Usury: Necessary Evil or Evil Necessity?

Jana Rutherford, Florida Atlantic University, USA

Many articles exist that appropriately draw a link between usury and the economy. However, noticeably absent is the connection between usury and marketing. The mention of usury dates back at least to the Old Testament. Usury or "interest" was historically frowned upon and often prohibited. Later it became acceptable, or at the very least, the law was circumvented. This paper traces how usury is linked to marketing and considers whether usury was necessary or evil in the evolution of society as we know it. The paper examines the various interpretations of usury, society's attitude toward it with discusses how attitude has changed over time. Finally, the increased toleration of usury, how the law was often circumvented and its contribution to marketing is delineated.

At the root of marketing is the notion of exchange. In fact, The American Marketing Association (1985) definition of marketing is "the process...to create exchanges that satisfy individual and organizational objectives". Early physical evidence of human exchange activities occurred in the New Stone Age about 10,000 years ago (Dixon 1968). Goods have been discovered in areas that were considerable distances from where they were known to originate. Thus, it could be inferred that such exchange was the beginning of trade. As societies evolved money served as an equalizer of things exchanged and was a vehicle by which things could be valued (Wood 2002). However, sometimes people did not have the required money for an exchange to occur so merchants allowed payment at a later date or lenders would allow a person to borrow. In either case, when more was expected in return from the borrower than the amount borrowed, this was considered usury. In a sense, usury enabled merchants to continue marketing their products. Without usury, exchange might not have occurred and the extent to which exchange did occur would have been hindered.

Many articles exist that appropriately draw a link between usury and the economy (Riemersma 1952; De Roover 1967; Ekelund, Herbert and Tollison 1989; Kermode 1991; Glaeser and Scheinkman 1998) by illustrating that usury fueled economic growth. However, noticeably absent is the connection between usury and marketing. The purpose of this paper is to show how usury is linked to marketing and it will examine the various interpretations of usury, historical attitudes toward it and discuss how attitudes have changed over time. Further, the increased toleration of usury, how the usury laws were often circumvented and its contribution to marketing is delineated.

Definition of Usury

The word usury is derived from the Latin word usura and is commonly defined as "the lending of money with an interest charge for its use; *especially* : the lending of money at exorbitant interest rates or interest in excess of a legal rate charged to a borrower for the use of money" (Merriam-Webster 1997). This indicates that interest is integrally associated with usury. Therefore, a definition of interest would also be appropriate. Interest, also derived from Latin the word interesse, is "excess above what is due or expected" (Merriam-Webster 1997). In reviewing definitions of usury, distinct streams of thought emerged. Each stream primarily deals with either (1) repaying amounts above the principal, (2) opportunity cost of lending and level of interest rates and (3) revenue generation.

In the first stream, San Bernadino (1380-1444) said that usury was any amount above the principal of a loan that was charged because of the loan, whether there was an agreement beforehand or not. Riemersa (1952) also believed that usury was demanding repayment of anything above what was lent simply because of the loan. Similarly, Homer (1977) said usury was the amount due above the principal on a loan, while interest was considered repayment due to a creditor because of the loss realized through lending.

Second, is the issue of opportunity cost. Petty (1647) defined usury as "what the borrower gives the lender above the principal for forbearing his money for a certain time". De Roover, (1967) believed that usury was related to loans and was not associated any other kind of agreement. He also considered usury as having to do with the level of interest that was charged rather than the idea of charging interest. He declared that any interest rate that was above the rate charged by banks or allowed by law was usury. Moreover, Ekelund, Herbert and Tollison (1989) considered it the cost borne by the lender as a result of not being able to use his money elsewhere during the term of the loan and also where more is asked than is given. Lewison (1999) also considers usury to be interest charged on loans.

Finally, in terms of revenue generation, Plato (4th cent.) and Aristotle (4th cent.) believed that usury was a vehicle used in gaining wealth where money reproduces itself. The Bible's view of usury regarded lending in general but referred particularly to money. According to the Bible and Koran, usury is the custom of loaning to generate revenue (Labib 1969). This is evidenced in passages in the Old and New Testaments. For example, 'do not be like a moneylender; charge him no interest' (Exodus 22:25), 'do not take interest of any kind...you must not lend him money at interest' (Leviticus 25:36-37) and 'lend to them without expecting to get anything back' (Luke 6:35).

Adding to the numerous definitions of usury was Tawney (1926) who held that usury not only included the charging of interest on loans but could also include: monopoly pricing, negotiation of prices by customers that are less than the market price, a land lord renting to a tenant at a profit, a lender refusing to reduce the fee for not paying a debt on time, requiring that a loan be secured by more collateral than the amount of the loan and excessive profits gained by a middleman.

