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Theory and Practice on Lending Risk Control by the Government in the Song Dynasty

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ABSTRACT: Lending was of importance in finance of Song Dynasty, and the government constituted strict laws and regulations to control the risk. Those measures had made great contribution to the sustainable financial market by maximizing the strengths of lending and lessening the loss of individuals and instability of society caused by bad loans. Nevertheless, there were many problems in the policy implementation that the officials violated the law and discipline. Thus, coordination should be made between soft constraint and hard constraint, which needs conditions to support (mainly the advance in scientific technology).

KEY WORDS: Finance in Song Dynasty, government policy, lending, risk control

Introduction: Lending in Song Dynasty and Literature Review

The academics identify the progress in Song Dynasty's productivity that some area embraced detailed labor division with increasingly socialized exchanges among considerable producing departments and social classes, all of which was reflected in historical documents such as *Selection of Laws and Regulations in Song Dynasty, Linan City of the Southern Song Dynasty*, and collections by the people in the age.

Commodity economy boosted finance, especially lending. In *Economic History of Song Dynasty*, Qi Xia illustrated usury then in the 30th chapter of Commercial Capital and Usury Capital in Song Dynasty that "People give credit for interest,"[1] and such ancient economic form attracted participants from all walks of life including officials, merchants, monasteries, and even "the new candidates of the highest imperial examinations and the newly appointed officials fell on the usury."[2] However, the increasingly common lending relationship encountered higher potential risk and complication, as well as the social instability by the possibility of contract violation, although it facilitated social production and daily life. Then, the government was bound to apply enormous power which is out of the reach of all the interest groups to control the potential risk for a better lending condition.

The works on administrative financial intervention by the Song Dynasty mainly include an overview of monetary history and lending in the Song Dynasty (Qi 2009; Wang 2011), research on government revenue and administrative intervention (Li 2004; Quan 1948), studies on currency and monetary circulation (Gao 2000), usury capital and regulation (Liu 1990; Yang and Cui 2007; Yang 2010), and analysis of commercial credit (Jiang 1989). The aim of the article is to discuss from the economic perspective how the Song government lowered the lending risk to figure out the traits and problem in Chinese ancient lending control in four parts: Introduction: Lending in Song Dynasty and Literature Review; Risk Control Measures and Policies in Lending Sections in Song Dynasty; Issues in Risk Control Policy; and Conclusion.

When investigating in the currency circulation of Song Dynasty, Quan (1948) thought that the increase in money in circulation of North Song Dynasty did not result in the inflation. Because under the condition of a highly developed production and consumption, the exchange of commodities was

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unprecedentedly prosperous and thus, the increase in the currency played as lubrication in the turnover of massive capital. Liu (1987) analyzed the positive role of stated-run loans in the process of a slow but continuous decrease in interest rate and denied the general interest rate of 100% in the feudal society. Qi (1987) first distinguished the usury capital and commercial capital. He illustrated that commercial capital carved up the merchant profits with feudal state and stimulated the development of social economy. Both usury capital and commercial capital had the tendency of transforming into bureaucratic landlords, which bind the bureaucrats, landlords, big merchants, and usurer together. The development of this combination caused a profound influence upon social economy after Song. According to the service objects, Jiang (1989) divided the commercial credits into three sorts: commercial credits provided by folk to government; commercial credits provided by government to folk; and commercial credits provided by folk to folk. The Market Transaction Law and other credit sales are main financial instruments provided by the government. Those instruments were numerously named and widely covered, but had restriction on the relatives of emperor, officials, and soldiers. Liu (1990) recognized the significant role of usury in agricultural production, tea, and salt making as well as daily life. Government of Song Dynasty did not oppose the usury, rather encouraged big merchants to offer usuries to remit the calamity. And the Young Crops Law provided a new way besides folk usury. Li (2000) thought the Song government had apparent duality in the industrial and commercial policies. Government supported and utilized those entities, but also intervened and raped them. There were many institutional improvements took place, but institutional deficiency and invalidity were also remarkable. Gao (2000) saw the influence of border wars on national financial system. In order to raise money for military use, government issued a lot of Kuaizi, Qianyin, and other currencies lack of value, which caused a severe inflation. Aiming at maintaining the stability of currency system, the government set a new policy that required half of the taxes to be paid in Kuaizi, and this regulation was believed to contribute to a stable currency price. Wang Shengduo discussed the legal tender status of gold and silver, as well as their structure characteristic, purchasing power, and exchange rate with other currencies. Wang studied Song's management of coinage from bureaucrats of different levels, functions and nation's monetary policies, and specifically analyzed the fake and anti-counterfeit of currency. Yang and Cui (2007) claimed that Song government hold a principle of nonintervention toward the private lending, that is "For all those private lending, leave them to the contracts, and government stands aloof." But punished severely on the nonperformance, namely "the one violates the treaties and does not pay the money one owes should be claim indemnity by the government." Yang (2010) pointed out that there was little regulation on intermediary before Tang Dynasty, and the complete of broker institution was a noteworthy feature of Song's legal system about contracts. Wang (2011) systematically investigated into the contract thoughts of free-intervened borrowing and government-controlled borrowing, of which the later one was formed around Wang Anshi Refrom. Wang thought that the Young Crops Law was a new lending network established from top to bottom through institutional framework, while the Shecang in South Song was a kind of government-dominated and civil-participated credit cooperative organization. There was little usury in ancient China, and the coexistence and competition of official lending and private lending played a significant role in the continuation of small scale production, development of commodity economy, remission of ethnic extension as well as consolidation of frontier defense. Thus, it became a pressure valve of feudal society to some extent.

