

What means *Chŏnmun*(錢文) in “pre-modern” times of Korea

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The long duration of monetary history from the Chinese side clearly told us about the transition from bronze coin: Khitan/Liao (916-1115), Jurchen/Jin (1115-1225) and Song (960-1279), to paper money: Yuan (1279-1368) and Ming (1368-1644). There is a story of black hole in Chinese monetary history, but this is quite different from the data on the Korean side. Here, the long term trends provide us with a different story: Basically, a bronze coin(銅錢) was kept as long as the precious metal currencies in the Koryŏ (918-1392) and in the Chosŏn dynasty (1392-1910).

Fundamental to fiat currencies is the credit for human word (信) in the minds of buyers and sellers that they have value. Chosŏn dynasty is based on Confucian belief system can dictate the state value of a currency to a large extent but must make sure the integrity of their currency is maintained by avoiding circulating counterfeiting writing (偽造公文書). If the currency is based on writing like paper money, they must maintain that true content to avoid “counterfeiting” the currency. For five hundred years the success of Chosŏn dynasty (1392-1910) have depended on their consistency of writing system.

The meaning of *Mun*(文) in Korea has the historical origin of writing-driven issued to market and business from the *private* investors. This paper summarize monetary history in pre-modern Korea including the points relevant to contemporary issue at hand, which is creating a currency based on creative thinking. The new idea on the paper will be the final step in the path originated by the cowrie(貝) and continued to rice, cotton, silk, ramie, and beautiful metal(美金: 銅copper, 銀silver, 金gold) symbolized peaceful and rich time instead of bad metal(惡金) indicated to war and man's power.

The term of *Mun*(文) was one of the chief units of currency and always appeared in Kaesŏng merchants' accounting records as a unit of account, the meaning is not tangible value, zero intrinsic value, just recorded value on the paper, the real meaning is 'writing' on the paper in pre-modern Korea. *Mun*(文) was the chief denomination until the introduction of the won(圓) in the early twentieth. *Chŏn*(錢) was not only used to denominate bronze coins, but also used to denominate precious metal weights based on the *tael* system(*nyang, chŏn, pun*: 兩, 錢分) in pre-modern Korea. The Korean Text of the Great Ming Code Directly Explicated *Da Ming Lü Jikhae*(大明律直解) is one of the most important

source for East Asian legal history. The Code provided the accounting system with Early Korean monetary system did related to sharing the Western view from Greek that money originated from Aristotle's deduction and Plato's imagination of money. Classical Korean monetary system has two origins, one is autonomy to the market, other one is the spreading use of money stemmed from the priorities of finances for central government. Bronze coin still had powerful primacy as a monetary standard, but from thirteenth century, bronze coin no longer corresponded to needs of actual coin.

This paper addresses a characteristic feature of the Korean accounting transition from Koryŏ to Chosŏn that differed significantly from the Chinese case. The hybrid term *chŏnmun*(錢文) became the 'ideal' form which led to state-minted coins inscribed the name of state(朝鮮). The inscription of state name Chosŏn was able to provide legitimacy, harmonisation and efficiency to the weighing and standard functions which had gained an indispensable role in the neutrality of monetary authority.

The great puzzle for the monetary history of China is that its main empires, Song (960-1270), Ming (1368-1644), and Qing (1644-1911), never adopted the silver coinage system, even though they were well aware of the value of overseas trade and the silver circulating all around the world and despite the fact that these empires were highly dependent on the profit of that trade to help finance their protection against the deep-seated threats from the northern areas. This puzzle, when amplified, is also called "the black hole three centuries transition", meaning the meaningless transition between the Song, Ming, and Qing linked neither to the dynamic of the preceding Song transformation nor to the subsequent developments of the Ming dynasty¹.

Another puzzle for the history of globalization from the mid-16th century is that the rise of East Asian markets disintegrated into the rise of Western European capitalism up until the mid-20th century, with the notable exception of Japan. The monetization of late *Chosŏn* Korea (1634-1910) and *Qing* China (1644-1911) failed to produce a capitalistic monetary system integrated with Western capitalism, despite the existing highly developed market economy in rural areas² and the great transformation of the monetization of silver which flowed into Korea and China from Japan and the New World.

