

Credit Generation without (External) Contract Enforcement: Property Redemption Right in Traditional China, 1592 - 1950

Yunyufei Luo

D.Phil. Candidate

Faculty of History, University of Oxford

yunyufei.luo@history.ox.ac.uk

1. Questions

How did people obtain and issue credit without external contract enforcement in Late Imperial and Republican China?

What role did social organisations (e.g. kinship groups) play in this market?

2. Context and Source

A focused case study of 15 villages in Yongtai County, Fujian in southeastern China

Source: Private contracts and account books dating from 1592 to 1950 (Zheng et al, 2022)



(Source: Zheng 2020)

Villagers have been preserving these documents in their households for 5 centuries!



Why here?

- Characteristic of southern China: late developer, mountainous, but still highly commercialised and market-oriented
- Extraordinarily comprehensive and systematic survival of sources with the original archival eco-system intact, making record-linking easier

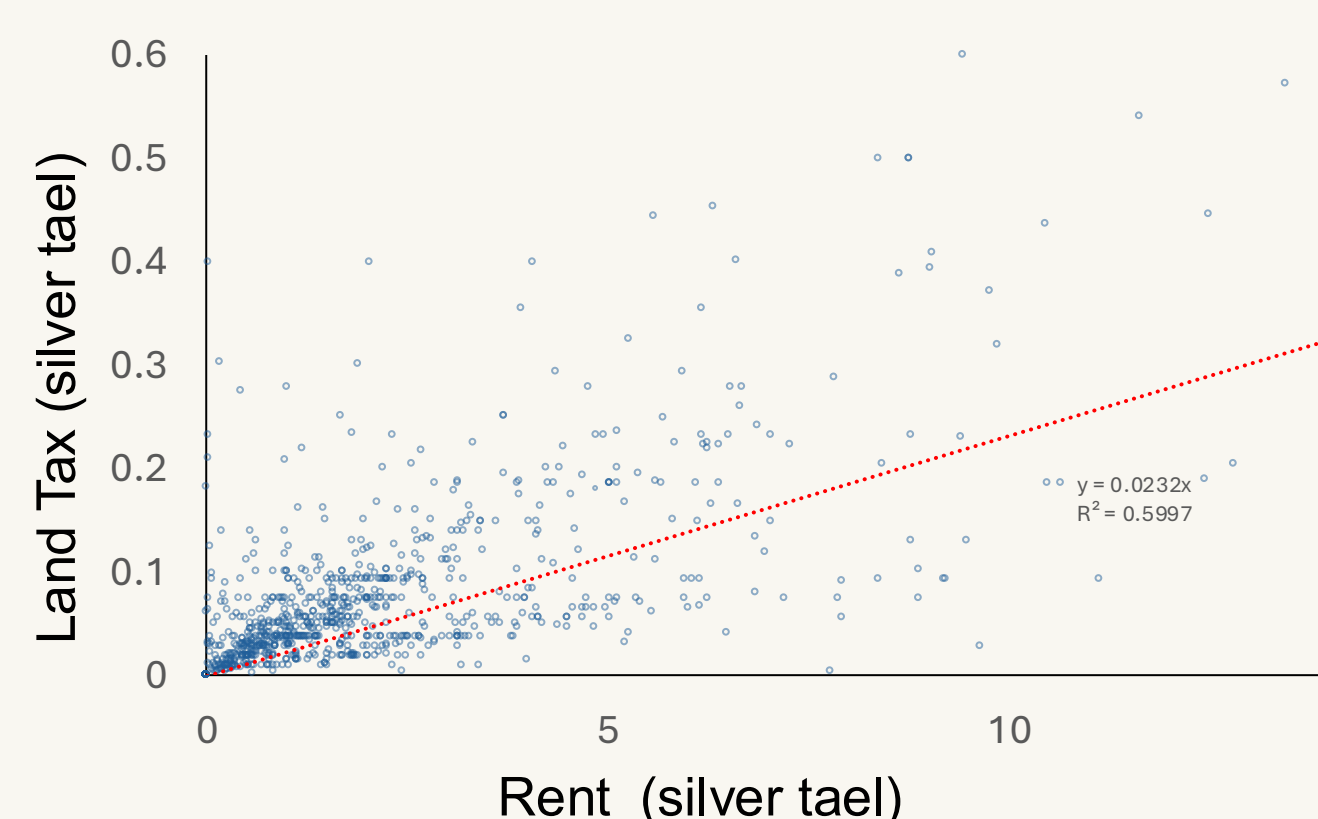
3. What was wrong with contract enforcement institutions?

