

In whose interest is interest? Echoes through time condemning usury

By Wayne Visser

The charging of financial interest is taken for granted in modern capitalist economies. But this was not always the case. In a new series of articles, I will be looking at the age-old moral battle against the practice of "usury", and whether it still has any relevance today.

The practice of usury - originally meaning "lending money in return for interest" can be traced back over four thousand years of recorded history during which it has been repeatedly condemned, prohibited, scorned and restricted on various moral, ethical, religious and philosophical grounds.

Among its most notable critics have been the religious traditions of Hinduism and Buddhism, Islam and Christianity; and the Ancient Western philosophers Aristotle, Plato, the two Catos, Cicero, Seneca and Plutarch. The most common arguments employed for opposing usury were the following:

- that usury constitutes unearned income, i.e. "gain is sought to be acquired ... without labour, expense or risk on the part of the lender" (Lateran Council of 1515);
- that it is a form of double billing, i.e. "it would be to sell the same thing twice" (Thomas Aquinas);
- that it exploits the needy in society, i.e. "money is advanced for consumptional, rather than investment, purposes; and that it makes the rich get richer and the poor get poorer, i.e. "interest ... acts in transferring wealth [away] from the assetless section of the population".

Despite these objections, in contemporary Western societies interest has gained "respectability" and "usury" is now only used to refer to the charging of exorbitant rates of interest, usually by so-called moneylenders" or "loan sharks". But are the arguments null and void?

It is worth remembering that Adam Smith and John Maynard Keynes were among the well-known modern economists who expressed open sympathy for the anti-usury sentiments which preceded them. Both favoured managed control of the interest rate, however, rather than outright prohibition.

There has also been a long line of critics who all object to commercial banks holding the monopoly on the money creation process via the exclusive right to issue interest-bearing debt. This includes the so-called "Greenbackers" of the mid-19th century, various economists of the Great Depression era such as Irving Fisher, Henry Simons, and contemporaries such as William Hixson, and the Committee for Monetary and Economic Reform.

Their argument is essentially that it is immoral, socially unjust and fraudulent for commercial banks to charge interest on money, which is a public utility, and which they have in essence created for themselves out of nothing.

Another school of interest-critics are the 20th century proponents of stamp-script money. Most notable of these is founder Silvio Gesell, who claimed that interest creates economic instability and hence decreases self-reliance.

His modern-day contemporary, Margrit Kennedy, is even more critical, citing the following as direct consequences of the interest rate mechanism: social disruption due to its inflationary effects, ecological unsustainability due to its compounding interest exponential growth effects, and social inequity due to its transfer of wealth from poor to rich. Hence, she claims, interest "acts like a cancer in our social structure".

So the usury debate is in fact still alive and well. But the most controversial arguments are still to come, namely the role of interest in the Third World debt crisis and in the practice of discounting cash flows. Still interested?

Source:

First published as an article in *Money Values*, 29 August 1997.