¹ Richard Von Glahn, *The Song-Yuan-Ming Transition in Chinese History*, edited by Paul Jakov Smith and Richard von Gahn, Harvard University Press, 2003, p.35.

² Richard Von Glahn mentioned that the economic changes of post 16th century China recast from "sprouts of capitalism" to a market-driven model of development. See *Fountain of Fortune money and monetary policy in China, 1000-1700*, University of California Press. 1996. p.2. I also produced the same model for Korea. See "Korean Expansion and Decline from the Seventeenth to the Nineteenth Century: A view Suggested by Adam Smith"(with James B.Lewis), *Journal of Economic History*, March/2008 Vol 68 No 1 (pp.244-282)

Before the loss of the Chosŏn Dynasty's sovereignty in 1910, there existed many business customs in the form of unique customs, the most prominent of which were the traditions of the Kaesŏng merchants. The Korean indigenous double-entry bookkeeping method³, the *ch'ain* cooperatives which refer to independent moneylenders, clerks or merchants, as well as the short-term credit *si pyŏn* system were the representative traditions. These civilian businesses and financial traditions were compiled and published as civil laws in the early twentieth century Research Bureau of Old Korean Law Codes along with a supplementary publication by the Japanese Governor General in 1910.

This study will analyze the journalizing and posting process of Kaesŏng merchants' accounting records dealing with bills of exchange and promissory notes through modern accounting's double-entry bookkeeping and highlight the credit instruments used, not for individual consumption, but for the operation of ginseng cultivation and sales not in the agricultural and manufacturing fields, but in the financial business realm, a third-stage service industry, that existed in late Chosŏn. For this purpose, we will examine the business, finance, and consumption promissory notes and their journalizing and posting in the Kaesŏng merchants' records to shed light on the relationship of the recipient client and person paying.

We will also compare the standard interest and selling rates of promissory notes by analyzing their interest rates and payment dates and the commission rates and their percentages. Finally, we will present the development of the financial sector by comparing the interest rate with the standard commission rate of distributing bills of exchange and promissory notes. The very end of the study will compare this system with its European contemporary bills of exchange counterpart to detect similarities and differences with that of the Kaesŏng merchants' credit system.

Writing Based Currencies in pre-modern Korea: Mun(文)

There were few case of a useful currency having intrinsic value. Bronze coins have been used and most coinage in pre-modern Korea was made from base metals whose intrinsic value constituted most of their face value. But for much of their recorded history, the early modern Korea used writing and credits based on writing as the family of their complex banking and financial system.

The accurate writing based financial system of the Chosŏn dynasty (1392-1910) is the closest to a new idea based system in recorded history. Today, new idea has a number of advantages being more global in the creative economy, more easily transferable, measurable and with a wider range of scale. But accurate writing possessed most of the idea, certainly enough to make a financial system work for hundreds and perhaps thousands of years.

The coin and precious metal currency ambivalent Koreans had used accurate

3 This method was called *sagae songdo ch'ibu bŏb*

writing for thousands of years but the system was elevated into a full banking network under the Chosŏn dynasty (1392-1910) which blended the accurate writing.

Among the business traditions of the Chosŏn Dynasty, the first introduction of the bills of exchange (換 *hwan*) and promissory notes (於音 *ŏum*) was by Yu Cha-hu(柳子厚) presenting “Thoughts on Chosŏn Promissory Notes” (*Chosŏn Ŏum Ko*)⁴, he emphasized that the system of promissory notes was the element with the longest history in the monetary economic tradition of the *si pyŏn* system. After World War II, the *History of Chosŏn Business* by North Korea’s social scientist Hong Hŭi-yu, based on the Kaesŏng merchant accounting records, was the first study on transactions with bills of exchange and promissory notes. Covering international commerce with China and Japan after the seventeenth century, it introduced the bills of exchange and promissory notes used by the Kaesŏng merchants nationwide, asserting that capitalistic business practices were already in existence in eighteenth century Korea. In South Korea, historian Kang Man-kil argued about a theory of embryo capitalism in Chosŏn Dynasty, based on the business activities of the Kaesŏng merchants. Recently, Koh Tong-hwan has demonstrated the development of credit transactions in the late Chosŏn and Japanese colonial period using the survey reports from the Japanese Governor General. His main argument was that the bill of exchange and promissory notes were used for ginseng sales, as well as the issuing of collateral loans, a kind of banking activities before the establishment of modern banks, were executed by the six monopoly markets in Seoul⁵.

