Dialogue II

The Biblical Prohibition Against Charging Interest: Does It Apply To Us?

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Elder explores arguments for and against charging interest in today's society.

During the Middle Ages, many stories circulated telling of the doom to come for usurers. A usurer might find himself in hell prior to his time or find that her money had turned to dust in her strong box. One story told of a usurer being crushed on the porch of the church by a falling stone figure as he was entering the church to be married. Providentially, the stone figure itself was of a usurer being carried off to hell with his moneybags under his arms (Tawney, 1962, p. 37). Compare this attitude toward interest with our current one. Colleges, including Christian colleges, earn much interest income from their investments. Our students borrow money for college and do not think that the interest charged them by lending institutions might cause the lenders prematurely to be assigned to hell.

Have you ever wondered why the Bible prohibits loaning money at interest? I teach economics and finance classes and have often mentioned this prohibition in class but did not know how it might apply in today's society. The few paragraphs I found attempting to explain such passages often dismissed the prohibition against interest very quickly without much depth to the analysis. I write this paper in the hopes that there are others who want to be biblical in their thinking, acting, and teaching, but have not had the time to spend researching the topic.

Scriptural References to Interest

Old Testament

There are numerous Old Testament passages concerned with interest. Exodus 22:25 and Leviticus 25:35-38 prohibit charging interest to those who are poor. Deuteronomy 23:19-20 prohibits the Hebrews from charging interest to other Hebrews but does allow the Israelites to charge interest to foreigners. Nehemiah 5:1-13 criticizes those who exacted interest from other Jews and tells of restitution being paid for interest charged. Ezekiel 18:5-8, 10-13, 17 and Ezekiel 22:12 also criticize those who charge interest. Psalm 15:5 describes a righteous person as one who does not loan money at interest, while Proverbs 28:8 warns that a person who does loan at interest will have his money taken away and given to a person who is kind to the poor. We know from passages like Nehemiah that at times the Israelites violated the commands against charging interest. However, there were times during which the command was strictly obeyed. Heichelheim puts it this way, "internally, usury was strangled and destroyed" (1965, p. 255).

New Testament

Luke 6:34-35 says to "love your enemies, and do good, and lend, expecting nothing in return; and your reward will be great, and you will be sons of the Most High." In the parable of the talents, Matthew 25:14-30, the master expected the servant to invest the money entrusted to him with banks to earn interest if no other opportunities were available. No other New Testament passages deal with this topic.

Terminology

It is possible that the words used in the Bible really mean what we call *usury*, an exorbitant interest rate, and not interest. If usury was what was really meant, we would not have much further discussion. We could call for a ban on high interest rates and not worry about our consciences. Unfortunately, the biblical usage does not appear to allow us this interpretation. *Neshek* is the most frequently-used word for interest in the Bible, with *marbit* and *tarbit* also being used (Ballard, 1994, p. 214). Not everyone agrees upon the interpretation of these words. Some interpret *neshek* to mean interest on money, while *marbit* and *tarbit* are interpreted as interest on food and grains. Others believe that *neshek* has to do with interest that is taken out at the beginning of a loan, while *marbit* and *tarbit* mean interest taken out at the end of a loan (Ballard, 1994; Achtemeier, 1996; Gehman, 1970). Even though there are some differences in interpretation, all of the biblical words used have to do with what we call *interest* and not usury. We cannot end our exploration here.

Another smaller problem of terminology exists in discussing this topic. In the Middle Ages, the word used was *usury*, usually meaning any interest at all. Our current use of the term *usury* applies only to exorbitant interest. This paper will use the term *usury* as exorbitant interest, but you will notice that in some quotations *usury* is used in the sense in which we use *interest.*