Risk Control Measures and Policies in Lending Sections in Song Dynasty

The lending relationship became more complicated through the development, and the participants became diversified, involving local officials, merchants, common people and peasants, and even the government.[3] To facilitate the lending development, Song government issued many laws and regulations on lending parties and agency, and the rules of interest and effectiveness had influence on the later generations. The following analysis on the lending risk control measures and policies of Song Dynasty is in different lending sections.

Risk Control on the Ages of Lending Parties

The creditors and borrowers are the main figures in lending relationship, also the most important section where needs regulations apparently. Firstly, Song government had constraints on the parties physically and psychologically, especially in the age. The relative document in Mixed Criminal Acts of *Statute Book of Song Dynasty* is as follows:

> As per the rescript of Nov. 6th in 810 of Tang Dynasty, the young are vulnerable to be taken advantage of by others to borrow money for improper use without telling their parents. When it is time to collect interest, the borrower disappeared and the guarantor reveals the borrower's homestead and estate, which bothering the government with lawsuits. In such case, the young borrowed money without the parents' signature on the contract, the guarantor shall be punished first and share the same part of the debt as the borrower, in order to deter any trickery.[4]

The record above manifests that people in Song Dynasty could be a lending party only at a certain age in that the immaturity and inability to tell right from wrong and act independently of those in too young age makes them vulnerable to bad guys. So banning those of too young age to borrow money really helps lower risks and abnormal lending to ensure the interest of the two lending parties.

Risk Control on Vouching and Agency in Lending

Complete vouching system was established through legislation in Song Dynasty to control the lending risks, including vouching for people and objects. The regulation on the vouching for people explicitly required three guarantees for the official lending in Song Dynasty, which was the "several guarantees for the same lending" in Young Crops Law and Market Trading Law by Wang Anshi.

> In Young Crops Law:
>
> One cannot get young crop loan with less than five guarantees, and the amount of the money depends on the financial capability and the number of the guarantees. The county official himself supervises the head of the household to ensure the loan capital. [5]
>
> In Market Trading Law:
>
> Borrowing money shall require housing, estate, or gold as mortgage, otherwise three guarantees.[6]

Both of the laws emphasized the condition of guarantee number for lending which means the pursuit for credibility, lowering credit risk with inadequate guarantee number, and enhancing the lending condition.

To avoid potential risk in vouching of lending, the Song government required the qualification of the guarantee besides the number. The most important item of vouching ability is property, since it is necessary for the guarantee to hold the comparable property to fulfill the responsibility of compensation when the contract is suspended or violated. Such regulation ensured "compensation by the guarantee" which transformed the creditor's loss from contract violation to the guarantee's responsibility and shifted the risk of losing creditor's property. Guarantees were prohibited to vouch with false information of his financial ability.

> The guarantee shall be punished besides compensation if he cheats the creditor with the agency in lending by lying that he has enough property to vouch.[7]
>
> There is also relative regulation in vouching for objects, namely mortgage lending:
>
> As for the mortgage lending, the property shall be confiscated if the loan is not repaid over a year, and the relative people shall compensate if it is insufficient.[8]

Mortgage lending helps more to lower the risks compared with credit lending, so it developed fast and boosted lending prosperity in Song Dynasty.

The agency plays a great role in lending relationship and an important section in lending. Middlemen, the main agency in Song Dynasty, scattered in the society in a large number, and their labor division was more professional and precise. The middlemen's function in the lending contract ruled by the Song government includes the following: helping to sign the contract, checking up, register and evaluate the corpore, witnessing the trading, and vouching for the contract.[9] The wage of the middlemen in Song Dynasty depended on the trade scale and its ratio in the trading volume.

The complexity of the middlemen in its importance, large number and complicated business made it more likely for them to disturb the trading order, by hook or crook, and take advantage of others' difficulties.

Thus, systematic management was very necessary, and the Song government restrained the middlemen through a series of laws to lower the risk with better organized agency. The regulations were recorded in *Collection of Zhu Xi (III)*:

> Usually the businessmen had to sell the grains through the middlemen with much agency fee, so they were not willing to sell. The government explicitly set measures for punishment to encourage the business in order so that the middlemen dare not disturb again. The announcement was posted to encourage the businessmen to denounce the middlemen with a reward of a thousand Guan once the middlemen did not obey the rule when the businessmen sold grains in the military. The businessmen could write down indictment for lawsuit through the officials, and the criminal shall be punished seriously and pays the reward.[10]

The regulation effectively banned the middlemen's monopoly in the market and decreases the risk of illegal intermediary act, which protected the legitimate rights of the businessmen.

Risk Control on Interest and Effectiveness

Interest and effectiveness matter in the lending relationship.

As for the regulation of lending interest, *Statute Book of Song Dynasty* ruled that the interest per month shall be below 6 cents and the ultimate interest shall not exceed double although in a long period.[11] In the Lending compensation, *Laws and Regulations of Southern Song Dynasty in 1195–1200*:

> The interest for borrowing money shall not exceed four li per month and the ultimate interest shall be below double even in a long period. Those who borrow grains only return grains, and the interest per year shall not exceed 5 cents (e.g., less than five liters for every deciliters), not permitted to be converted into money.[12]

The cent in *Statute Book of Song Dynasty* is the old way to express li; hence, it is clear that the interest in Southern Song Dynasty decreased compared with the early Northern Song Dynasty. Using the entrusted materials without permission, Mixed Criminal Acts of *Statute Book of Song Dynasty* recorded that: "The financial department ruled that the interest for lending should be 4 cents, not over 5 cents."[13] The interest of 5 cents set in regulations reduced the risk of raising interest by the creditor to some extent. Wang Anshi conducted constitutional reform of Young Crops Law and Market Trading Law to facilitate the ordinary people to borrow money in low interest because of their low capability to repay. "The interest for the young crops is 2 cents every time, and annual interest is 4 cents."[14] The reform contributed to ensure the people's interest and lower the risk of lending failure. The interest amount was set by Song government that the principle of "one interest for one lending" shall be carried out and repeated interest collecting was strictly prohibited. In *Statute Book of Song Dynasty*:

> As for the repeated interest collection, the part out of the regulation will be punished. The creditor shall not sell off the mortgage and if the mortgage was not redeemed when the principal and interest exceed its value, it should be submitted to market department to sell for repayment. The guarantee shall repay once the borrower fled.[15]

Such regulation decreased the repayment burden of the borrower and thus diminished the risk of violation because of failure to repay the interest. Besides, the government also prohibited repaying money for the debt of grains. Among the private lending then, some repaid grains instead of money as the initial contract or cloth instead of crops. During the conversion, the creditor is very likely to seek excessive profit by raise the ratio. The Song government ruled that:

> The debt of grains shall be repaid in grains and the government won't admit the illegal contract signed privately. The term is a year and excessive interest of the previous capital is banned. The ultimate interest shall not outnumber double the capital.[16]

> The people in the counties shall repay grains for the debt of grains with interest below 5 cents, and the debt cannot be converted into capital for interest collection.[17]

> The debt of grains shall be repaid in grains only, not allowed to repay in money, with annual interest not more than 5 cents.[18]

The prohibition of conversion between grains and money by the Song government laws was to keep the creditor from making profit by raising the replacement ratio in conversion. It helped decrease the hooligans in lending and the risk of bad loans and exploitation of the debtor.

Without time limit, the lending relationship would be invalid. In Lending compensation, *Laws and Regulations of Southern Song Dynasty in 1195–1200*:

> The government would help collect the debt in case of contract violation, and the guarantee shall repay if the debtor fled. The case shall be dismissed when it's over five years or illegal interest, raising the price, or converting grains to money for repayment. The creditor shall make new arrangement if the mortgage has not been redeemed overtime.[19]

The words above indicate in Song Dynasty, the protection of the creditor was within a time limit, from 5 to 30 years. The creditor would lose protection from the government and regulations over the legal time, and thus, the creditor shall pursue the protection for his rights in a certain time. Solving problems timely would lower the risk of insoluble caused by delaying repayment.

Risk Control of Debt Dispute

To ensure the repayment after the lending, the government took a series of measures to regulate the situation of debt disputes, mainly on "who's entitled to tackle" and "how to tackle."

On "who's entitled to tackle," different from the regulation of Tang Dynasty that the creditor could detain other property of the debtor if he cannot repay, Emperor Zhenzong of Song Dynasty commanded, "the collection of interest shall not compel the debtor to repay with estate or livestock."[20] It was explicitly banned to tackle the debt dispute privately, and only the government was entitled to tackle it, protect the creditor's rights, and control the risk of debt dispute and contract violation by its power and deterrence. Many items of regulations in Song Dynasty could reflect the point:

> If the capital is defaulted, the government shall urge the repayment and the interest is up to the creditor.[21]

> The government would tackle it when the illegal interest is collected, excessive interest over the contract and the capital of the debt.[22]

In all of the regulations above, there were words of "urged by the government" and "treated by the government," revealing the government tackled the debt dispute. Besides, the treatment was with force.

On "how to tackle," the government required people to report the contract violation timely so that the government could punish with criminal or economic means. The record in *Laws and Regulations of Southern Song Dynasty in 1195–1200* that "the debtor who didn't repay would be beat a hundred at most for punishment"[23] suggests the measurement of penalty after the contract violation. By using the entrusted materials without permission, Mixed Criminal Acts of *Statute Book of Song Dynasty*, it is more elaborate as follows:

> "For the debtor without repayment, when the debt is worth a bolt over 20 days after the time limit, the punishment is flogging for 20 times, and it's double over every 20 days, 60 times of bludgeon at most. The punishment tripled when the debt is 30 bolts and amounts to 6 times when it's a hundred bolts."
>
> "If the default is over a hundred days, the case shall be treated for a year."[24]

The measurement of penalty was set by the property amount and period of time involved in the violation. The clear regulation of "how to tackle" after the violation ensured the punishment of the debtor in economic or penal means, which had deterrent force to lessen the potential debt dispute and violation.

The regulations on "how to tackle" and punishment of violation in debt dispute by the Song government established the punishment measures and degree and decreased the subjectivity of the officials' intervention.

Exemption and Values Transformation of the Government Under the Influence of Religious Ethics

There were three basic influences of religion on lending market: (1) a higher interest rate and less unperformed loan. The usurer of temple often threatened debtor by the formidable power of ghosts and gods. If the debtor dared to default the payment, they would become beast afterlife and may even go to hell with eternal damnation. Although those threats are nonsense, usurers of temple were able to get a better repayment compared with secular finance. *The Daily Book of Huang* record that

> A monk prosecuted husbandman for default the loan. The governor asked the monk to bring along with him the account book of coffer the next day. After viewing the account book, the governor showed it to the monk and said: "you asked for too much interest (than you deserve)."

This situation also caught the attention of government. As recorded in *Selection of Laws and Regulations of Song Dynasty*, in December 1201, governors of Emperor Ning suggested that the capital in *Changshengku* should also pay taxes. During the region of Emperor Ning, the rules and regulations on temple economy gradually perfected, which marks a significant turning point of relationship between temples and government, and indicated an increasing control of temple finance from government.