Although the preceding research made aware that the cutting edge technology of a credit economy, the last stage of a capitalistic society, already existed in the late Chosŏn reflected in the circulation of bills of exchange and promissory notes, the existing research depended on technological sources which limited it to a generalized introduction of the topic. Hence, a study on the accounting records written by the Kaesŏng merchants along with concrete research on bills of exchange and promissory notes must be conducted in order to enhance interest among modern people in the credit society in the Chosŏn Dynasty. This study will focus on business customs of bills of exchange and promissory notes to shed light on the wide-scale civil credit system in the late Chosŏn Dynasty by analyzing the journals as well as asset and liability ledgers (including capital account) of Kaesŏng merchant Pak Yŏng-jin.

This study analyzed the bills of exchange and promissory note transactions in Journal 1 (1887.08.15-1894.04.26), Journal 2 (1894.04.26-1898.09.15), Journal 3 (1898.09.15-1900.04.12), Asset Ledgers (1887.08.15-1900.04.12) and Liability Ledgers (1887.08.15-1900.09.15). The time period covered in both Pak’s journals and ledgers is from

4 Published in the *Morning Light (Chogkwang)* in 1940

5 The name of the six monopoly markets was *Yugŭjŏn*

1887.08.15 to 1900.04.12. In this period, the first entry dealing with bills of exchange and promissory notes is dated on the nineteenth day of the tenth month, 1887 and the last concerning entry is dated on the fifteenth of the sixth month, 1900 for a total of three hundred and eighty-two transactions. The journal entries are posted in the credit and liability ledgers, the first of which is written as a double entry of the prior journalized entry. Here we will examine the journalized and posted information on bills of exchange and promissory notes in the Kaesŏng merchants' double entry bookkeeping system.

I. Comparison of Sources and Social Acknowledgement of *Hwan* & *Ŏum*

We can observe the degree of social recognition of bills of exchange and promissory notes received in the Chosŏn Dynasty even in the anecdotal records of foreign travelers. We will focus on the social recognition of bills of exchange and promissory notes mentioned in the late Chosŏn intellectual Yi Yu-wŏn's (1814-1888) *Notes Under the Trees*⁶ and Yu Cha-hu's *Thoughts on Chosŏn Currency*⁷ as well as in the 1903 travel account of Polish Waclaw Sieroszewski who mentioned the widespread scale of bill of exchange and promissory note's circulation⁸.

Yu ranked the custom of *hwan* and *ŏum* as the most purified (淨化 *chŏnghwa*) one of the hundreds of years old credit systems in existence due to its simplicity, ranking it as the best of the credit systems in the history of monetary and credit economy. While investigating the linguistic origin of the term, he discovered that *ŏum* (於音) was written phonetically and it had two meanings, one referring to an oral face-to-face promise and the second one defined as *ŏhom* (漁驗) referring to the fish eyes⁹. Although he acknowledged that both had grounds for being the origin of the term, he considered the latter more important. He guessed that the former originated from the terms defining the act of correspondence in one of the Five Relationships in Confucianism¹⁰. Since *ŏum* meant letter, he supposed that it later came to be used to refer to the letters used in credit transactions. As evidence, he chose the term

6 林下筆記

7 朝鮮貨幣考

8 In his book '*Korea. Klucz Dalekiego Wschodu*' (*Korea. The key to the far East*), 1905

9 In East-Asian culture this refers to the Khitan fish tally, symbolically representing the trust between two parties as a parallel to the non-closing fish eyes.