History

The attitude toward interest in the Christian era can help us understand the topic. Christians came to believe that all people were part of a "universal brotherhood" and that no one was outside of this brotherhood. The Jewish prohibition against charging interest to a person in the Jewish community was expanded to prohibit charging of interest to anyone (Nelson, 1969, p. xxi). Jerome (340-420) argued "that the Old Testament ban on charging interest to brothers in the faith was to be extended after Jesus to not charging interest to anyone since all were our brothers. 'There was no scriptural warrant for charging interest from anyone'" (Nelson, 1969, p. 3). Between 750 and 1050, usury laws were enacted in the Holy Roman Empire. At that time, usury was not well-defined, and there were no requirements for restitution when the laws were violated. After 1050, usury became well-defined, and there were penalties associated with usury (Noonan, 1957, p. 20). "The high water mark of the ecclesiastical attack on usury was probably reached in the legislation of the councils of Lyons (1274) and of Vienne (1312) ... [Violators] were to be refused confession, absolution, and Christian burial until they had made restitution, and their wills were to be invalid … Any person obstinately declaring that usury is not a sin is to be punished as a heretic, and inquisitors are to proceed against him …" (Tawney, 1962, p. 47). We see that the church took this issue seriously.

As the economy became more complicated, new business agreements were tested to see if they violated the ban on interest. For instance, investing in a partnership and expecting a return was not considered to be a violation, because a partner took a risk (Noonan, 1957, p. 152). The introduction of insurance in the 14th century eventually led to what was called the triple contract. The triple contract allowed for a person to enter into a partnership and have his capital guaranteed not by his partner, which would have been usury since there was no risk, but by an insurer. "Since its [the triple contract's] effects were distinguished from those of a loan by designation for a business purpose of the funds it conveyed, there were no practical differences between it and a loan for business. … The moralists' acceptance of the contract meant the practical exclusion of the old usury theory from business finance" (Noonan, 1957, p. 229). Calvin and some of his contemporaries put the finishing touches on the prohibition against interest,[1] although even these writers placed restrictions on which kinds of loans could require interest. By the middle of the 17th century, at least in Protestant-dominated countries, the discussion concerning interest had moved to the economic consequences of different rates of interest. It took until the middle of the 18th century for the Roman Catholic Church to relax its ban on charging interest, although as late as the middle of the 19th century, individuals such as Father O'Callaghan were pressing for a return to the ban on interest.

Arguments Against Allowing Interest Charges on Loans

The major argument against charging interest is that the Old Testament passages clearly state that interest is not to be charged. As Christians trying to live lives consistent with God's commands, we are called to obey what God has clearly communicated in His Word. Ballard argues that this argument is not for just Old Testament Israel. Some precepts such as the year of Jubilee and some debt remissions were meant to apply only to the Jews of the Old Testament, while the laws against interest easily apply to non-agricultural economies of the 20th century. "Not lending money (or anything else) at interest is a biblical doctrine which is easy to understand in any economic context" (Ballard, 1994, p. 210). It does not make sense to make a distinction between commercial and personal loans. The Israelites were small landowners. Their farms were their source of livelihood. To borrow for the farm was at the same time personal and commercial. Therefore, the Hebrew society was not one in which the distinction between commercial and personal can be made. “The more salient point, though, is that loans to individuals were sometimes for consumption and sometimes business loans since many lived not only by eating what they produced but by selling it” (Ballard, 1994, p. 220).

On the other hand, Calvin argued that this prohibition was primarily a civil one. The Jews were in a unique situation in which it was easy for them to do business among themselves. Other civil situations would lead to different solutions to the interest problem (Harkness, 1931, p. 206). Heichelheim argues that the Jewish nation was primarily agricultural and non-commercial. Loans to each other were non-commercial and, as such, should not have interest charged. Loans to outsiders were primarily to large commercial enterprises, and thus the Jews could charge interest. These commercial enterprises were almost all-engaging in the conduct of foreign trade and usually bought and sold luxury goods.

This is the key argument to the interest issue. If God’s command was for all times and all places, we need to abolish interest charges. Since some Old Testament passages, such as the ceremonial commands, no longer apply to us, we must decide what kind of command we are considering. The Jews did have a unique situation in which a faith community of small landowners occupied a small country. They had a common religion and a common ethnic background. Loans to each other probably were more personal than commercial. The exception allowed for charging interest to foreigners looks like it was an exception given for commercial purposes. If these assumptions are true, the conclusion is that there is no complete ban on charging interest. At the least, interest should be allowed on commercial loans.