(2) The ethic value of Buddhism also encouraged temple to transcend the traditional kinship and lend money to its disciples as well as all kinds of professions. On the one hand, it was the value orientation of supranational cooperation and delivering all living creatures from torment. On the other hand, the feasibility was guaranteed by the faith constrain of borrowers. As recorded in *The Inscriptions of Taizhou*, Zhengzhen Temple was highly involved into the local production system.

> (The temple) lends three *dou* of rice for each type to the poor, for the sake of cultivation. The repayment will be collected in the autumn with an interest of 20%.
>
> This kind of practice not only eased social conflicts and facilitated the agricultural production, but also profoundly expanded the debit and credit from genetic relationship to nongenetic relationship, which was an important step toward modern finance (credit relation).

The government's exemption under the influence of religious ethics also promoted the lending market of Song Dynasty in stability. In *On Lending in Song Dynasty*, Wang Wenshu divided the debt exemption and postponed repayment by the government into three kinds: to ease the people's burden in and after the war, relieve their stress in the midst of disaster, and stabilize the people in mass uprising.[25]

As for easing the people's burden in and after the war, *Imperial Edicts of Song Dynasty* recorded Emperor Taizu of Song commanded to exempt civil debts after unifying Shu kingdom:

> After I conquered the two counties of Ba and Qiong, the principles shall be consistent that all the cruel orders should be eliminated to ensure the daily life of people suffering poverty and diseases. The national taxes have already been exempted, and how can the officials collect the doubled interest by force? For the people in the counties of this area, the debt caused by the previous officials' excessive lending for interest shall be exempted since the day the edict delivered. The debt not from repeated interest and the new debt after the edict are not included. All the officials shall record the edict to inform the people.[26]

As for releasing people's burden in disaster, financial economy, *Selection of Laws and Regulations of Song Dynasty* has many records, among which most were in Southern Song Dynasty because of the constant flood and drought then. The following is the exemption edict to lighten the drought in Jiangsu–Zhejiang area in 1179:

> The drought in Jiangsu–Zhejiang affected the counties, so the defaulted taxes for the year, the public and private debt and the public objects defaulted by the immigrants shall be exempted, without collecting by the local officials.[27]

> In 1167, there was edict of "Don't delay the private debt and the time limit for the repayment could be prolonged" for the flood.[28]

For stabilizing the people in mass uprising, the government in Emperor Huizong of Song (1082–1135) commanded edicts several times of exemption to ease the Fangla Uprising in Jiangsu–Zhejiang area. In 1121, three edicts of "all the public and private debts are exempted"[29] were issued on Feb. 5th, April 7th, and Sep. 23rd. The government attached great importance to debt exemption as much as position granting that in 1165–1173 of Southern Song Dynasty, the government "exempting the previous public and private debts and 3 years of taxations"[30] to offer amnesty to the head of Li nationality in Hainan Uprising.[31]

The debt exemption in Song Dynasty promptly released people's burden, which stabilized the country. The reason behind was the influence of a thousand years of religious movement since the Eastern Han Dynasty (25–220) and new values centered on Confucianism with Buddhism and Taoism had formed in Song Dynasty.

The conversion from manorial to small-scale farming economy led by the social productivity development propelled the government to forward many regulations to promote market development and a new market mechanism targeted at improving people's well-being led by the government emerged. It broke through the limitation of finance to national system and helped sustainable development of financial market. On one hand, the government encouraged the people systematically to participate in finance, either making the rich businessmen by exempting services and lowering taxes or getting involved in it directly as in Young Crops Law to increase capital supply and reduce market rate; on the other, when it is harmful for financial market to keep protecting the creditor's right, the government would intervene to limit the market interest rate, prohibiting repeated interest or interest more than the capital. The intervention received people's cooperation other than perfunctory to the policy in Qin-Han Dynasties is ascribed to the new values of trinity of Confucianism, Buddhism, and Taoism. The values encourage people to care and help each other, laying the microfoundation for government intervention. The document suggests the interest rate after Tang-Song Dynasties kept decreasing, from 5 cents per month in early Tang to 3, 2, or even 1.5 in Ming-Qing Dynasties. In such situation, the debtor has more left after repayment to enlarge reproduction for well-being.

Those regulations on risk control mainly focused on two aspects: before the borrowing and after the borrowing. The former one including the subjects, mediums, and the contents of the borrowing, while the later one focus on the specific case of disputes. Viewing from the structure, the financial regulation of Song Dynasty emphasized more on the prevention rather than afterwards arbitration. Compared with western countries, the proportion of government officials is much lower, which caused a stronger incentive for Chinese government to reduce the tasks they need to deal with. Reducing the potential disputes was a reflection in the financial regulation. On the whole, the financial regulations of Song Dynasty are inclined to the interests of debtors. The requirement on subjects mainly embodies in the restriction of borrower's age and capability, which on the one hand guaranteed the enforcement of contracts; on the other hand prevent the abduction from lender. The limitation on interest rates and validity of contents also are recognized as a preference of borrower. When debt disputes arise, compounding in private was forbidden, which was believed to be in favor of creditors.

Generally speaking, regardless of the social and historical conditions, a lending requires two basic elements: both sides of the business and the payments, and regulations on these sides are by and large inherited from former dynasties. But since Song Dynasty, due to the highly development of commodity economy, the financial activities are more specialized, and the agents in charge of mediation and guarantee are new profession in the labor division. Thus, there were many items about agents in regulations of Song Dynasty. This new characteristics was a result of the specialization and labor division driven by the prosperous economy, and change in the economic basis determined the superstructure.