10 'Faith should reign over the relation between friends' (朋友有信): *ösin* 音信, *hye'om* 惠音, *ok'om* 玉音, *hwa'om* 華音, *ŏan* 魚雁, *yi'ochonsin* 鯉魚傳信

hwangwanp'yo (換簡票). *Hwangwan* can be thought of as a letter of credit in today's international commerce, as it was not a single letter like the *ǒum* but a letter enclosed with a certificate. He believed that *hwangwan* was recognized as the origins of *hwan* and *ǒum* from the evidence in wooden coffins discovered in the Yellow Sea between 1976 and 1984 in ship wrecks from *Koryŏ* Dynasty.

ǒhom came from China's *Tong* "ǒbu" *Pae Yong* (銅魚符佩用) in the *SagiPuksa* (史記北史) and *P'ae Kŭm o* (佩金魚) and *P'ae Ŭn o* (佩銀魚) recorded in the *Koryŏsa* and *Koryo Tokyŏng*. *ǒhom* is linked to the word *ǒan* (魚雁) due to its meaning. In addition, there is another case where it might originate from the custom *ǒhomkan*, which was used when selling side dishes in Chosŏn markets. This was a custom where frequent customers would pay at the end of the month instead of the price of ten *chon* (錢)¹¹ per day. One tenth or one twentieth of these sales by regular customers, were entered as *chŏngchon* (情錢) or *kumon* (口文) and later paid as wages to a slave girl named T'ongch'ii (筒直伊). This woman's accounting ability and execution of credit sales was an example of human capital. She also organized the claim/obligation relationships according to today's promissory note system of drawer, drawee, and payee divided into four categories: 1) issuing promissory notes to messengers of those who took on debt 2) those who could not pay for goods or articles 3) lending cash on credit and issuing the borrowers promissory notes 4) issuing bills of exchange for those involved in long distance trade.

As seen in Yu's writings, *hwan* and *ǒum* were credit instruments that had already been used widely in ancient commerce until the Chosŏn Dynasty. In particular, *hwan* was used in long distance trade as it indicated the place of issue. On the other hand, *ǒum* was a credit instrument developed for face to face transactions within a region¹². Therefore, in order to establish trade with *hwan* a national or international credit reputation was required rather than a local one. We can observe the creation of nation-wide trade in *hwan* with the *kyŏnghwan* (京換), *pyŏnghwan* (平換), and *songhwan* (松換) issued in Kaesŏng, Pyŏngyang and Seoul respectively.

In addition, the following travel account adds another layer to the research on *hwan* and *ǒum* in the late Chosŏn. The 1903 Polish scholar Szeroszewski introduced Korean trade customs in "Traveler's Bills On A Single Piece of Paper, Traveling the Nation Without Money":

11 A unit of Korean currency, equivalent to 1/100 of 1 won, at present not in use anymore

12 Insert note related to Italy

[In Korea] loaning institutions are nonexistent, but this does not mean that they do not have the ability to set up similar institutions. It is only that the Koreans do not need them, and they have developed an extremely ingenious traveler's bill of exchange for their needs that compares to Cook's traveler's checkbook. That is, an alliance of innkeepers can receive a fixed amount from a traveler and issue a receipt which can be used to provide not only anything he may need but for cash on demand for his convenience and to prevent theft. This financial organization has been in place all over the Korean peninsula for a long time, and displays the accounting abilities of the innkeeper alliance. It is said that there has not been a single instance of travelers violating or abusing the rules.

Yu's description of a side dish restaurant in Seoul's accounting management for its credit transactions and Szeroszewski observations, included in his above-mentioned book, indicate that Korea already had a leading rational economic system combining accounting management and credit production in order decrease transaction costs in the late Chosŏn period.

