A Brief History of Interest

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This essay was originally created for the Swiss Money Museum Web site (http://www.moneymuseum.org/) in mid 1999. It appears here thanks to the gracious permission of Dr. Jurg Conzett, creator of the Money Museum Web site.

Updated and adjusted materials taking continuing research on this subject into account are found in The Lost Science of Money book, published four years after this piece (see link below).

by Stephen Zarlenga

1)Early Loans And Interest Were Based On Agricultural Produce
From about 30,000 BC human existence became more refined until social and economic forms of agriculture appeared around 10,000 to 7,500 BC. This took the form of hoe gardening done mainly by women and led to matriarchal based societies.
From around 6,000 BC the horse was tamed and sheep, goats and cattle were domesticated so that by 5,000 there existed a mixed culture based on animal breeding and hoe gardening. The great plough revolution starting about 4,500 was complete by 4,000 BC. enabling the first city civilizations to arise, and the introduction of writing shortly after, led to a developing "social technology."
Loans in the pre-urban societies were made in seed grains, animals and tools to farmers. Since one grain of seed could generate a plant with over 100 new grain seeds, after the harvest farmers could easily repay the grain with "interest" in grain. (Suggested graphics here showing 1 wheat seed, next to a sheaf of wheat with the large number of new seeds which could be generated by that 1 seed) Also since just so much seed grain could possibly be used, there were natural limits to this lending activity.
When animals were loaned interest was paid by sharing in any new animals born. (graphics – a male and female cow/sheep/goat, and the offspring) The Sumerians used the same word – mas – for both calves and interest. A similar Egyptian word meant to "give birth." What was loaned had the power of generation, and interest was a sharing of the result. Interest on tool loans would be paid in the produce which the tools had helped to create.

2)The Oriental Usury Error On Lending Metals
The social organization taken by the developing urban communities in Egypt, Assyria, and Sumeria is known as the Ancient Oriental System. It embraced the idea of a living King as the divine representative and savior, able to organize the welfare of mankind through a powerful Royal household exercising centralized control over the economy. Compulsory labor was required for public works and Pharaohs instructed what and how much to plant and how much of the harvest would be stored. Agricultural and metallic commodities (mainly barley and silver) by weight served as the primitive money system in these societies.
The ancient orient made a momentous innovation, allowing usury to be charged on loans of metals, with the interest to be paid in more metal. This

was particularly a problem with agricultural, as opposed to loans for commercial or trading purposes. The conceptual error treated inorganic materials as if they were living organisms with the means of reproduction. But metals are "barren" – they have no powers of generation and any interest paid in them must originate from some other source or process.

This structural flaw was tempered by central authority. The Royal household, the largest lender and charger of interest, took action to minimize resulting problems by setting official prices for valuing several commodities, in effect monetizing them. Thus farmers depending on their harvest to repay loans, wouldn't be harmed by seasonal market supply changes where bringing in the harvest would normally lower the prices.

This interpretation suggests that ancient price tables, like Hammurabi's, have been misinterpreted as price maximums and are really official exchange rates of commodities when used as money. In addition, the Royal power would periodically institute "clean slates" where agrarian (not commercial) debts were forgiven and lands returned to their traditional owners. In one culture the term "Amargi" referred to such emancipations from old debt obligations (see Heichelheim below).

3)The Oriental Usury Error Required Solon's Reform

In the Greek city states where the prices of agricultural commodities were not monetized by central authority but valued by more individually determined markets, charging usury on loans of coinage to farmers quickly led to severe social problems. By about 600 BC the class of free small farmers was vanishing, with land becoming concentrated into the hands of the Oligarchy:

"Before the introduction of coined money the peasant farmer borrowed commodities and repaid the loan in kind, and … was probably able to meet the obligation without great difficulty; but after the introduction of coined money the situation became decidedly more difficult…he must take a loan of money to purchase his necessary supplies at a time when money was cheap and commodities dear. When a year of plenty came and he undertook to repay the loan, commodities were cheap and money was dear", wrote Professor Calhoun.

Unable to get out of debt, eventually bad weather or a poor harvest would bring foreclosure on their land and even bind them into slavery. This enslavement grew to crisis proportions, when Solon came to Athens rescue with his "Seisachtheia" or "shaking off" of burdens. Personal slavery was no longer allowed as security for debts. He canceled such existing debt contracts; and gave back land which had been seized. Farmers who had been sold into slavery abroad by those to whom they owed money were "bought" back and returned to Athens.