Influence of Wars with the Nomadic Regime

Song Dynasty was threatened by the north nomadic people ever since its establishment. The frequent war resulted in a heavy financial burden; thus, the government was forced to rely more on the financial system to fund its army. The first and most direct influence was the emergence of first state capitalism's rudiment, the Wang Anshi Reform, among which the Young Crop Law and the Transaction Law are concentrated reflections of state capitalism. The introduction of Young Crops Law was actually a kind of official usury, which will be further discussed in the following. The bureau of market transaction served as role of price control as well as financial agent, which are positive in preventing monopoly of big merchant, stabilizing price fluctuation as well as increasing government revenue. The bureaus first only sold goods on credit, and after nine years practice (1070–1078), they were allowed to directly lend money to merchants. Due to a lower nominal interest and no convert loss, the actual interest rate is much lower than Young Crop Loan. But the Transaction Law changed the private monopoly into national monopoly and forced most commodities to be sold on a fixed price, which indicated a stronger intervention into the commodity circulation and financial affairs from government.

Although the implementation of state capitalism collected a lot wealth for Song Dynasty, it did not thoroughly solve the problem of military expenditure. In order to deliver the military supply timely, government encouraged private merchants to take part in it. Considering the heavy weight of silver, government established bureaus to take the charge of exchange named *Quehuowu*. Private merchants were allowed to use the *fly money* (a kind of certificate) to exchange for money after they had accomplished the mission. During the reign of Emperor Jing, it was regulated that:

> Travelers who bring money to war zones should hand in their money to *Quehuowu* in advance, and private exchange is forbidden. If breached, other can report him. The one who violate will be severely punished besides penalty of tax evasion.

Thus, the *Quehuowu* became the only institution to do the exchange. The emergence of *Quehuowu* is not only for military purpose, but also aimed at preventing currency outflow from the capital. The monopoly of *Quehuowu* limited the market access of other private institute and showed a tendency of ever increasing national control on the financial issues due to the intense war pressure with the nomadic regime.

Although private institution was not allowed to enter the military-related exchange, businessman who were used to the convenience would like to apply it to other fields, which stimulated the spread of article currency, *Jiaozi*. However, came along with the circulation of article currency was the devaluation. In order to guarantee the military supply of increasingly severe border wars, government tended to overprint article currency. As a result, the devaluation and social grievance were inevitable.

Due to the inflexibility of credit contract, such devaluation would also cause a lot of friction between borrower and lender. Thus, the maintaining the value of article currency became an important goal of government. As a positive example, Emperor Xiao managed to maintain the value of article currency through his reign with the motto: As a general rule of issuing *Huizi*, the less circulation results in a higher value and the more circulation results in a lower value. This principle shows that Chinese government had a relative abundant experience of currency stabilization.

Evaluation on Policy of Lending Risk Control of Song Government

As for the government, on the one hand, private lending had a close relationship with livelihood of people, social stability, and productivity development, which deserved primary concern. On the other hand, various problems might arise in repayment; thus, government had to intervene with the strength of state apparatus for the sake of smooth functioning of private lending. The positive role of risk control policy has been thoroughly discussed above; thus in this section, we mainly focus on its limitation.

Risk Control Policy from the Government Might Impair the Availability of Loanable Fund

Generally, risk control policy of government specified lending conditions in many aspects and reduced potential bargaining colony, which inevitably impaired the initiative of private capital supply. Besides regulation on general trading, frequent special intervention on exemption from repayment according to royal order would also have a negative effect on funding availability. When famine burst out, Song government tended to postpone even exempt the repayment of private lending, the later one seriously damaged the interest of creditors and further shrink the capital supply. Hence, governors took a cautious attitude toward exempting and targeted mainly on usuries with interests rate higher than 100%, in accordance with regulation on “double-principal lending.” On July 2nd, 1153 (the 23th year of Shaoxing), Wan Cun, a civilian in Wenzhou submitted a statement appealing “exempting all private lending not matter whether the interests have surpass principal or whether the interests have been fully or partly repaid.” But the ministry of revenue did not completely follow the request, claiming that: “poor people in rural areas all rely on private lending for living when facing shortage, if all lending are exempted indiscriminately now, those rich people may refuse to lend money in the future, and poor people will in turn suffers. However, considering those private lending charging interest rate higher than 100% has already dated back to the 17th year of Shaoxing, civilians will be bothered by debt collection if not appropriately relieve some principal and interests. Hence, the court decides to inform Roads and subordinated prefectures to exempt those private lending charges interest rate higher than10%.”

Frequency debt exemption would also stimulate debtor’s fluke mind on evasion and further reduced private capital supply. Hong Mai an advanced official with his highest ranking as vice prime minister in South Song states in Informal Essays of Room Rong: Exempting Debt that: “the decree of pardon for ascending the throne in February 16th year of Chunxi dictated: ‘all private lending, regardless of quantity and time, are exempted’. Hence, some creditor only lended their money for tens days lost the entire principal without a single interest, and people are bothered. He Dan, the court-admonisher by then, recognized the situation and decreed that the principal should be repaid without interest. However, those snobs had no moral weight and almost resulted in chaos.” Based on this experience, Hong proposed that “it is most suitable to exempt those private lending charging interest rate higher than 100%.”