Formal legal jurisdiction reserved to the county magistrate, who were

- oversubscribed and inaccessible: served a population of ~150k (Cao, 2001);
- focused far more on criminal than civil cases.

Dispute resolution primarily conducted by *influential local figures, neighbours and kin*:

- lack of impartiality and formal procedures;
- overemphasis on compromise and compassion from both sides.

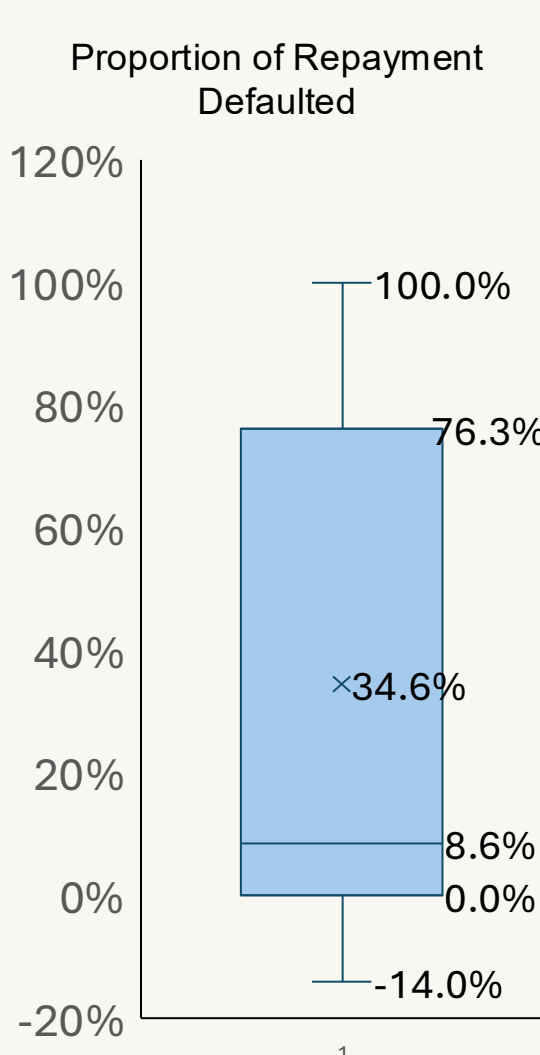
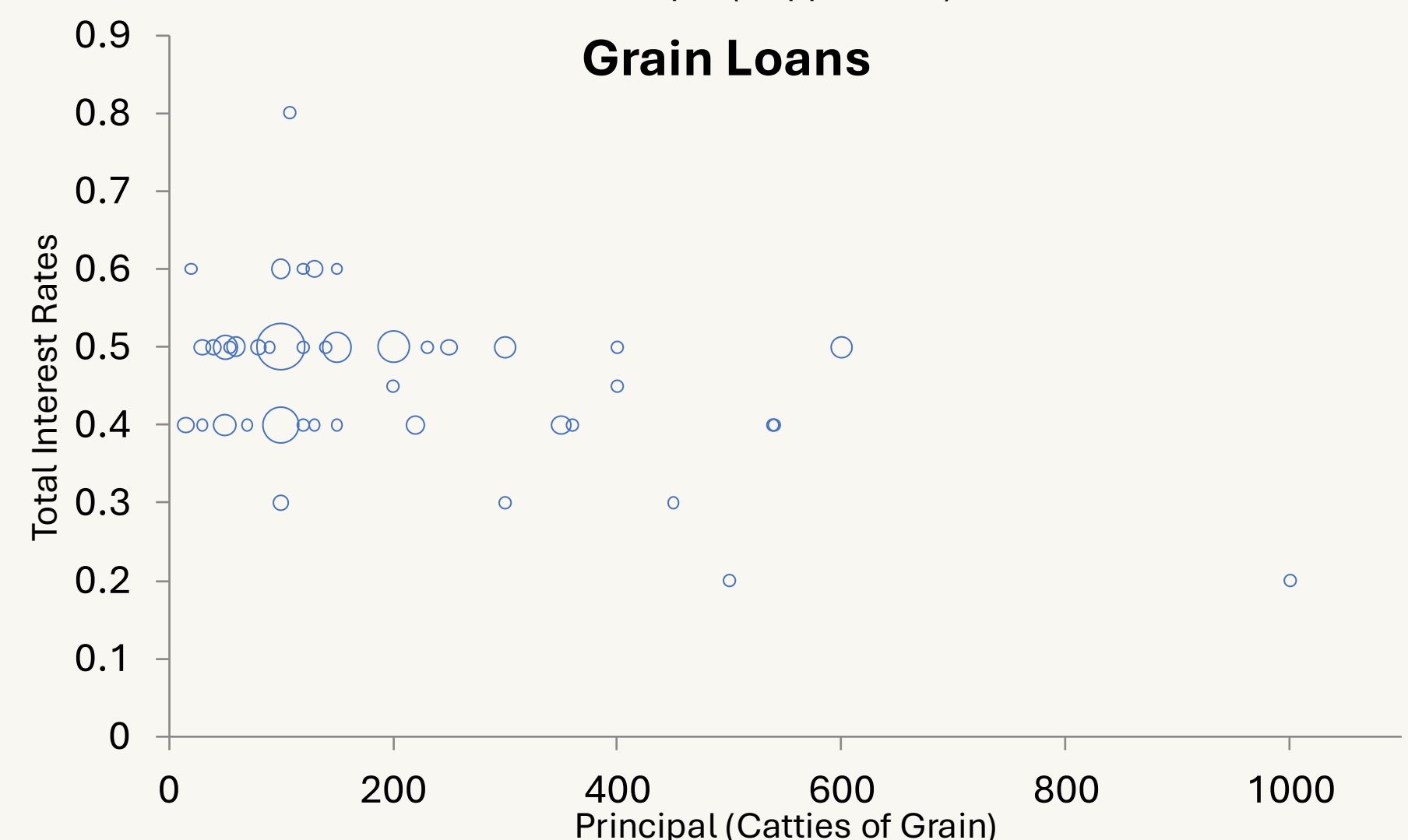
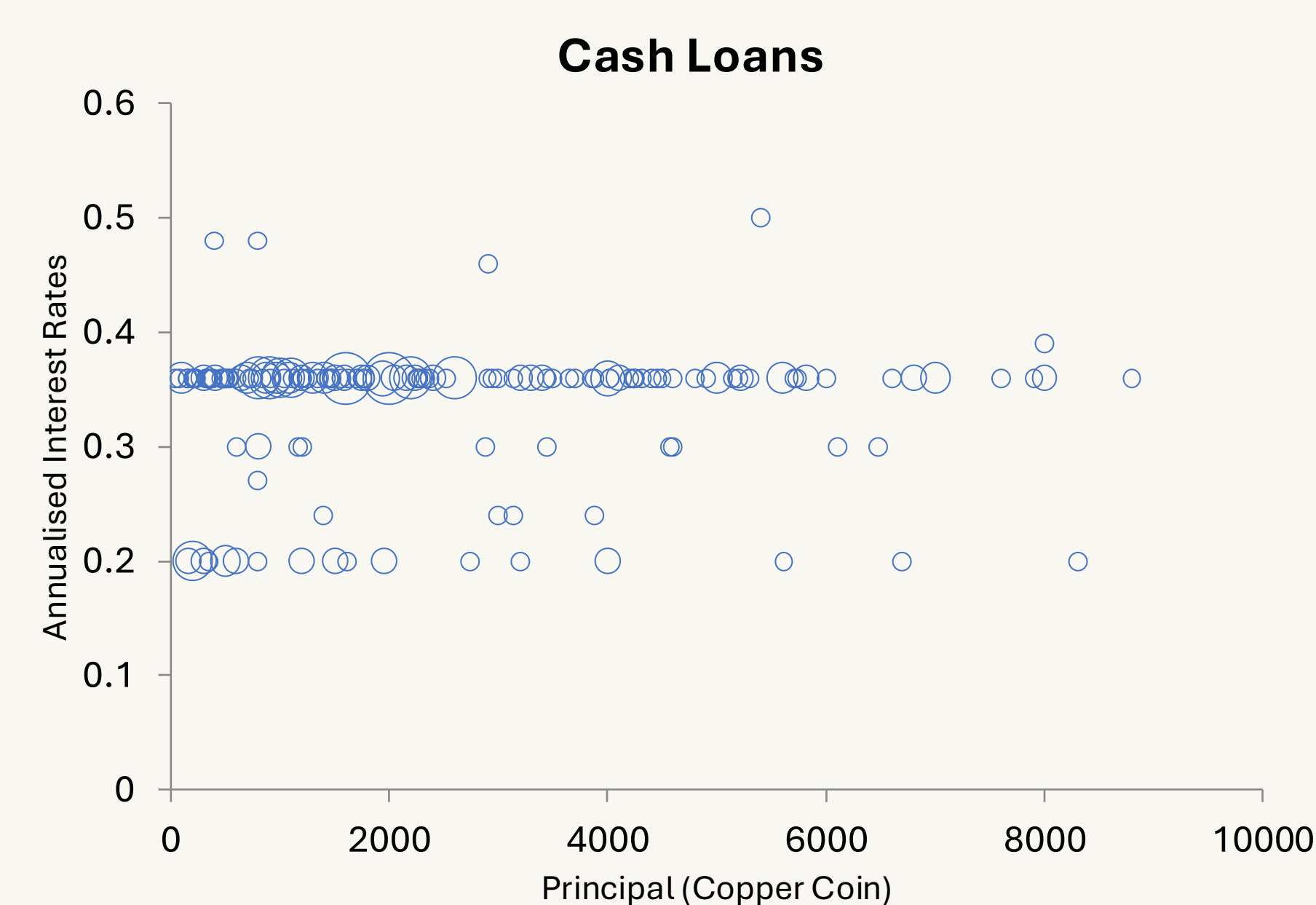