Solon also declared a minimum monetary value for each agricultural product setting floor prices for them (see Heichelheim). He switched from the "Aeginatic" to the lighter weight "Attic" monetary standard reducing coinage weights and increased the amount of coinage in circulation.

Solon had been a merchant in his youth and understood commerce. Yet he blamed Athen's problems mainly on the rich Oligarchy. He became known as one of the seven great wise men, presenting the Oracle of Delphi with the "wisdom gift" which became inscribed on the temple entrance there: "Know thyself" and "Nothing too much".

(Fritz Heichelheim's 1938 work – *AN ANCIENT ECONOMIC HISTORY*, is recommended for further reading on sections 1 to 3. Also see *URBANIZATION AND LAND OWNERSHIP IN The ANCIENT NEAR EAST*; edited by Michael Hudson and Baruch A. Levine; published by Harvard's Peabody Museum of Archeology and Ethnology)

4)Aristotle (384-322 BC) Formulated The Classical View Against Usury

Aristotle understood that money is sterile; it doesn't beget more money the way cows beget more cows. He knew that "Money exists not by nature but by law":

"The most hated sort (of wealth getting) and with the greatest reason, is usury, which makes a gain out of money itself and not from the natural object of it. For money was intended to be used in exchange but not to increase at interest. And this term interest (tokos), which means the birth of money from money is applied to the breeding of money because the offspring resembles the parent. Wherefore of all modes of getting wealth, this is the most unnatural." (1258b, *POLITICS*)

And he really disliked usurers:

"…those who ply sordid trades, pimps and all such people, and those who lend small sums at high rates. For all these take more than they ought, and from the wrong sources. What is common to them is evidently a sordid love of gain…" (1122a, *ETHICS*)

5)The Scholastics Differentiated Between Usury And Interest

The Scholastics (1100 -1500 AD), the Church scholars familiar with the available writings in existence, echoed Aristotle. Acquinas argued that money is a measure, and usury "diversifys the measure" placing extra demands on the money mechanism which harmed its function as a measure. Henry of Ghent wrote: "Money is medium in exchange, and not terminus." Alexander Lombard noted: "Money should not be able to be bought and sold for it is not extremum in selling or buying, but medium."

The Scholastics made the first attempt at a science of economics and their main concern was usury; but this was not the same as just charging interest. It was generally not forbidden to earn interest if the lender was actually taking some risk, without a guaranteed gain. Interest could also be charged when the lender suffered some loss or passed up some opportunity by extending the loan. Venice used advanced financial forms for centuries without violating the Scholastic usury bans.

Two types of loans were always exempt from bans on interest: the "Societas", where the lender assumed some portion of the risk of the enterprise. Also exempt was the "Census" – an obligation to pay an annual return based on some "fruitful" property. At first it was paid in real produce, later in money. The Census was normally capitalized at 8 times the annual return, but the risk of the "fruitful" base was on the lender not the borrower, for if the crop were destroyed by weather, the borrower had no obligation that year. Later cities issued "census" obligations based an tax revenues, which came to be called "rents".

Usury was much more than charging interest – it was taking unfair advantage; it was an anti-social misuse of the money mechanism.

6) The Church's Condemnation of Usury:

Observation of its bad effects-

Pope Innocent IV (1250-1261) noted that if usury were permitted rich people would prefer to put their money in a usurious loan rather than invest in agriculture. Only the poor would do the farming and they didn't have the animals and tools to do it. Famine would result. Burudian (d.1358), a professor at the University of Paris wrote that: "Usury is evil …because the usurer seeks avariciously what has no finite limits". This places its results outside of nature – often outside of the possible. St. Bernardine of Siena (1380-1444) observed that usury concentrates the money of the community into the hands of the few.

Divine and human law-
All mankind's moral/legal codes censured usury, normally with mild limits on interest rates. But the Old Testament strictly forbade Jews from taking usury from their "brothers" (other Jews), and discouraged taking it from strangers. The Scholastics looked on all mankind as brothers. Other codes restricted usury:
*Code Of Hammurabi (2130-2088 BC) limited usury to 33%;
*Hindoo Law – Damdupat – limited interest to the full amount of the loan;
*Roman Law limited interest; Justinian's 6th century Code reduced the 12½% limit of Constantine the Great, to 4-8%, and accumulated interest could not exceed principal.
*The Koran totally forbids usury, from the 7th century;
*Charlemagne's laws flatly forbade usury in 806 AD.
*The Magna Carta placed limits on usury in 1215 AD.
*Most States of the United States enforced usury limits until 1981.

