

Nothing Is New

BY MICHAEL SZONYI

For the past five years, together with colleagues from Xiamen University in China, my graduate student Lang Chao and I have been investigating a trove of over fifty thousand documents, dating back to the fifteenth century, that we have collected from impoverished villages in the mountains of China's Fujian Province. We've learned that ordinary Chinese peasants centuries ago were able to make use of a wide variety of sophisticated financial techniques that most people think of as unique to our modern society. Centuries before Cargill, they used deeds and contracts to securitize their assets in every imaginable form, including even human waste, into marketable securities.

Around 1788, for example, a man called Wu Luren from the village of Jitou died, leaving behind his young son Xianhai. Xianhai, or more likely his mother—though she is not mentioned in the deeds—was in a bad way, and decided to raise funds by selling the assets that his father had bequeathed to him. One of those assets was a privy, a latrine. It had economic value both for the land on which it was located and because the nightsoil, the excrement that had accumulated in the privy, could be used for fertilizer. So Xianhai sold ownership rights to the privy to a relative by marriage, Cai Kaihua, for 2,600 copper coins—enough to feed a small family for a

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few months. The agreement he signed specifies that the property had not previously been mortgaged or used as collateral for a loan, and that he renounced the right to redeem the property on repayment of the sale price. This suggests that whatever Xianhai agreed to in this specific case, mortgages, collateralized loans, and conditional sales based on unusual assets were familiar peasant techniques.

A century later, in the nearby village of Zhufeng, Lin Guangxian needed to borrow money. According to the loan agreement that survives, he borrowed two thousand copper coins from his uncle at 3 percent interest per month. Uncle Lin was no pushover; he was not interested in taking risks for the sake of kinship ties. Guangxian needed to provide collateral. As it happened, the people of Zhufeng raised ginkgo trees, the nuts from which had medicinal properties. (They may also have extracted cyanide from the nuts for use in small-scale silver mining). Because ginkgo trees live for such a long time, the usual inheritance practice was for a father to divide his share of ownership in each tree equally among his sons. This gave



One of the ginkgo trees sold by Lin Guangxian. We can trace the ownership of this tree back to 1690.

Guangxian the collateral he needed. From his various ancestors he had inherited a complex skein of shares in various trees. He put up his one-sixth share ownership of two trees, plus his one-twelfth share in four others, plus his one-fifth share of a seventh tree, to guarantee the loan, thereby securitizing a stream of future ginkgo nuts.

We don't know if Wu Xianhai ever made it out of penury. We don't know what became of Lin Guangxian. But the documents they have left behind do tell us an important lesson about the sophistication and financial acumen of ordinary, probably illiterate or semi-literate villagers in rural China in past centuries. Their complex financial arrangements, in particular their capacity to securitize a surprising range of assets, became a tradition that was passed on to their descendants.

This may be part of the answer to one of the great mysteries of China's modern economic takeoff. The rural sector was crucial to the explosion of economic growth that began under Deng Xiaoping—a great release of entrepreneurial energy that occurred in the absence of the secure property rights that economists believe to be essential to economic growth. Half a millennium ago, Chinese peasants learned to squeeze economic value out of everything from a latrine to ginkgo nuts. When their suppressed energies were released by policy changes in the 1980s, the sophisticated micro-techniques they had learned from their ancestors helped to fund growth out of what appeared to outsiders to be almost nothing of value. ♦

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