parts of Shandong. Yet natural disasters were frequent, and traditional transaction practices were easily disrupted by such crises. A 1928 report in the Xinghua magazine described a grim scene of famine: "People in the land of Qilu live in utter misery; the traditional economic model has collapsed. Displaced peasants, with families in tow, flock to the cities in search of livelihoods" [5]. Most rural areas remained underdeveloped, and farmers generally had no cash—only land as their primary asset. When faced with tax obligations or urgent needs, they had little choice but to mortgage or sell land. Thus, the instability of the smallholder economy pushed agriculturists into financial crisis, accelerating the collapse of agricultural production and forcing them to accept exploitative credit customs dictated by lenders.

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### 2.3. Social causes

#### 2.3.1. The influence of social norms

During the Republican era, many parts of Shandong remained culturally underdeveloped. Widespread ignorance among the populace gave rise to prevalent superstition. Even the poorest rural families often set aside funds for religious offerings. Wealthy landlords, idle and decadent, commonly indulged in vice—opium, gambling, prostitution. The general moral climate deteriorated to the point where scandals involving women arrested for drug use emerged. In Leling County, gambling had long been entrenched. Between the winter of 1937 and the spring of 1938, some gamblers exploited wartime chaos to organize large-scale gambling operations under the guise of temple fairs. Many were deceived, losing everything, and some turned to banditry. Others, unable to repay gambling debts, saw their families fall apart. Usurers often lured young people into gambling and drug use, while landlords and gentry conspired to defraud farmers. Gambling debts typically carried high interest rates, driving many into insurmountable debt [2].

#### 2.3.2. Social instability

In the 1920s and 30s, Shandong was plagued by rampant banditry. Bandits roamed unpredictably, looting and killing, creating widespread fear and insecurity. The 1923 Lincheng Incident, where bandits hijacked a train, shocked the nation and the world. Local governments failed to act responsibly, leading to administrative paralysis and public suffering. Ultimately, both the Beiyang Government in Beijing and the Shandong provincial authorities had to negotiate peace with the bandits—a reflection of the latter's formidable power. In southern Shandong, people often suffered at the hands of bandits who looted their property or demanded ransom. Many, unable to pay the high ransom, had to mortgage their assets to local wealthy merchants or landlords, creating cycles of debt that gave rise to a host of informal credit practices [2]. Such incidents were all too common throughout the province.

## 3. Types of customary practices

### 3.1. Customs arising from agricultural production and daily life

As a traditionally agricultural province, Shandong has long placed immense importance on farming. During the Republican era, agriculture in Shandong gradually became commercialized, drawing farmers into the capitalist market. This shift encouraged the cultivation of various agricultural and sideline products and transformed rural lifestyles, giving rise to new types of credit-related issues.

In agricultural regions, where farmers bore heavy burdens, loan amounts were generally set at reasonable levels through mutual agreement. In areas such as Heze and Wenshang, a seasonal lending practice emerged: loans would be issued at the end of winter or beginning of spring and repaid after the wheat harvest. These were known as "wheat harvest loans" (maiqiu zhai). Such loans were primarily intended to support local agricultural production. Repayment typically involved returning the principal plus two to three sheng of grain per dou (unit of volume), never exceeding four sheng. In Xintai, specific amounts were agreed upon: for each dou borrowed in spring, repayment after the harvest was typically one and a half dou or slightly more, regardless of market price fluctuations. Borrowers were expected to fulfill the terms faithfully [6].

Throughout rural Shandong during the Republican period, trust and integrity were central to credit relationships. In the countryside of Pingdu, land sale agreements often required only the names of the parties involved without the need for seals or formal endorsements. In Xintai—a key area for economic crops such as peanuts and mulberry leaves—farmers in need of funds during the spring and summer would often sell these crops in advance, with both parties settling accounts at harvest time.