Extremely low state capacity: land taxes equalled only 2.32% of rents on average for farm plots in my database.

4. How did the conventional credit market (not) work?

Without impartial third-party contract enforcement, the market for straight and collateralised loans became handicapped:

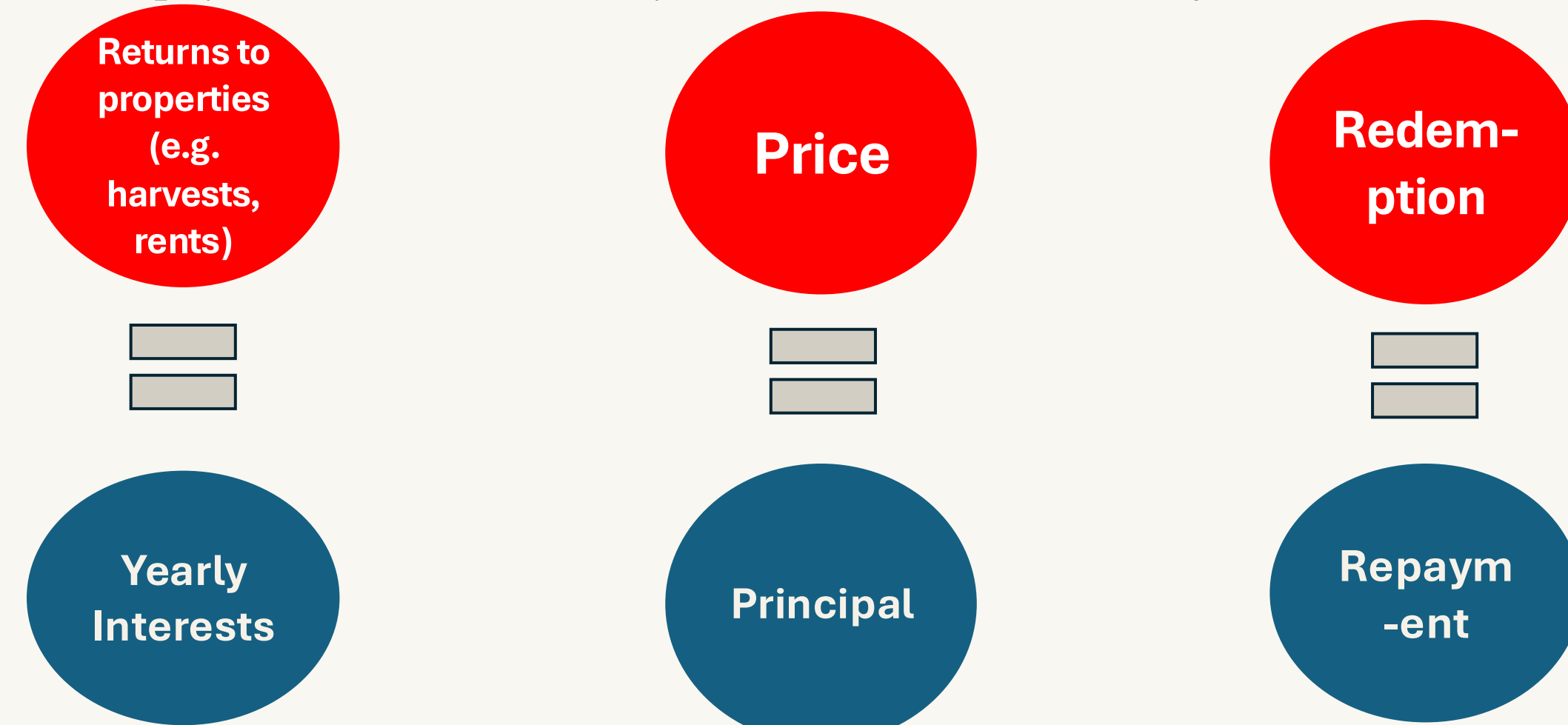
- Regulated interests: customs stipulated 36% p.a. for cash and 40%/50% in total for grain (with certain minor exceptions)--interest rates couldn't be used to price risk!