Action Against Usurers-
Pope Leo the Great (440-461) laid the cornerstone for later usury laws when he forbade clerics from taking usury and condemned laymen for it. In 850 the Synod of Paris excommunicated all usurers. The 2nd Lateran Council (1139) declared that unrepentant usurers were condemned by both the Old and New Testaments. Pope Urban III (1185-87) cited Christ's words "lend freely, hoping nothing thereby" (Luke 6:35).
Judicial action was taken against those openly practicing usury and the Church never condoned Jewish usury activity. Christian usurers who used semantic tricks in making loans were worried about excommunication and being denied the sacraments, especially burial in sacred ground. They used every word trick to avoid the usury label. Goods were sold on credit at a higher price which factored interest in. "Dry Exchange" bills in foreign currency were not sent for collection but resold to the borrower for a higher amount, reflecting interest.
Usurers were required to make monetary restitution to their "victims", and if they couldn't be found, to the poor through the Church. Vast amounts of such moneys were involved in death bequests. The heirs of usurers were also required to make restitution.

Fall Of The Usury Prohibition-
Conrad Summenhart, of Thubingen University put aside Aristotle's view, declaring it was OK to use something in a way that wasn't intended. The Fuggers of Augsburg, vying with Florence to financially dominate Europe, financed Summenhart's student John Eck to argue the permissibility of certain loans for five hours before the full assembled University of Bologna in 1515. Eck assured them that the method of charging interest had been in use for 40 years with no-one being excommunicated.
As economies became more dynamic, with real growth possibilities, it became clear that charging interest on business loans where the borrowing merchant prospered, couldn't be condemned as greed or lack of charity and by 1516 the idea of a lending institution charging interest for its services had been overwhelming accepted.

Calvin's Reformation-
John Calvin finished off the usury ban in 1536. But his arguments were shallow compared to the Scholastics: "When I buy a field does not money breed money?", he asked rhetorically. For centuries the Scholastics had demonstrated the correct answer is no – it is the field not the money which grows products.
Calvin wasn't enthusiastic about usury: "Calvin deals with usurie as the apothecaire doth with poison" wrote Roger Fenton. He considered usury sinful only if it hurt ones neighbor and that it was generally legitimate in business loans.
(Additional recommended reading for sections 4 to 6 are *THE ARISTOTELIAN ANALYSIS OF USURY* by Odd Langholm; and The Scholastic Analysis of Usury by John Noonan)

7) How Capitalism Viewed Interest
The justification for charging interest evolved historically in works promoting capitalism. One recurring theme was to attack Aristotle. Francis Bacon's *WORKS* (1610) thrashed the Scholastics for: "almost having incorporated the contentious philosophy of Aristotle into the body of Christian religion…Aristotle…full of ostentation…so confident and dogmatical…barren of the production of works for the benefit of the life of man." Yet Bacon's rationale fell flat:
"Usury is a thing allowed by reason of the hardness of men's hearts. For since there must be borrowing and lending, and men are so hard of heart as they will not lend freely, usury must be permitted…" and Bacon was aware of usury's problems:
"… It makes fewer merchants… (and) makes poor merchants. It bringeth the treasure of a realm or state into few hands."
In William Petty's 1682 *QUANTULUMCUNQUE CONCERNING MONEY* usury is redefined as: "A reward for forbearing the use of your own money for a term of time agreed upon, whatsoever need your self may have of it in the meanwhile."
This ascetic rewarding of self denial, with religious overtones, is still used by some in the 20th century, but Adam Smith's 1776 *WEALTH OF NATIONS*, capitalism's "bible," put aside these earlier rationales, and justified usury in economic terms:
"The interest or the use of money…is the compensation which the borrower pays to the lender, for the profit which he has an opportunity of making by the use of the money. Part of that profit naturally belongs to the borrower who runs the risk and takes the trouble of employing it; and part to the lender, who affords him the opportunity of making this profit."
This is how interest is popularly viewed today. But Smith overlooked that the lender gets his profit even when the enterprise loses; he ignored the successful business structures used by Venice for centuries, where the lender's return was based on actual profits. Smith's endorsement did not remove the stigma against usury; and the debate continued.