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Agreements were upheld without renegotiation based on current prices. In Zichuan, Wudi, and Yucheng, land was often used as collateral in emergencies. Repayment deadlines were agreed upon and strictly observed, based solely on good faith [6].

Given the instability of the times, many areas in Shandong developed communal associations to safeguard debt relations and protect individual interests. In counties like Wucheng and Gaoyuan, "Yi Po Hui" associations were formed during the busy autumn harvest season. Villagers would collectively raise funds to hire guards for round-the-clock crop protection until the harvest was complete, after which the association was dissolved. During the off-season, to prepare funds for planting, Shouzhang County established financial associations where members pooled capital and elected a leader to manage affairs. The funds could be lent out at interest or used to purchase land, thereby supporting local agricultural production. Mutual aid also extended to social occasions such as funerals and weddings. In many parts of Shandong, tightly organized societies like "Longevity Clubs," "Red Ceremony Societies," and "Joint Contribution Groups" emerged. These organizations had formal charters and elected leaders, and they helped members prepare financially for major life events, including weddings and funerals, while also offering assistance to the poor [6].

### 3.2. Commercial and derivative lending customs

In the commercial activities of modern Shandong, efforts were made to stabilize lending practices. Merchant clans would pool funds to create large capital reserves that could be loaned to family members or trusted associates—a practice known as "accumulated money associations" (ji qian she), considered one of the most reliable lending mechanisms at the time. However, most lending arrangements included guarantors as part of the contract to ensure smooth transactions. In Pingdu County, loan contracts included only the names of the contracting parties without formal endorsements, relying solely on trust rather than legal proof—often leading to disputes. In Liaocheng, contracts commonly involved a third-party guarantor whose responsibilities varied depending on the arrangement. Some guarantors were only responsible for vouching for the person, while others guaranteed both the person and the repayment. In Xintai, an even more complex form emerged, colloquially referred to as "wild boar repayment" (ye zhu huan yuan). In this setup, Party A was the creditor, Party B the debtor, and Party C the guarantor. When Party A considered Party B's assets inferior to Party C's, the guarantor (Party C) was treated as the principal security. If Party B failed to repay the debt, Party C would be held liable—essentially placing the guarantor under heavy financial threat. In Mengyin County, guarantors bore even greater responsibility: once the contract named a guarantor, failure by the debtor to repay the loan would automatically shift the debt obligation to the guarantor [6].

## 4. Issues of repayment

Issues related to repayment arise when, after the establishment of a credit relationship, one party is unable to fulfill the agreed terms, thus requiring additional interventions or alternative repayment arrangements. In general, both the creditor and debtor needed to agree on the repayment order to avoid conflicts. Regional variations in economic conditions and customary practices also shaped different approaches to interest rates and repayment procedures, which merit close examination.

### 4.1. Order of repayment

The order in which debt principal and interest were repaid was a primary concern for debtors. In Haiyang County, unless the creditor explicitly required repayment of the principal first, interest was to be paid before the principal. The same rule applied in Qihe County: interest took precedence, and any expenses incurred outside the contract were not prioritized for repayment. In many cases, interest

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accrued at high rates, sometimes even surpassing the original loan amount, placing immense pressure on debtors. In Ziyang and Putai counties, a custom emerged of repaying the principal before the interest. This served as a compromise for debtors unable to meet full repayment by the due date: they would first settle the principal, then pay the interest in installments. In Yucheng and Liaocheng, a practice developed that strictly prohibited the rolling of interest into the principal—if a debtor failed to repay on time, creditors were not allowed to recalculate the interest as part of a new principal. This custom considered the hardship of debtors and prevented compounding debt. Similar customs were observed in Qixia and Mengyin counties, where the practice of "principal first, then interest"was widely accepted. For financially strained debtors, this approach offered some relief and was recognized as a legitimate custom [6].