- Short duration: most loans were due within a year.
- Small capital raised: average about 4000 copper coins, less than the yearly wage of an unskilled labourer.



Actual repayment processes in account books (N=135): While a median borrower honoured most of his debt (only 8.6% unpaid), severe faults lowered expected returns by 34.6%: i.e. the creditor just about recouped the principal!

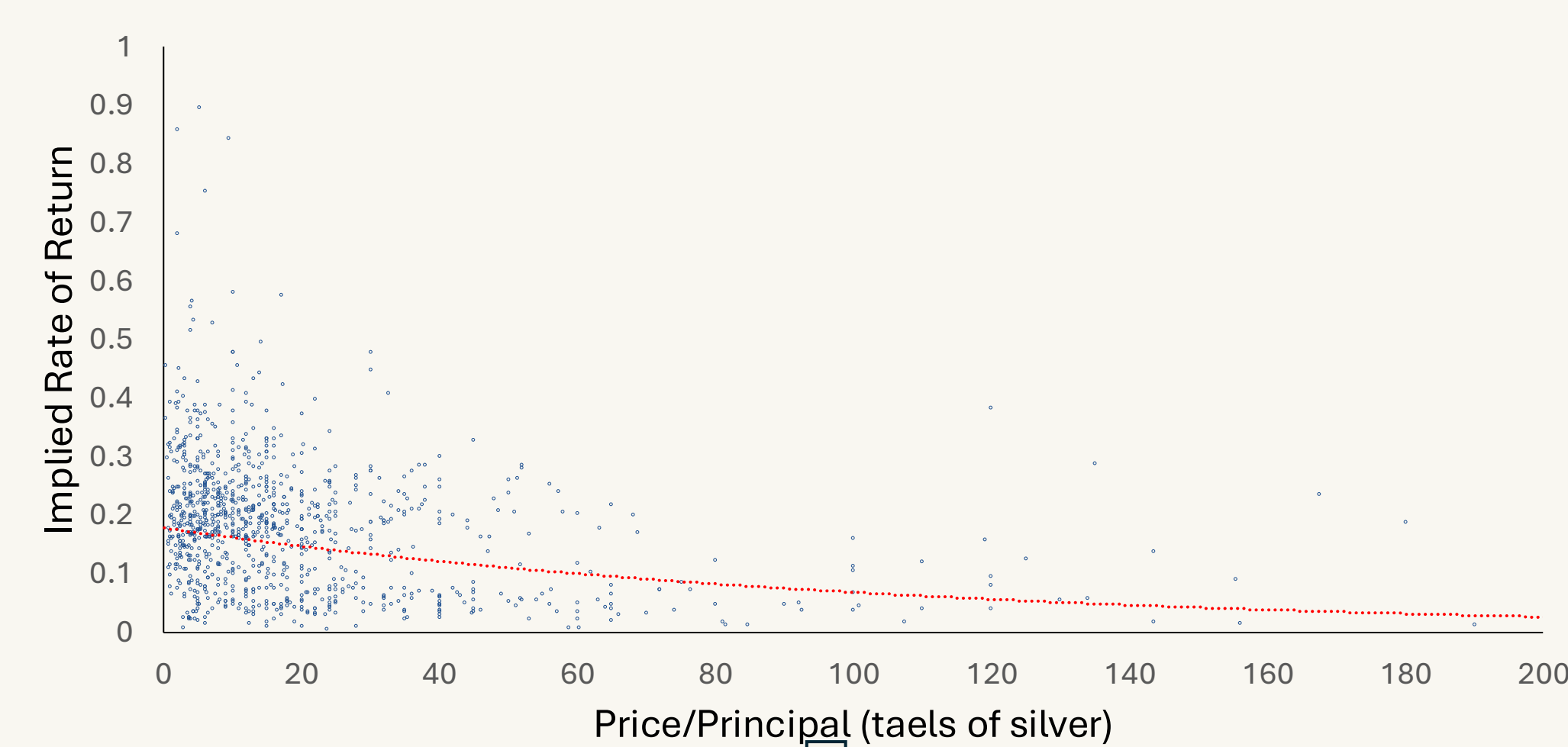
5. How did redemption right solve this problem?