Jeremy Bentham's *IN DEFENCE OF USURY* (1787) created the present mis-definition of usury as: "The taking of a greater interest than the law allows… (or) the taking of greater interest than is usual."
He dismissed the harmful effects of usury on the common man: "Simple people will be robbed more in buying goods than in borrowing money."
An then he really bared his teeth: (translator: he became even more vicious)
"If our ancestors have been all along under a mistake… how came the dominion of authority over our minds?" Is he going to cite the strong Old Testament admonitions against usury? No – he ignores them and attacks Aristotle:
"Aristotle: that celebrated heathen, who … had established a despotic empire over the Christian world. …with all his industry and all his penetration, notwithstanding the great number of pieces of money that had passed through his hands … had never been able to discover in any one piece of money any organs for generating any other such piece. Emboldened by so strong a body of negative proof he ventured at last to usher into the world the results of his observation in the form of an universal proposition, that all money is in nature barren. …he didn't consider … (from) a Daric which a man borrowed he might get a ram or an ewe … and that the ewes would probably not be barren."
Its the same argument Calvin used. But the Scholastics had shown it was the "ewes" not the coins that create more ewes. Humanity would have been better served if these fellows had only been able (and willing) to understand Aristotle.
Despite continuous pressure and support from the financial community, the various justifications for usury proved inadequate in 1836 when John Whipple, an American lawyer wrote *THE IMPORTANCE OF USURY LAWS – AN ANSWER TO JEREMY BENTHAM*. Whipple proved the impossibility of sustaining long term metallic usury:
"If 5 English pennies … had been … at 5 per cent compound interest from the beginning of the Christian era until the present time, it would amount in gold of standard fineness to 32,366,648,157 spheres of gold each eight thousand miles in diameter, or as large as the earth."
Whipple knew that answering the usury question required an accurate view of the nature of money, and he echoed Aristotle:
"(the purpose of money is to facilitate exchange) It was never intended as an article of trade, as an article possessing an inherent value in itself, (but) as a representative or test of the value of all other articles. It undoubtedly admits of private ownership but of an ownership that is not absolute, like the product of individual industry, but qualified and limited by the special use for which it was designed…."
One can imagine how advanced the world of finance would be today if someone like Whipple were present at the Constitutional Convention in 1787. Had his viewpoint been distilled into law many unnecessary hardships (and wars?) could have been avoided. Instead the delegates operated under a primitive commodity concept of money, similar to that of the ancient oriental system and ignored the crucial monetary questions.

8) 20th Century economists have re-opened the usury question
Modern research is re-examining the Scholastic's work and conclusions. John Noonan writes that they "had an intuitive insight into the problem only now becoming apparent." Noonan agreed with Pope Innocent's arguments (see sect. 5) that usury would lead to the abandonment of industry:
"Innocent's argument…may seem naive or exaggerated at first, but the experiences of agricultural communities, such as ancient Greece, or China throughout most of its history offer considerable corroboration."
Historian Henri Pirenne noted in *MEDIEVAL CITIES* that: "The scourge of debts which in Greek and Roman antiquity so sorely afflicted the people, was spared the social order of the middle ages and it may be that the Church contributed to that happy result."
Despite the omnipresence of charging interest in our lives today, this question is not really settled. Furthermore, the modern world is now getting a taste of real usury. Up to 1981, interest limits (usually under 10%) were in effect in most of the USA. Today credit card debt is very high and growing, along with personal bankruptcy rates. Most people are paying 21 – 25% "interest" on their credit cards each year. Money they really can't afford to pay.
Some economists actually favor letting the market charge whatever interest rates people can be forced to pay. But this should not continue – it will do so much harm to society that all the free market economists in the world chanting in unison won't be able to hide the damage.

Money's nature must be examined
Approaching the usury question intelligently requires a better understanding of the nature of money. The Scholastics maintained that there was a distinction between money, and productive capital. Calvin's Reformation argued against this. But the Scholastic view has been re-affirmed, for example by Knut Wicksell, the father of modern day interest rate theory who wrote in *INTEREST AND PRICES*: "It is not true that money is only one form of capital; that the lending of money constitutes the lending of real capital in the form of money. Money does not enter into the process of production, it is in itself as Aristotle showed, quite sterile."
Re-examining these questions will also require more candor (translator: honesty) from the English speaking economics profession. For example in the English translation of Wicksell's book, that last sentence on Aristotle is significantly left out! Thus the English speaking members of the Austrian School of Economics (who view Wicksell as one of their own) are denied the full benefit of his work and thought.
Now that *The Lost Science of Money* by Stephen Zarlenga is finally published in English, it should become much easier for concerned citizens and scholars to examine these questions meaningfully. This book is highly recomended for those interested in usury, from both a moral and a monetary viewpoint.

We hope this brief essay makes clear that history really affects you in the present day, and that an historical understanding of monetary matters is truly essential. Start by reading our recommended works, and if you have questions, don't hesitate to ask the American Monetary Institute.

3 Responses to "A Brief History of Interest"