The late Chosŏn literati Yi Yu-wŏn(李裕元:1814-1888) asserted in his Rimhaphilgi 林下筆記(*Notes Under the Trees*) that the *kamhap* (勘合), used by freight ships, and *ŏum* were systems that shared the confirmation of future payment, and more clearly it also shows the connection between *hwan* and *ŏum* and financial affairs. It's main content appears in book thirty four in the *Hwatong Oksampy'ŏnhaptong* (卷三十四華東玉糝編合同) as follows:

Writing a contract (*kyekwon* 契券) is called *haptong*(合同). The ends of two sheets of paper are placed evenly and the characters *haptong* (合同) are written on each, and each is kept as a token; this is a method passed down since long ago. Chang Kang-sŏng wrote on wood to write notes about the world, carving letters on both sides, and keeping each piece to think over in the future. In our country, the freight ships have a *kamhap* method and the Ministry of Justice also has a *kamhap*(勘合) method in distributing punishments. A system for commercial activity called *ŏum* also exists, and all three systems are alike.

The *kyekwon*(契券), *haptong*(合同), *sŏkye* (書契), and *kamhap*(勘合), described by Yi, Szeroszewski travelers' bills, the *ŏhom*(於音), *p'yokwon*, *hwangwan*, and *sup'yo* in the 1910 Commercial Customs Survey Report and Yu's *ŏsin*, *hye'o*, *ok'o*, *hwa'o*, *ŏan*, *yi'ochonsin* are all terminology linked with *hwan* and *ŏum* that need to be compared with that used in Pak's ledgers. The terminology in Pak's ledgers under the *hwan* (換) system are

kyŏnghwan (京換), *yŏnhwan* (延換), *inhwan* (仁換), *p'yo* (標) and under the *um* (音) system are *ŏum* (於音), *um* (音), *ŏji* (音紙), and *sangsin* (相信). As indicated by Yu, the origins of *hwan* and *ŏum* come from the two systems of sound (音) and characters (契). The sound origin theory is evidenced by the appearance of *ŏum*, *um*, *ŏji*, and *sangsin* is also intimately tied to *idu*.

The laws associated with *um* (音) and law, or accounting terminology, are foremost *ŏum* (於音), *chŏgim* (題音), *yu'um* (流音), *macham* (適音), *bongŭm* (逢音), and *tachim* (考音). *Chŏgim* is the law term for a fixed sentencing. In the *Chŏnyul Tongpo*, it was read as *chŏgim* but in the *Yusŏp'ilchi* they were read as *chaegim*. The sound was linked to the effect of notarizing a sentence given on a submitted lawsuit. *Yu'um* (流音) in *idu* was meant as copying a piece of information from one accounting ledger to another but was read as 'hŭllim' in the *Yusŏp'ilchi*. The term most associated with *ŏum* (於音) in *idu* was the term (適音). This was read as 'mach'am' in wills but also comes from the contemporary vernacular for completion, 'matta.' This was because the ultimate objective of double-entry bookkeeping was to balance accounts. In the *Grand Ming Law Code*, this term is also sometimes written as *bongŭm* (逢音). Finally, there is (考音), which was pronounced 'tachim' in the *Yusŏp'ilchi* (儒胥必知) and *Ŏrokpyŏnchŭng* (語錄辨證) means fulfilling a promise. However, it was read as 'tatim' in the *Chŏnyul Tongpo* and *Kokŭmsŏkrip* (古今釋林). In the contemporary vernacular it was supposed to mean resolutely fulfilling a promise or confirmation for an oath or vow. In sum, it is clear that the origins of *hwan* and *ŏum* confirmed by Yi, Yu, Szeroszewski and Pak's ledgers, were created by the combination of *hangŭl* sounds and classical Chinese definitions.

Then what is the connection between the recording of *hwan* and *ŏum* transactions in Pak's ledgers and their social recognition? First, we should consider what is the difference in accounting management for the previously mentioned systems of *hwan* and *ŏum*. Out of the three hundred and eighty two records of *hwan* and *ŏum* transactions, about two hundred twenty-seven, or sixty percent, deal with *hwan*, and sixty-seven percent of those transactions are of long distance trade. It is clear from Pak's ledgers that there is a considerably higher ratio of transactions related to the circulation of capital rather than the commercial procurement of goods. Forty-one percent of *hwan* transactions deal with circulating capital and take up around sixty-five percent of the total sum of transactions. If we observe the final calculations of revenues and account balances, we see that the businesses of Kaesŏng merchants included agriculture, manufacturing, and finances, the pure profits of which were greater than the fees from paying bills of exchange.