A second argument against charging interest is that charging interest is evil because of what happens when interest is charged. Pope Innocent IV agreed with this when he claimed that “Usury is prohibited because of the evil consequences that follow from its practice” (Noonan, 1957, p. 50). Some would go so far as to say that the major intent of the prohibition against charging interest was to prevent the mistreatment of the poor. “Justice forbids profiting from the misfortune of the poor by charging them interest on charitable loans” (Beisner, 1988,

p. 215). In ancient Israel, one of the consequences of charging interest to the poor was that they ended up as slaves when they could not repay debt and interest.

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The prohibition against charging interest might have been to prevent Jews from becoming slaves to other Jews when they could not repay their debt. It then would not apply when debt slavery is not an issue (Heichelheim, 1965). Many people have to borrow for necessities to get through the day. Charging interest on loans such as these will cause those in poverty to fall even further behind and become beholden to the loaner of money. Problems with credit card debt in our time may be evidence of this evil. On the other hand, many borrow at interest for homes and college and have many positive benefits accrue. Given that some good and some bad can occur with borrowing at interest, and given the prohibition against charging interest to the poor in Exodus 22 and Leviticus 25, perhaps the conclusion we should come to is that there should be some mechanism by which low-income people could borrow (for necessities?) without having to pay interest.[2]

A third argument against allowing interest to be charged is that we need to honor those Old Testament commands which were renewed by Jesus. This argument claims that Jesus renews the command against charging interest in Luke 6:35. The Sermon on the Plain (or Mount in Matthew) is not an easy portion of the Bible to interpret. In the sermon, Jesus says to give to those who beg from you. The last time I gave to someone who begged from me, I watched as he took the money to the nearest liquor store. Jesus tells us in the sermon to pluck out our eye if it causes us to sin. I believe there are many Christians whose eyes have caused them to sin, but there are no Christians who have plucked out their eyes because of the sin. The best I can tell, the sermon is not meant to be a new set of commands but is an invitation or explanation of how life would be for those who are fully in God’s kingdom. In that kingdom, there would be people who were willing to help others out to the extent of lending without expecting anything in return. This does not appear to be a case where Jesus is renewing an Old Testament command so as to make it applicable to those who come after Jesus.

A fourth argument against charging interest is that in the Christian era, we have all become brothers and sisters, and because of this, interest should be charged to no one. This argument would hold only if the Old Testament ban was to apply to all people at all times. Since the prohibition does not apply universally, the extension from the Israelite community to everyone does not apply. However, it does seem that Christian churches would want to consider having interest-free loans available to members of their community.

Historically there have been many other arguments against charging interest. The Scholastics put much time and effort into formulating and defending the church's stand against interest. Oresme, following Aristotle, argued that the only natural use of money was as a medium of exchange and that money was sterile. Since money was sterile, it should not be used to "breed, because this is an unnatural use of money ..." (Langholm, 1987, p. 129). Breeding in this case meant creating more money by charging interest on a loan. We see other uses of money such as a store of value and a measure of value. The sterility of money as an argument against interest sounds as foreign to us as does the argument of money having only one use.

Arguments In Favor of Allowing Interest to be Charged

As Christians, the primary argument for allowing interest to be charged is that the prohibition against interest no longer applies. We saw earlier that a case can be made that the Old Testament prohibition should not apply to commercial loans. It may apply to loans to low-income people.

In a modern economy we recognize a time value of money. We believe that it is a good thing to reward those who are willing to part with their money for a time by paying them interest. Many times the money loaned is used to make a profit for the borrower, and interest is a way in which the loaner can be compensated for allowing someone else to use her money. There appears to have been no recognition of the time value of money in ancient Israel.