Summarily, although the definition of usury has ranged from broad to very narrow the theme of usury amongst definitions has been consistent over time. Fundamentally, any situation where one party could benefit at the expense of another party would be considered usurious. Receiving something more than was loaned was always to the disadvantage of one of the parties involved, namely the borrower. Further, usury is the profit taken by the lender for allowing delayed repayment. The underlying meaning is that usury had to do with the expectation, or hope at the very least, that one would receive more in return than was lent. Inherent in these definitions is the idea that simply making a loan of money or any other good should warrant something extra in return. While usury primarily dealt with money, it could be applied to anything that could be measured (i.e. counted or weighed) (Wood 2002). Today, usury means lending at excessive rates, although interpretation of "excessive" varies.

Historical Attitudes toward Usury

Even before usury was mentioned in the Bible, Plato (4th cent.) thought that lending money at interest should be banned (Lee 1955). Likewise, Aristotle (4th cent.) detested the practice of charging interest saying that money was not created to generate profit from itself (Jowett 1943); money should not "bear fruit" (Glaeser and Scheinkman 1998). In other words, Aristotle held that money was created as a "medium of exchange" and using money to earn more money was "unnatural" (Kish-Goodling 1998). Furthermore, he thought that usury was similar to theft in that the borrower was forced to give up his goods, which in this case would be in the form of money. The borrower does not want to pay interest but knows that the lender will not provide a free loan and therefore is faced with usury or must forego the loan. The point that Aristotle was trying to make was that to practice usury was to abuse the purpose for which money was intended, which was to enable exchange (Wood 2002).

In the Old Testament Deuteronomy 23: 19-20 says, "do not charge your brother interest...you may charge a foreigner interest". The sentiment that usury was wrong is evidenced throughout both the Old and New Testaments. In Psalms 15: 5: "who lends his money without usury..." In referring to a righteous man, Ezekiel 18:8 says, "he does not lend at usury or take excessive interest". The common strand among all these is that charging interest was discouraged. Additionally, the prohibition of usury was the commonality among bible religions: Judaism, Christianity, and Islam (Sauer 1999). The Koran also requires that lenders not accept any earnings above the original principal amount (Labib 1969). Another thread that connected religions in their attitude toward usury was the objective of ensuring fairness in trading (Sauer 1999) so as to prevent one party taking advantage of another particularly when it came to money. Since the driving concern of laws against usury was fairness in exchange, some thought usury was considered to have occurred if a transaction was inequitable (De Montaigne 1580).

Usury laws have existed for thousands of years and their success largely has been inconsistent (Glaeser and Scheinkman 1998). The first time that the Christian church officially banned usury was at The Council of Nicea which prohibited usury among members of the clergy in 325 A.D (Ekelund, Herbert and Tollison 1989; Wood 2002). The Second Lateran Council (1139) extended the ban to require the repayment of profits gained by clergymen and lay people (Noonan 1957; Ekelund, Herbert and Tollison 1989). The church's justification of usury laws stems from biblical text and the idea that money should not be used to generate more money (Sauer 1999). In essence, the laws written were an attempt to apply or translate biblical text into social policy. John Stuart Mill (1848) described the origin of usury laws as "a religious prejudice against receiving interest on money...the attempted adaptation to Christianity of doctrines and precepts drawn from the Jewish law".

As usury was frowned upon it was often prohibited. Typically, those who participated in the practice were condemned either verbally or in many cases by the law. Usury was viewed as intrinsically evil and immoral (Lewison 1999).

Luther (1524) denounced those who expected to receive more in return than they had loaned as usurers. Furthermore, included in this expectation was the idea of merchants charging a higher price for goods paid for with credit rather than cash so as to make a profit. Luther (1524) considered merchants of this sort corrupt because according to biblical texts merchants should not charge higher prices for credit. In fact, while he recommended that merchants sell on a cash only basis, he noted that some merchants would only sell goods on credit so they could make a profit. Montaigne (1533-1592) said that the only way a person could make a profit was at someone else's expense and therefore every sort of gain, including usury, should be forbidden and behavior of this nature warrants punishment. Vervlam (1625) concurred with the notion that usury was a bad way to earn a profit but one of the most certain. Like others he believed that money used to create money was contrary to what was natural.