This is even more evident if we take a closer look at the *hwan* transactions. The places of issue for *kyŏnghwan* (京換), *yŏnhwan* (延換), and *inhwan* (仁換) are clearly

indicated in Pak's ledgers. The assumed third party's name as the drawee and the drawing term *chuch'a* (推次) are also clearly indicated. In distinct contrast to the *õum* (於音), *um* (音), *õji* (音紙), *sangsin* (相信), and *p'yo* (標) terminology, there are no related terms for *chuch'a* (推次), or collection; in most cases, the debtor who is issued the promissory note has his name recorded. Besides this difference, another distinguishing feature in the *hwan* and *õum* transactions is the recording of collection and interest rates. *Hwan* transactions have a broker fee called *kuchaemun* (口除文) and an discount rate called *hwantaega* (換駄價) written parallel to each other. On the other hand, *õum* does not record this side by side.

In the case of Europe it is not clear whether it had any fully-developed credit instruments until the fourteenth century given that most of finances required the deposit of pledged property until then, similar to present-day pawnshops. This fact asserts that credit based on financial securities hardly existed. Littleton also considers that the system of pledging property was not credit based, and this did not require systemic accounting, so loans upon pledged property were the primary financial system in use till the fourteenth century in Europe.

Until the mid-seventeenth century, the words 'banker' and 'exchanger' were the same in Europe.¹³ This definition was used to signify that engaging in banking affairs was the same as engaging in exchanging money. It could be erratic to understand medieval European bills of exchange and promissory notes as the equivalent of present day promissory notes with discount. There is no confirmed case of the use of a promissory note with discount in medieval Europe, and if we draw a comparison with Kaesõng merchants' financial advances based on bills of exchange with discount, we find out they are a particularly unique example in world's history. Although this is examined in more detail in the fourth section, the income generated from *hwan* was greater than that of its collection fees, additionally income statements had independent account entries titled *hwantaega* (換駄價) that would carry over the profit from *hwan* as capital. Therefore, the financial ability of the Kaesõng merchants was based on their accounting capabilities and was evidenced in their business administration of agricultural, manufacturing, and third-stage service industries.

As seen in the second section, the number of *hwan* and *õum* transactions in Pak's ledgers that are similar to today's fictitious and accommodation bills outnumber those transactions that were more along the nature of commercial bills. This is clearly reflected in the profit statements as well as in the journalizing and posting of the transactions. Only the amount of debit and credit of commercial bill transactions is summarized in the balance sheet while interest and collection fees are omitted. On the other hand, the transactions of fictitious bills and their collection fees and other information are in fact

13 Reference to Italy

recorded in the balance sheet. In this section, we will examine the characteristics of journalizing and posting *hwan* and *ǒum* transactions in journals and assets and liability ledgers.

Let us look at the transaction on the fifteenth day of the eighth month in 1887 of one Mr. Kim Tǒk-kyǒng¹⁴. This record states that Mr. Kim was to return a five thousand *yang*¹⁵ loan given on the fifteenth day of the eighth month in 1887 on the last day of the tenth month that same year with an interest rate of 0.08¹⁶. This transaction was journalized as creating a debt and cash expenditure respectively of (debt) 5,000 *yang* loan and (credit) 5,000 *yang* cash. The following related transaction occurred on the nineteenth day of the tenth month in 1887.¹⁷ This entry recorded that the return date for the prior loan was fulfilled eleven days before the nineteenth day. Here we can see that one thousand *yang* of the five thousand from the *kyǒnghwan* (京換) issued in Seoul to Mr. Kim was repaid as part of a series of divided installments instead of a lump sum. It was recorded as (debt) *kyǒnghwan* (京換) of one thousand *yang* and (credit) loan of one thousand *yang*. The above journalized entry meets the legal conditions established in 1882 in the Great Britain for bills of exchange and promissory notes. The transaction record contained the place of issue was indicated by its name *kyǒnghwan* (京換) meaning it was issued in Seoul, its collection was indicated by the term *chuc'ha* (推次). It also contained the debtor's name, Choi Su-kyǒng (崔壽卿), the creditor's name Kim Tǒk-kyǒng (金德卿), its financial nature *cheabyǒn* (債邊), its journalizing by advance receipt and also information that it can be transfer once indicated by the term *ildǒ* (一度)¹⁸.