In biblical times, the economic pie was fixed. If one person hoarded goods, that meant that there was less for someone else to consume, which may have resulted in death. Saving for investment in productive goods is a modern idea of which the ancients had no idea. When we save and invest, the economic pie grows larger, and everyone is better off (Halteman, 1995, p. 59). Since we have a chance to make the community better off by loaning money for productive purposes, we should do so. To expect some reward in terms of interest for parting with our money seems to be reasonable.

The parable of the talents, Matthew 25:14-30, mentions putting money in a bank and earning interest. This parable is seen as a statement by Jesus allowing interest to be given. However, parables usually have one primary point, and it is dangerous to make too much of the story used to make the point. The primary point made by Jesus in this parable is the using of the gifts God has entrusted to us. To make the parable one as endorsing interest would be to read too much into the parable.

Conclusion

The purpose of this study was to review the prohibition against charging interest. My conclusion is that those of us in economics and finance can keep our jobs. The biblical prohibition against charging interest was not a blanket prohibition for all people at all times. Even in the Old Testament, Jews could charge interest to Gentiles. This places interest in a category separate from actions such as incest, which are prohibited at all times. So we need to discover what part of the prohibition, if any, applies to us.

On one end of the scale, it seems clear that commercial loans should be allowed to bear interest. It makes sense to reward those who are willing to postpone using their money to make it available to others. If the money is used for useful investment, the entire community can benefit. On the other end of the scale, it appears as if there should be avenues available for low-income people to borrow without interest. The churches I have been involved in have had a certain amount of money in their budgets that has been given to families in need. Perhaps we should expand this service by making interest-free loans available also. If the loans could be used for education or small business start-up, the recipients would be much better off than if they had continued to receive handouts.

In between these extremes there are a multitude of positions. Micro-enterprise work is being done in the inner cities of our country and in developing countries. Small loans are being made to help make people financially independent. Some of these loans are at low interest rates to encourage accountability and to allow for the accumulation of funds to make further loans. Getting people on their feet financially has many advantages over a dependence on welfare and builds self-esteem, which does not occur under a welfare-only approach.[3]

We may be able to learn some lessons from the financial systems in Israel (see Tamari) and Islamic countries (see Issawi). Interest is not allowed in Israel or some Islamic countries. In general, what happens is that depositors become part owners in the banks in which they deposit their money, and they earn dividends if the bank earns a profit. When banks issue consumption loans, fees are charged which are not considered interest. For commercial loans, several options are available. One option is to have the bank and the borrower provide capital and share profits. Another is to have the bank provide all of the capital for an entrepreneur who later has the option of buying out the bank. While it does not appear practical or necessary to try to legislate mandatory prohibition of interest, the Christian community could open banks which operate more like the banks just described.

There are many issues left to resolve. We should explore having interest-free loans available to those within the Christian community. We should also ask ourselves how far we might want to go with interest-free loans. For what kind of items should the interest-free money be used? Should they be only for necessities? Should a house or a car be included as a necessity? If an interest-free loan is made for a house and the house is sold for a capital gain, should those who loaned the money for the house be allowed to participate in the capital gain? What do we do with those who continue to ask for handouts or interest-free loans? Would welfare recipients be better off in the long run with interest-free loans instead of handouts? Hopefully these are topics in which we can get our students interested. In the classroom, the discussion could provide an interdisciplinary experience as history and theology can be brought in to augment the economic and finance aspects of the conversation. Creative solutions to these questions have the possibility of creating a Christian community more useful to Christians and more attractive to non-believers.

ENDNOTES

[1]Calvin had limits on when interest could be charged. Among other things, he believed that no interest could be charged when lending to the poor. Charity came before lending and some things that were allowed by law could be prohibited to the Christian (Graham, 1978).

[2]One of the first exceptions to the ban on interest in the Middle Ages was to raise money to make loans available to the poor. These loans were provided to the poor at the cost of the service provided. The institutions that made these loans available were allowed to pay interest to attract money, since gift money did not provide adequate funds (Noonan, 1957).

[3]Thanks to a reviewer for suggesting this idea. See also Beckman and Simon for more details.

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