Actually, “credit reluctance” has already showed up and undermined social stability as well as productivity. For instance, Yang Wang from Jiangyuan, Shuzhou used to have a close relationship with an affluent young generation from Huayang, but was refuted when he asked for lending. “(Yang) once tried to borrow twenty thousand (wen), but Jin, the rich young man, turned him down.” Yuan Cai also states in Principles of Yuan Family that “in order to prevent debt disputes in the future, the best way is only offer but never lend when poor relatives or friends come for borrowing. ‘it’s better to give them the money based on my ability since they are poor. In this way, I would not think about pressing and collecting the debt, and he would not resent me'." If there is no alternative but lending, rules should be set. Firstly, do not lend money to those borrowing at will. "Those who are easily borrow from others, do not lend the money" for people making promises easily are not seldom keep them. Secondly, be cautious when lending money to those without permanent residence and lack of credits. "Those without household registration usually plan to deny the debt." Thirdly, do not lend a large amount of money or assets. "For those borrow money or assets, the debt is often repaid if the amount is limited, while a large sum of debt tends to be denied. Hence, borrowers tend to deny the debt even if they are capable to repay it if the amount of borrowed food reached one hundred dans (around 9700 kilograms) or the amount of borrowed money reached one hundred guans (around 100,000 wens)."

Although "credit reluctance" was likely to protect interests of creditor, the reduction of capital supply would also evoke the poor's hostility toward the rich and intensified social contradictions. For example, a local censor (Lushicanjun) of Tongzhou "once tried to borrow money from rich men but failed" and later took advantage of his position to involve the rich men into a criminal case. During Xining ages of Emperor Shen, governor of Kaifeng received an anonymous letter accused that Xue Liulang in Tianshui lane was intended to rebel. After investigation, it turned out to be his nephew who "failed to borrow money from Xue and left angrily and swearing" bore resentment against Xue.

The Limitation of Government Intervention in Private Lending Repayment

Considering the relatively developed financial market in Song Dynasty, the private money supply and social stability as well as productivity might be impaired if the huge debt repayment was perform inadequately. Hence, Song government tried to play a contributive role in the execution of private lending. However, there was obvious limitation of administrative intervention from both aspects of government and populace.

Firstly, government did not have adequate judicial resource. Local government is unwilling to intervene for the high cost of litigation. Guided by the Confucianism with good-human-nature theory, the government-people ratio kept a low level throughout history. The shortage of employees limited government's role. Time-consuming trial periods also casted an enormous financial pressure on local government. Besides, there are prioritized tasks like tax revenue and relief which competed for the limited human resources of government.

Secondly, the concerns of a complex-litigating procedure prevent creditor from legal action. The cost might outweigh the debt considering that it was difficult and exorbitant for an informal private debt to prove itself. The long circle of lawsuit also meant a high time cost for creditor.

In addition to this, the deterrence of government might force those who could not afford the debt to dodge away for a long time and dared not go back home even they earned some money, "only be able to send a fiddling sum of money to wife and mother." The phenomenon of mass flight of debtor put the judgment into an awkward situation which also harms the interests of creditor.

Due to the limitation of judicial action, it was not common for private lending disputes to appeal to the government, and the proportion was no more than 30%. Gao Nan points out in Research on the Private Property Disputes and Law Suits that in Song Dynasty "people held limited support to judicial system of the day." Under this circumstance, creditors tend to maintain its interests through long-formed and universally acknowledged methods.

First is to raise the psychological cost of those who default debt or break lending rules through public opinion. For instance, Xiucai[1] Xie in Yulin County "did business in rural area, always lent with inadequate weights and collected debt in overweight measurement" without fail. However, Xie was struck by lightning in end. And people thought Xie made money transgress morality and was punished by the god. "People who violated the moral standard and ignored the public order and good custom would be resented by ghosts and gods. But many still didn't want to abandon and would like to die of it."

Second is to collect the defaulted debt by creditors themselves. For example, in Chuanxi ages of Emperor Xiao, Chen Fang from Poyang went to Duchang fishery to collect debt from fisherman with his fellow townsman Zhu Sheng. The pressure on repayment is more intensified in famine years. "Those creditors collected debt more urgently compared with bumper year." Some action was improperly taken in the process of collection and cost life. For example, there was civilian in Fuzhou who was pressed by debt and came close to committing suicide. The whole family of a creditor in Xiangzhou was killed due to abuse on debtor. In Shangxing ages, debtors in Huaixi even "killed their own children and framed creditor up because they could not afford the repayment." On the other hand, powerful families also tended to seek informal and even illegal way to collect debt. Chen Zhi a member from powerful family in Qinglong "collected high interests from huge private lending." Whenever debtor was not able to repay the loan, his hatchet man would swarm out and "run after the debtor and handed over to the government." The local evil forces in some place even resorted to force and blackmailed debtor by "lending them money and things and reclaiming for repayment even it was full refund."

To sum up, in view of the high cost of law enforcement, private creditor tended to maintain their interests through credit reluctance, public opinion condemnation, and informal way of debt colleting, which reflects the combination of government forced innovation and private-induced innovation. This innovation helped the private lending in Song Dynasty move forward effectively and promoted the development of commodity economy.

A Discussion on Overall Performance of Private Lending Contract in Song Dynasty

In Song Dynasty, debt repayment was not only an economic behavior, but also a moral conduct. Wang Wenshu points out in Research on Lending in Song Dynasty that "debts should be paid became the consensus of most Song people, people who default debt on purpose was condemned by public opinion, and was perpetually criticized on literatures and operas." Relative historical materials, whether remaining literatures or court verdict used by government to improve their administrative ability, or minutes by scholars to express their own emotion and educate the populace are very limited. And the remaining material, if any, was mostly recorded in developed areas such as Jiangsu, Zhejiang, Anhui, Jiangxi, and Fujian. As to less developed areas such as northwest, southwest, and north China, due to little convincing record, strict empirical statistics is unrealistic. Many economic historians point out that in ancient China, only after middle of Ming Dynasty, the preserved materials became abundant as a result of cultural prosperity derived from economic development; hence, a clean quantitative analysis was possible. Based on that, we can only make a rough estimation on the performance of private lending contract according to our common knowledge of commodity economy in Song Dynasty.