The next transaction by Mr. Kim appears on the third of the eleventh month. This entry records the amount of interest due on this date (as the last day of the prior month had passed) to be three hundred and seventy-five *yang*, according to the prior calculation above. Journalized according to today's standards, it would be seen as: (debt) 375 *yang* and cash (credit) received 375 *yang*. The next transactions are on the sixth of the eleventh month.¹⁹ Here the term *ingchae* (仍債) appears, meaning a delayed payment on the

14 邊文8錢式金德卿債給八月本明十月晦捧次文五千兩下

15 A unit of Korean currency, currently not in use anymore

16 邊文8錢式

17 金德卿債邊先上京換崔壽卿推次一度文一千兩上

18 先上...上

19 金德卿債還上仍債計文四千兩下,邊文8錢式又仍債給明二月晦捧次文四千兩下

remaining four thousand *yang*. An overdue interest rate of 0.085²⁰ appears, increased from the previous rate, and the postponed date is set four months later on the last day of the second month of the next year. *Ingchae* (仍債) is thought to indicate a delayed payment. If journalized, it would be (credit) remaining payment: 4,000 *yang* and (debit) 4,000 *yang* loan. In total, if we include the *kyŏnghwan* entry in the journal, we find five transactions, whereas if we journalize the entries according to today's methods we would find four transactions. An entry dated the sixth of the eleventh month²¹ seems to be a reminder of the postponed date of payment rather than a new condition for another loan.

From these entries, we can see one of the characteristics of the *sagae songdo ch'ibu bŏp* showing how it journalizes receivable or payable notes. The current journalizing of receivable and payable notes used by banks is a good way to compare with the one of Pak's financial service of accounting fictitious bills. Pak's records of Kaesŏng merchant financial service show more similarities to current bank service. It is clear that the bills of exchange in his account ledgers are meant not for credit payments on goods but loaning cash with credit.

A. Journalizing and Posting Commercial Bills

The next type of bill most common in Pak's ledgers is the commercial bill. Sales and purchases of goods are listed as houses, rice fields, ginseng fields, grain, and hemp. These goods were the primary goods traded on the markets in Kaesŏng at this time. Let us observe the journalizing and posting of promissory notes for grain.

If we look at the account for Mr. Kim Ryŏ-hyok, we find that he spent six thousand, three hundred eighty-two and a quarter *yang* for two hundred and forty-five *sŏk*²² of grain on credit at a price of twenty-six and five hundred *yang* per *sŏk* on the ninth day of the third month. If we observe the journalizing terms used for this transaction, we see that *maetŭkcho* (買得條) is equivalent to today's credit purchase account. The terms that normally indicate paying on credit without cash, *sang* (上) and *ha* (下), have been omitted in the transaction. The interest rate of 0.265²³ is particularly interesting in this case, as usually it was used as a cipher indicating interest rate for fictitious bills; yet here it is used to indicate the price per unit. In Pak's accounts, this cipher is used to indicate interest rates, price per unit of goods, and calculating cash on hand. There are divergent theories on the origin of this symbol, but it is believed that it originates from traditions of Kaesŏng merchants stick calculation

20 邊文8錢5分式

21 金德卿債還上仍債計文四千兩下

22 A unit of weight equivalent to around 180 liters.

23 卍 8分式

instrument²⁴ not from abacus. This numeral indicates the price of the grain at 25 *yang*, 0 *chŏn*, and five *pun* (25.05), with *pun* (分)²⁵ as the end numeral. Since these numerals were written horizontally from right to left, they were as convenient as Arabic numerals for calculations, unlike the reversed left to right order of Roman numerals.

Aside from these differences, Pak's records indicate no other particular forms of difference in recording commercial bill transactions and fictitious bill transactions.