- Redemption rights were a peculiarly prevalent feature of the land (and other immovable properties) market in this period. In what is known as *conditional sales*, sellers could stipulate a buy-back clause at the original price in their contracts.
- They can essentially be viewed as *self-enforcing credit contracts*: As cash and property both changed hands at the point of transaction, it (almost) solves the time-inconsistent commitment problem inherent in interest payment! Therefore, they were used as *substitutes for conventional credit*.



I choose two scenarios to calculate the implied rate of returns (=rent/price) *

- Agent A sells the rent-collecting right on a plot to agent B with a redemption clause;
- Agent A sells the rent-collecting right on a plot they self-cultivates to agent B with a redemption clause, and leases the plot back.



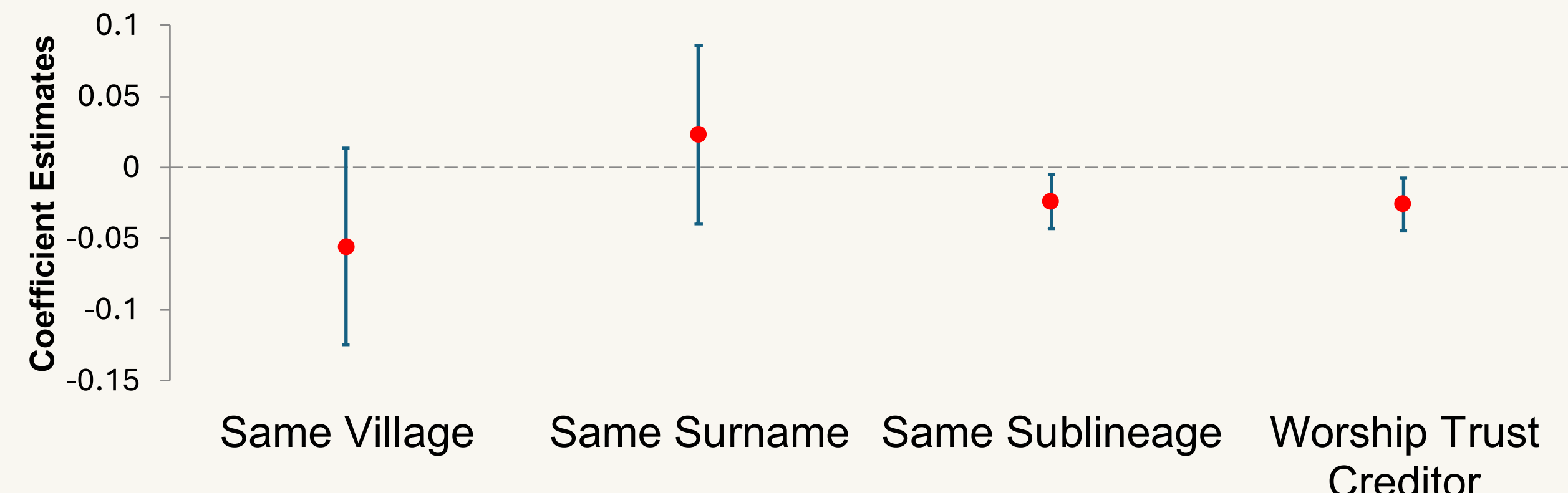
Inverse and convex relationship between with principal and rate of returns, as you would expect from a normal credit relationship!