## 4.2. Interest rates

### 4.2.1. High interest rates

The emergence of high interest rates was closely linked to the rise of usury. Between 1913 and 1928, Shandong's public revenue and expenditure grew rapidly, leading to increased taxation and widespread usurious lending. The burden on the population became severe. High interest rates were especially common in commercial sectors. In Qingcheng, interest rates on loans could reach five or six percent per day, which the government deemed usurious and prohibited. In Julu County, the practice of including interest in the principal was also considered a form of usury. In Ningyang, small merchants often lacked sufficient capital and had to borrow temporarily from money shops at monthly interest rates of 7% or 8%. Such rates were unaffordable for low-income merchants, making borrowing exceedingly difficult. In agricultural sectors, where interest rates should have been lower, instances of usury still abounded. In Laixi County, "fruit loans" and "grain loans" often carried interest rates that were ten to 150 times the principal. Lenders would purchase grain at suppressed prices during the harvest, causing the actual value of the grain to fall far below market value. In Wendeng County, pawnbrokers offered loans to farmers at high interest during planting seasons, then forced them to sell their grain at low prices at harvest time, thereby accumulating land through defaulted loans [6].

### 4.2.2. Low interest rates

To maintain social stability and safeguard individual interests, both lenders and borrowers increasingly recognized that excessive interest rates were unsustainable. As a result, most commercial and rural lending favored relatively low interest rates. In Pingyuan and Wenshang counties, a practice called "taqian"was common. Borrowers would repay small loans of 2,000 to 3,000 wen, capped at 10,000 wen, with interest set at 3%, incorporated into the principal and repaid in installments—benefiting small-scale merchants. Pingyuan had even more lenient terms than Wenshang, making repayment easier. In Yucheng County, interest on loans below 100 fen was set at 3%, with larger amounts subject to progressively lower rates, but never exceeding 0.5% for loans above 1,000 fen. In Putai County, rural loans calculated interest monthly, while commercial loans used annual calculations. Lighter interest rates were set at 7–8‰ (per thousand), while heavier rates did not exceed 3%. In Shouguang County, rates ranged from 1.5% to 2.5%, and never surpassed 3% [6]. Overall, interest rates across most areas in Shandong were moderate and reasonable.

### 4.2.3. Other cases

A review of other materials reveals additional unique repayment customs. In Rongcheng and Huimin counties, borrowers often agreed on a daily interest rate. By the repayment date, both principal and

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accumulated interest were calculated together and recorded on the loan contract as a single total debt amount—referred to as "integrated principal and interest". As this practice often resulted in effective rates exceeding 3%, creditors preferred to incorporate all fees into the principal to avoid accusations of usury. In Pingyuan, Linzi, and Wenshang counties, interest rates had no fixed standard but were based on rates set by local banks. After disbursing a loan, banks would determine the total repayment amount based on the term. In Pingyin County, banks and money shops typically issued loans for five or ten months, with a maximum interest rate of 3%. If silver coins (yangyin) were borrowed, repayment had to be made in their current equivalent value at the time of settlement. In Haiyang, business-to-business loans could not exceed 1% interest, while loans between private individuals could not exceed 3%. Loans from individuals to merchants were capped at 2%. In Puxian, merchant-to-merchant lending was capped at 3%, whereas loans between individuals and merchants could not exceed 5% [6].

## 5. Conclusion

A systematic review of folk credit practices in modern Shandong reveals the complex nature of these customs as a "mirror" of regional socioeconomic conditions. Importantly, these credit customs were not merely informal economic norms; they also embodied a composite logic of local elite power reproduction and grassroots social resistance. This customary system not only sustained the basic operation of local economies but also, through exploitative practices such as usury and frequent debt disputes, exacerbated social inequalities. Thus, the significance of studying credit customs goes beyond reconstructing historical realities—it provides valuable historical insight into present-day issues surrounding the regulation of informal finance, the inheritance of customary law, and the development of social credit systems in regional economies. Most crucially, understanding how to balance economic efficiency with social equity during modernization, and how to maintain stability in local financial ecosystems, are among the key lessons offered by this historical experience.

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