While the general consensus was that usury was evil, there were those who offered a different perspective. Molinaeus (1500-1566), believed that usury was not unlawful even according to biblical text because the objective of the bible was to encourage men to help one another by being charitable. Insofar as usury did not conflict with the principle of charity it was allowable. For example, if a merchant makes a profit using borrowed money and pledges to pay usury at a specific time rather than a share of the profit then this would not be unreasonable. Molinaeus' (1500-1566) contention was that if a loan is given as a favor then the borrower should pay the lender with part of the profit and thereby would not experience a loss. However, if the lender *demanded* an amount from the borrower that would subject the borrower to a loss then this would be considered usurious. Although Vervlam (1625) agreed that usury was bad, he recognized that borrowing and lending had to exist for trading. He also recognized that the nature of men dictated their unwillingness to lend without interest and therefore usury must be allowed.

Alternate views, however, argued that the borrower could not give any part of the profit to the lender without experiencing a loss because upon consummation of the loan all of the money and the profits that followed belonged to the borrower. Another example of conflict regarding usury was the fact that the Church, while outwardly detesting it, secretly made loans at interest and borrowed from bankers and merchants. Worse yet, according to Church attitudes, was sometimes associates of the church were obligated to take loans (Ekelund, Herbert and Tollison 1989). By both practicing usury and denouncing it, essentially, the church was hypocritical in its stance and this sort of behavior created a double standard (De Roover 1967). Despite the fact that usury was considered objectionable it was pervasive and never entirely nonexistent. Even though usury in some instances was against the law, complete eradication of it would have proven difficult particularly when one of its biggest opponents, namely the Church, was a practicing participant. The history of usury shows that a dilemma existed regarding charging interest which resulted in attempts to evade usury laws.

Circumvention of Usury Laws

Prior to its acceptance bankers, traders, merchants etc. found ways to circumvent laws prohibiting usury. Thus, usury was pervasive even in places where it was against the law. Even though the Catholic Church banned usury, wherever there was trade usury existed. Some used biblical text as justification for the practice of usury. Moneylenders often took advantage of the discernment between 'brothers', who were tribe members, and 'foreigners', who were non-members, where interest could be charged to someone outside one's own community but not to someone within it. The differentiation of brothers and foreigners in Deuteronomy enabled Jews to lend money at interest but not Christians. This was because Jews considered themselves to be descendants of Jacob. This meant that they could not charge each other interest but were free to charge non-Jews interest (Kish-Goodling 1998) and therefore were able to get around usury laws while Christians considered all men brothers.

According to Islamic law interest was banned, however it was not uncommon for Islamic lenders to estimate and include interest in the amount of the loan although it was not explicit in the terms of the loan (Labib 1969). Lenders too often "cloaked their usury under the pretense of trade" (Riemersma 1952, 19). The exchange of foreign money was another way that allowed the circumvention of usury laws. For example, bankers contended that it was acceptable to exchange one currency for another. However, since exchange rates fluctuate, interest was often hidden in the exchange rate. These types of currency exchanges were sometimes employed to disguise loans (De Roover 1967). Efforts to evade usury laws went so far as to create partnerships that did not exist. A person (the lender) would loan money to a merchant in exchange for being a partner. The condition for this arrangement was that the "partner" would share only in profits not in losses. Moreover, instead of requiring repayment of more than the principal in money, a lender could accept repayment in kind (Tawney 1926). This means that a borrower, in addition to paying off the loan in cash would perform a service of some sort. Usury in this case would not be in currency but in service. Another method of circumvention is a lender charging a penalty for non-payment but not charging interest on the loan. The intention of the lender is not necessarily being paid sooner but that he is paid more. Finally, to avoid being subject to usury laws, Christian lenders would frequently pretend to be Jewish so that they could charge interest and at the same time not be charged with a crime (Nelson 1969). The persistent activity that existed to circumvent usury laws can be viewed as an omen to the eventual acceptance of usury.

Acceptability of Usury

As market economies evolved, the notion of usury changed from whether usury was acceptable to how much was tolerable (Lewison 1999). The German Reformation (16^{th} cent.) sparked small changes in the acceptance of usury. Two possible scenarios under which usury became more acceptable after the Reformation are (1) there may have been an increased need for financing to benefit governments as higher interest rates encourage lending and (2) the authority of the Church and other groups that benefited from the prohibition of usury may have weakened.