Average rate of return (1592-1937) = 18.67% (N=1013)

6. How did people price these 'loans'?

Now I estimate if and how social relationships mattered between the buyer-creditor and seller-borrower using a two-way fixed effect model (SE clustered at the village level):

$$RateOfReturn_{it} = \beta_1 Price_{it} + \beta_2 Price^2_{it} + \beta_3 SameVillage_{it} + \beta_4 SameSurname_{it} + \beta_5 SameSublineage_{it} + \beta_6 WorshipTrust_{it} + \Sigma Controls_{it} + TimeFixedEffects + VillageFixedEffects + \alpha_i + u_{it}$$



- Contrary to what has been suggested (Mokyr et al 2025), kinship ties (same surname) did not automatically guarantee trust and correlate with lower interest rates, but geographic proximity by living in the same village did to a very large extent (5.56 p.p. / 0.43SD).
- That being said, membership in the same sub-lineage branch (closer biological ties AND/OR more economic cooperation) did matter in obtaining cheaper credit in conditional sales, although the coefficient is smaller than living in the same village.
- Worship trusts (e.g. ancestral halls) offered lower interest rates, but further analysis shows this was not due to capital-pooling, as they discriminated between kin and non-kin.

7. Conclusions and References

Property transactions with redemption rights served as substitutes for conventional credit in the absence of external contract enforcement.

Ordinary kinship ties were less effective than neighbours in establishing trust and reducing risk in market transactions.

Even using property rent/price, traditional China had much higher cost of capital (18.67%) than Colonial India (<5% post-1870, Nagar unpublished) or 19th C. England (~3%, Clark 1998), although direct comparison is subject to some nuances

References

- Cao Shuji, *Zhong guo ren kou shi* [A Population History of China], vol.5. Shanghai: Fudan daxue chubanshe, 2001.
 Chinese Academy of Social Sciences, *Qing dai Daoguang zhi Xuantong jian liang jia biao*, [Qing Grain Price Sheet from Daoguang to Xuantong]. Guilin: Guangxi shifan daxue chubanshe, 2009.
 Clark, Gregory, *Land Hunger: Land as a Commodity and as a Status Good, England, 1500-1910*, *Explorations in economic history*, 35(1), 59-82, 1998.
 Nagar, Alex, *Was Capital Expensive in the Colonial Countryside? The View from Uttar Pradesh*, unpublished.
 Mokyr, Joel, Avner Greif, and Guido Tabellini. *Two Paths to Prosperity: Culture and Institutions in Europe and China, 1000-2000*. Princeton: Princeton University Press, 2025.
 Zheng, Zhenman (ed.), *Fujian Minjian Qiyue Wenshu* [Private Contracts and Documents in Fujian]. 50 vols. Fujian: Fujian renmin chubanshe, 2022.
 Zheng, Zhenman (ed.), *Zhuangzhai Mima: Yongtai wenshu yu shanqu kaifashi yanjiu* [Yongtai documents and history of mountain areas]. Fujian: Fujian renmin chubanshe, 2020.

*Observations after 1938 excluded due to hyperinflation in the Sino-Japanese War; grain-to-cash conversion using Fuzhou trend from CSSA 2009