We suggest that in a commodity economy with low transaction cost and high moral restraint within which people abide by credit, the performance rate of private lending contract should be more than 70%.

The key of a well-performed lending contract lies in debtor willingness of repayment both on time and on quantity guaranteed. Based on this, the settlement of lending disputes has two essential factors: repaying ability and repaying willingness. According to cases in Song Dynasty, in most cases, debtors had the willingness but lack of ability, which contributed to almost 90% of the disputes. In agricultural society, once struck by drought and flood and had poor harvest, farmers lost their main source of income, hence could not repay on time. Even in this condition, they knew defaulting debt is undesirable and had to flee away. "The source of migration was poverty, and migrators either escaped from private lending or tax," "Debtors fled away because of poverty or disease, and the lending contract was actually meaningless."

However, the agricultural disasters happened regularly. As early as the Spring and Autumn Period and Warring States Period, people had concluded that agricultural production has a harvest every 6 years and a drought every 6 years, and a great famine every 12 years. "When time is in the year of

Jin, the agriculture has big harvest; in the year of Shui, has big famine…harvest and drought every 6 years, and great famine every 12 years." This natural law indicates that although the destruction of product condition constituted the main source of private lending disputes, in most cases, farmers had the repaying ability, and most regular private lending contract can be performed.

The other situation is debtor had the repaying ability but lacked of willingness, which made up around 10% of all private lending disputes and could be divided into two-specific situations. One is the debtor was intended to repay but was later lured by external environment and defaulted the debt. In Shaoxing age of Emperor Gao, Gao was going to accede his position in another place and "borrowed fifty thousand (from Li Qi) for luggage, and promised to double the repayment at the end of his appointment." However, after expiration of appointment, Gao changed his idea. "Since (Li) is so far away and may not claim for repayment, it is possible to wait for waiter until later." The distance became an excuse for default. The other one is never thought of repayment from the beginning. For example, "Buddhist doctor Shi Yi in Jianyang is fond of borrowing. Once Shi borrowed ten thousand from county officer Liu He and defaulted several times." Liu was so angry but had nowhere else to go, thus could only put down malicious words "this is debt for your next life," and did not even mention a word about the debt since then. Nevertheless, considering that culture and morality still had strong restraint to people's behavior, such a kind of malicious default should be strongly intervened by both government and society, and was not likely to be the major part of private lending disputes.

Violating Laws by Officials in Lending Risk Control

Despite the laws and regulations in many sections of lending, the lending in Song still confronted issues as borrowing the public objects without permission, collecting repeated interest, and malpractice in Young Crops Law implementation by the officials.

The explicit ban did not eliminate repeated interest collection, getting worse in Southern Song Dynasty, just as the document in the historical materials by people of that time:

> Without repayment, the interest was taken as capital to collect more interest. The original thousand would double before long and the hundred become thousand. Thus, the one-year loan cannot be repaid in many years, even in generations.[32]

> The landowners often lent money generously to the silly sons of family with property when it is in need, either entertaining him with food and beverage before lending or after lending for years with accumulated interest to make him agree on shifting the interest to capital for more interest.[33]

It is evident that illegal interest had been existing in spite of the legal regulations, and another issue concerning risk control happened in implementing Young Crops Law. The Young Crops Law by Wang Anshi offered lower interest rate than private usury, while the implementation faced unexpected difficulties owing to the obvious flaw in the policy (the main reason) and the officials' malpractice.

The malpractice by the officials in carrying out Young Crops Law was recorded in Indictment on Denying Young Crops Money of *Collection of Su Shi*:

> The officials usually entertained with food and beverage every time they gave out the Young Crops money, and then, the peasants got nothing back. Every time the money was given out, the wine industry got the best business.[34]

Wang Wenshu deems the malpractice of officials raised the trading cost and the burden of people, making Young Crops Law a kind of government usury since the practical interest rate was higher than what it should be. Obviously, the officials added more burden to the people that "harm the people endlessly,"[35] while the people did not dare to resist the illegal interest collection.[36] In 1128, Emperor Gaozong of Song commanded, "Never implement Young Crops Law."

For the reason why it happened, from the perspective of economics, the violation or malpractice was stimulated by considerable interest and its way more than the loss of the risk in violation. In light of the economic theory of hypothesis of rational man, the officials, stimulated by the interest, took the risk of punishment for violation to borrow the public items without permission, collect illegal interest, and exploit the people through carrying out Young Crops Law. The complex relationship in the official circles and mutual protection worsened the situation. The misbehavior in lending cannot be eliminated. In *On Lending in Song Dynasty*, Wang Wenshu pointed that the largest problem in public lending is the officials' malpractice since the personal target of the officials differs from that of the government. The officials pursued maximum personal interest, hence behaviors against the legislation.[37]

The most fatal drawback in the Young Crops Law was the lack in rights of free choice. Many people criticized the implementation of the Young Crops Law for its actual rate was much higher than the official rates of 20%, some extreme situation could even reach to 35 times of the original sets, and was much higher than usuries. However, if the only flaw was the high interests, farmers could vote with their feet, namely did not choose to borrow from the government. An extra means of loan is by no means a bad thing. But in reality, local officials would force farmers to take their apportions of loan. The promise of free choice was never guaranteed in most cases. To make things worse, in order to recover the Young Crops Loan, households were bound together in five, they discussed the amount of money they would borrow, and were the guarantor of each other. Local officials utilized this requirement. They forced rich families to guarantee loans to poor families and distributed loan quotas to families from levels. When recovering the loans, rich families were responsible for those insolvent loans of poor ones, and people from different hierarchies were bothered. The local governments were merciless even in the conditions of personal ruins and families break down.