Contrary to his earlier views that urged society as a whole to prohibit usury, Luther (1524) said that ministers should not assume the roles of societal authorities regarding the legality of usury, should maintain their stance and let the ambiguity of usury be sorted out by "individual conscience" (Nelson 1969). In fact, in 1540 Luther conceded that as much as 8 percent interest was acceptable as long as the loan was secured by land (Nelson 1969). Calvin (1509-1564) was instrumental in the acceptance of usury. His belief was quite the opposite of philosophers who believed that money could not generate money. He believed that money could reproduce itself and usury was sinful only if it harmed one's neighbors (Noonan 1957). Calvin (1509-1564) also held that within a particular religious group usury may have been forbidden but outside the group it could be permitted as mentioned in Deuteronomy. His reasoning was that the rules that applied within specific groups might not be applied well to other groups (i.e. Jews and Christians) (Nelson 1969). While some believed that people outside one's own religion could be charged interest, Calvin (1509-1564) was regarded as having helped to change this perspective from "tribal brotherhood" where usury was not allowed within a group to "universal otherhood" where interest was permissible (Nelson 1969). Calvin (1509-1564) also discerned between business loans where it was acceptable to take interest and personal loans that were needed due to some sort of misfortune which should not carry interest (De Roover 1967). Molinaeus (1500-1566) was the first Catholic scholar to advocate a moderate level of usury (Noonan 1957). Further, he primarily agreed with other scholars such as Calvin in agreeing that money could be lent and denouncing exorbitant interest rates.

In the 19th century the Catholic Church relaxed its stance on usury (Lewison 1999). Homer (1977) contends that between 1822 and 1836 the Catholic Church permitted interest, as was allowed by law, be taken on loans. Several authors have offered insight into why usury began to be acceptable. For example, Tawney (1926) thought that the shift in the attitude toward usury was a result of the opportunity for economic growth. He recognized that as opportunity for investment increased usury laws were more costly to the economy. Furthermore, the relaxation of usury laws suggests that laws were changing in connection with economic conditions.

Usury and Marketing

Fundamentally, usury is linked to marketing because usury is the sale of money. Selling money is a business like any other and a lender charges for the value offered by his money and for the opportunity cost incurred because of the loan (Noonan 1957).

Second, the sale of money facilitates exchange transactions. Credit markets, which usury helped provide, were needed to sustain a growing economy and provide a way to generate the financial capital required for commerce and trade (Kish-Goodling 1998). Loans were a viable means of generating funds as well as using surplus funds to generate more capital (Sauer 1999). Although risk was inherent in lending it was necessary for commercial trade (Kermode 1999). Also, while Calvin (1509-1564) expressed his belief that usury should be banned, he recognized that moderate usury was essential for business. Vervlam (1625) noted that the largest contributor to the growth of trade was in new businesses borrowing at interest. Tawney (1926) mentions that sometimes farmers needed to borrow money to support their businesses between seasons (i.e. sowing and harvesting) or if a crop was not fruitful. Further, when someone wanted to start a business they might need to borrow money to finance the initial start up. The points mentioned illustrate that merchants borrow money to increase their goods for exchange. Thus, it is argued that the sale of money facilitates exchange.

Third, exchange is the root of marketing. Hunt (2002) points out, and most marketers agree, that the focus of marketing is the transaction, which is "the exchange of value between two parties" (Hunt 2002, 10). Usury is related to marketing because in making a loan an exchange occurs when the lender gives the borrower money which is of value. The second part of the value comes about when the lender receives the original amount of the loan *plus* interest. As buying and selling are necessary (Luther 1524) additional exchanges occur when a merchant sells a product he bought with borrowed money. Finally, usury is related to marketing as a function of the level of interest rates. When interest rates are high people borrow less and buy less, the economy is stifled and less exchange takes place. Conversely, when interest rates are low exchange increases.

Summary

The purpose of this paper was to illustrate the connection between usury and marketing as well as examine the various interpretations of and attitudes toward usury. It has been shown that the word usury had common meanings beginning with Plato and Aristotle and changed very little over 400 years. Various interpretations of the word enabled lenders to charge interest. As a result, lenders could pick and choose an interpretation most appropriate in allowing them to charge interest or require return of more than was given. Some definitions left loopholes to enable the lender to still practice usury. In terms of attitude toward usury, both philosophers and clerics believed that usury was wrong because money should not be used to earn more money. This attitude began to change with the German Reformation of religious thought and eventually became more acceptable. This also happened in part because of the changing economic environment and perhaps pressure from merchants. There were numerous ways to circumvent usury laws and the growth of capitalism was not as hindered as some would think. Usury encouraged commerce in terms merchants being able to generate capital to facilitate expansion. Usury, and associated credit that was extended to borrowers, was a factor that drove the economy and still does today.

In some respects usury may have been the proverbial thorn in the side of trading. Usury laws that were supposed to protect borrowers often had the opposite effect since it had to be hidden thus raising the cost of borrowing. Without usury economies might have ground to a halt. Interfering with interest rates or eliminating them leads to an economy that either is suboptimal or collapses. The connection between usury and marketing occurs in the form of exchange. Usury and the marketing are intertwined such that interest generates capital which is filtered back into the economy, which encourages the exchange process and the cycle continues. Interest rates charged on borrowed money fuels the economy by either being invested or used to purchase goods for consumption. It is somewhat ironic that something that was viewed as inherently evil has become so widely accepted. While usury is perhaps still considered by some as evil it is likely recognized by most as necessary.