IV. Comparison of *Hwan* Discount Fees and Interest Rates

In this section, we will demonstrate the transactions of *hwan*, interest fees and the scale of Pak's financial services. Previous research on the Kaesŏng merchants states that they were primarily focused on financial services. From the beginning of the Koryŏ Dynasty, their main customers were small-scale itinerant retailers who went around the country selling their wares. This section will compare interest rates with discount fees collected on *hwan* and *ŏum* in Pak's ledgers. We will compare them using the records in the journals and account ledgers to observe what standard was used to determine interest rates for principals compared to discount rates collected on bills of exchange on their day of repayment.

What is apparent in Pak's ledgers is the fact there are independent ancillary account entries for special transactions for bills of exchange and promissory notes. In an asset ledger, the account name *kyŏnghwantaega* (京換駄價) can be seen as an exchange fee in today's accounting. It has its very own account entry meaning that an increase in someone else's liabilities or one's capital would be listed as credit or lapse, and a decrease as debt. It would be journalized as *ipsang* (入—上) which indicated its increase. The time period listed in this account entry begins in the twenty-seventh day of the eleventh month in 1892 and lasts till the first day of the third month in 1893. The entire amount collected in fees was three thousand, five hundred forty-seven and a half *yang* and fees paid was three hundred twenty-seven and a half *yang* for a profit of three thousand, two hundred and twenty *yang*.

The example that well displays the nature of this account entry are the twelve transactions between the third and fifth day of the twelfth month of 1892. Out of these twelve, ten are journalized, and the other two only have indications of cash deposits and withdrawals (*sang* 上, *ha* 下). *Hwan* transactions are indicated by *kyŏnghwan* (京換), *kyŏnghwantaega* (京換駄價), or *kyŏnghwantaegakuchae* (京換駄價口除), which can be divided largely into *hwancha-sang* (還上-上), *ip-sang* (入-上), and *bongch'a-ha* (捧次-下).

24 Korean traditional calculating instrument called *Santong*

25 A unit of ratio.

Although the journals do record the date of transactions and agree upon date of repayment for the principal, they do not contain the expiration date of the bills. This is thought to be caused by the fact that the bills in circulation were sight bills. Therefore, when the promissory notes collected their interest fees, Pak's ledgers do not calculate the difference between the expiration date and the date of collection. However, the value of the bill and its interest rate can be calculated and compared to the monthly interest rate on the loan principal. For example, a bill of thirteen hundred *yang* on the sixteenth of the third month in 1888 had a collection fee rate of 3.15% (40.95 *yang*) but the recorded interest rate in the ledger was 3.5% (45.50 *yang*). A different transaction at a later date had a collection fee rate of 3.15% for three thousand *yang* (94.5 *yang*) but had a monthly interest rate of 3.5% (105 *yang*). The next case on the last day of the third month has a 3.15% collection fee (63 *yang*) for two thousand *yang* but a 3.75% interest rate of 75 *yang*. If the value of the note is excessively high, such as ten thousand *yang*, the collection fee is 1.9% but the interest rate is 4.25%. Thirteen out of nineteen cases have higher interest rates than collection fee rates. In general, we can surmise from these findings that the collection fees were a little lower than the interest rates for bills of exchange and promissory notes.

V. Conclusion: Historical Significance of *Hwan* and *Ŏum*

We have seen in the accounting records of Mr. Pak from the 1887-1901 that the Kaesŏng merchants were not only engaged in the sales of goods but also in financial services and other independent businesses. Out of all their businesses, the income generated from the *kyŏnghwantaega* (京換駄價) created the need for its own account entry and including a part of the profits into the income statement. These unique characteristics have confirmed the scale of the Kaesŏng merchants' business activities to range from agriculture and manufacturing to third-stage financial services in the late Chosŏn Dynasty. We have also observed that the structure of bills of exchange and promissory notes was similar as that outlined in the English Bills of Exchange Act 1882, Chapter 61. From this, we can conclude that society in the late Chosŏn Dynasty had a universal credit system that could be applied anywhere and that it could have led to the potential development of a capitalist system.