The author deems the backward ancient technology led to high cost in supervision since it is difficult for the government to get information of the officials' violation; the backward social productivity limited the government in implementation since the limited taxes could not afford the government to deter and eliminate the criminals including the officials forcefully. Thus, the regulations implementation was hindered that only self and mutual discipline by the information disclosure of moral ethics could lower the trading cost. However, the productivity development and accumulated wealth increased people's temptation of material benefit that the moral constraint showed the law of diminishing returns, while the backward technology and productivity in reality impeded carrying out laws and regulations. Explicitly, to solve such issues, we can only rely on scientific technology development that the improved financial system and information communication promote the government management and also on social productivity that the taxation revenue and management of the government could be strengthened. If the issue of ancient China lies in insufficient hard constraint with enough soft one, the issue today lies in insufficient soft constraint. Nevertheless, with increasing attention to the traditional culture, the disproportion between soft and hard constraints in management has been shifted.

Conclusion

Lending in Song Dynasty was promoted by the social economic development. The lending relationship development propelled diversity and complexity of the parties' identities so that the agency was getting more professional with more different business. It is necessary to control risk in every section of lending to maximize its advantage and diminish the individual loss and social influence by bad lending. That is why Song government issued plenty of laws and regulations to restrain the lending parties, the middlemen and agencies, the interest and valid time, and the subject and measures to tackle the debt disputes among others.

However, there were many limitations in risk control policies. The strict regulation from the government might impair the availability of loanable fund. Both lacking of adequate judicial resource from government and populace's concerns of a complex litigating procedure prevent creditor from legal action, government's contributive role in the execution of private lending was weakened.

Despite the strict regulations in lending sections, there were still bad phenomena in lending of Song Dynasty, such as illegal interest collection and borrowing the public objects without permission by the officials. So the hard constraint of legal system shall be reinforced besides the moral constraint. But it was the backward technology and productivity that caused high supervision cost and ineffective implementation; thus, only profound laws and regulations would not work. The issues above could be solved only by advanced scientific technology and modern improved social productivity: the improved financial system and information communication would make it easier for the government to find information of the officials with misbehavior; the increased taxation would help put the punishment into practice so that the regulations can be carried out effectively.

In Song Dynasty, debt repayment was not only an economic behavior, but also a moral conduct. In a commodity economy with low transaction cost and high moral restraint within which people abide by credit, malicious default should be strongly intervened by both government and society and was not likely to be the major part of private lending disputes. While the issues today in China are the soft constraint of religious culture way less than the hard constraint of laws and regulations, the reviving traditional culture enables the religious culture constraint to embrace increasing marginal revenue, which has transformed the imbalance between the soft and hard constraints of management and laid a solid foundation for national prosperity.

Notes

1. Hong Mai, Rongzhai Notes (V), volume 6 of Lending; Yong Heng, Odd Story Collection, volume 5.
2. Qi Xia, Economic History of Song Dynasty, P1117.
3. Jiang Xidong, Analysis of Commercial Credit in Song Dynasty. The original sentence is "It's normal for the Song government to borrow grains form the people."
4. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984.
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9. Yang Huiqing, Contract Agency Legal Regulations in Song Dynasty[J]. Hebei University Journal (Philosophy and social sciences), 2010.
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11. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984:412.
12. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984:903.
13. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984:413
14. Financial economy, Selection of Laws and Regulations of Song Dynasty[M]. Beijing: Zhonghua Book Company, 1987: 5460.
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16. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984:413.
17. Financial economy, Selection of Laws and Regulations of Song Dynasty[M]. Beijing: Zhonghua Book Company, 1987: 6272.
18. Lending compensation, Laws and Regulations of Southern Song Dynasty in 1195–1200[M]. Harbin: Heilongjiang Publishing Group, 2002:903.
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21. Financial economy, Selection of Laws and Regulations of Song Dynasty[M]. Beijing: Zhonghua Book Company, 1987:4813.

22. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984:413.
23. Lending compensation, Laws and Regulations of Southern Song Dynasty in 1195–1200[M]. Harbin: Heilongjiang Publishing Group, 2002:902.
24. Using the entrusted materials without permission, Mixed Criminal Acts of Statute Book of Song Dynasty [M]. Zhonghua Book Company, 1984:412.
25. Wang Wenshu, On Lending in Song Dynasty[D]. Hebei University, 2011: 59–60.
26. Imperial Edicts of Song Dynasty, volume 185. Zhonghua Book Company, 1962:674.
27. Financial economy, Selection of Laws and Regulations of Song Dynasty, 15 of 58.
28. Auspicious things, Selection of Laws and Regulations of Song Dynasty, 8 of 3.
29. Financial economy, Selection of Laws and Regulations of Song Dynasty, 179 of 70.
30. Other nationalities, Selection of Laws and Regulations of Song Dynasty, 46 of 5.
31. Wang Wenshu, On Lending in Song Dynasty[D]. Hebei University, Baoding, 2011:60.
32. Family Precepts of Yuan Cai, Repeated interest collection[M].
33. Illustration of the Great Learning by Qiu Jun, the practical relationship in the village[M].
34. Collection of Su Shi, volume 53, Indictment on Denying Young Crops Money, P784.
35. Collection of Wei Jing (Southern Song Dynasty), volume 12, Indictment on exempting the illegal interest.
36. Wang Wenshu, On Lending in Song Dynasty[D]. Hebei University, 2011:203.
37. Wang Wenshu, On Lending in Song Dynasty[D]. Hebei University, 2011:203.
38. Xiucai is a low rank of scholar in Keju System, who passed the imperial examination at county level.

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