REFERENCES

American Marketing Association: Chicago, IL 1948 and 1985.

Aristotle [4th Cent. BCE/1943]. *Politics.* Translated by Benjamin Jowett. New York, NY: The Modern Library.

Block, W. 1986. 'Comment', Religion, Economics and Social Thought: *Proceedings of an International Symposium.* Vancouver, Canada: The Frasier Institute 430-445.

De Montaigne, Michel. [1580/1970]. *Essays.* That One Man's Profit is Another's Loss. Translated by J.M. Cohen. New York, NY: Penguin Books.

De Roover, Raymond. 1974. *Business, Banking and Economic Thought in Late Medieval and Early Modern Europe.* Chicago, IL: The University of Chicago Press.

De Roover, Raymond. 1967. The Scholastics, Usury and Foreign Exchange. *Business History Review* 41(3): 257-271.

Dixon, J. E., J.R. Cann, and Colin Renfrew. 1968. Obsidian and the Origin of Trade. *Scientific American*, March: 38-46.

Ekelund, Robert B., Robert F. Herbet, and Robert D. Tollison. 1989. An Economic Model of the Medieval Church: Usury as a Form of Rent Seeking. *Journal of Law, Economics and Organization* 5(2): 307-331.

Ehrenberg, Richard.1963. *Capital and Finance in the Age of the Renaissance.* New York, NY: Augustus M. Kelley, Bookseller.

Glaeser, Edward L., Jose Scheinkman. 1998. Neither a Borrower nor a Lender Be: An Economic Analysis of Interest Restrictions and Usury Laws. *Journal of Law and Economics* 41(1): 1-36.

The Holy Bible Authorized King James Version. 1979. Nashville, TN: Holman Bible Publishers.

Homer, Sidney. 1977. *A History of Interest Rates, 2nd ed.* New Brunswick, NJ: Rutgers University Press.

Hunt, Shelby D. 2002. *Foundations of Marketing Theory: Toward a General Theory of Marketing.* Armonk, NY: M.E. Sharpe.

Plato. [4th Century BCE/1955]. *The Republic, 2nd ed.* Translated by Desmond Lee. New York: Penguin Books.

Kermode, Jennifer I. 1991. Money and Credit in the Fifteenth Century: Some Lessons from Yorkshire. *The Business History Review* 65(3): 475-501.

Kish-Goodling, Donna M. 1998. Using "The Merchant of Venice" in Teaching Monetary Economics. *The Journal of Economic Education* 29(4): 330-339.

Labib, Subhi Y. 1969. Capitalism in Medieval Islam. *The Journal of Economic History* 29 (1): 79-96.

Lewison, Martin. 1999. Conflict of Interest? The Ethics of Usury. *Journal of Business Ethics* 22(4): 327-339.

Luther, Martin. [1524]. Trade and Usury. *Selected Writings of Martin Luther (1523-1526)*,edited by Theodore G. Tappett. Philadelphia. PA: Fortress Press.

Mill, J. S. [1848] 1987 reprint. *Principles of political economy.* Fairfield, NJ: August M.Kelley.

Molinaeus, Carolus. 1546. A Treatise on Contracts and Usury. *Early Economic Thought.*

Nelson, Benjamin. 1969. *The Idea of Usury: From Tribal Brotherhood to Universal Otherhood.* Chicago, IL: The University of Chicago Press.

Noonan, John T. Jr. 1957. *The Scholastic Analysis of Usury.* Cambridge, MA: Harvard University Press.

Petty, William. 1690. Merchandising. *Political Arithmetic.*

Riemersa, Jelle C. 1952. Usury Restrictions in a Mercantile Economy. *The Canadian Journal of Economics and Political Science* 18 (1): 17-26.

San Bernadino of Siena. 15th Cent. On Trade. *OperaOmnia, Volume 4.*

Sauer, James B. 1999. Religious Texts, Moral Prescriptions and Economy: The Case of Interest. *Managerial Finance* 25(5): 4-14.

Tawney, R.H. 1926. *Religion and the Rise of Capitalism: A Historical Study.* New York: Harcourt, Brace and Company.

Vervlam, Francis Lo. 1625. *The Essayes or Counsels, Civil and Moral.*

Wood, Diana. 2002. *Medieval economic thought.* New York: Cambridge University Press.