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History of Usury: The Transition of Usury Through Ancient Greece, The Rise of Christianity and Islam, And the Expansion of Long-Distance Trade and Capitalism

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Abstract

Society and its ideas, markets, and institutions are in the constant process of change. These transforming factors contribute to the evolution of economics. Usury is one prominent economic issue that demonstrates this evolution. As it has developed, usury, the lending of money at interest or excessive interest, has been debated for almost two millennia.

During the lifetime of Aristotle, 384-322 B.C., the lending of money for profit was believed to be unnatural and dishonorable. Aristotle and his beliefs of usury provided a foundation of ideas for future perspectives on the practice. This negative connotation associated with usury continued in history as is evident in the development and spread of Christianity and Islam during the Middle Ages. The Christian church drew on biblical passages and moral and religious reasons to define usury as a sin. The Church placed a ban on the practice of usury to prevent this “evil”. In Islam, the Quran and the teachings of the Prophet Muhammad led Muslims to also view usury as a crime. [*excerpt*]

Keywords

usury, banking, money lending, interest rate

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Introduction to Usury

Society and its ideas, markets, and institutions are in the constant process of change. These transforming factors contribute to the evolution of economics. Usury is one prominent economic issue that demonstrates this evolution. As it has developed, usury, the lending of money at interest or excessive interest, has been debated for almost two millennia (Visser, 1998, Usury).

During the lifetime of Aristotle, 384-322 B.C., the lending of money for profit was believed to be unnatural and dishonorable (Madra, 2010, Ancient Greece). Aristotle and his beliefs of usury provided a foundation of ideas for future perspectives on the practice. This negative connotation associated with usury continued in history as is evident in the development and spread of Christianity and Islam during the Middle Ages. The Christian church drew on biblical passages and moral and religious reasons to define usury as a sin. The Church placed a ban on the practice of usury to prevent this “evil”. In Islam, the Quran and the teachings of the Prophet Muhammad led Muslims to also view usury as a crime.

As the world has developed, usury has lost its negative connotation in the West and has become a social norm. The Christian church has lifted its ban on usury while a gradual decrease of the importance of religion is seen. Long-distance trade has developed which also contributes to the increasing emergence of usury. The expanse of trade has led to more people being involved in the market and the augmentation of new ideas on usury.

The rise of capitalism too has affected societies' views of usury. Capitalism does incur the making of self-profit as well as rates of interest. Both of these would have been looked down upon in Aristotle's time and the Middle Ages. In the present however, the West has grown accustomed to capitalism. Interest rates do not carry any negative connotation and usury is no longer considered a sin.

The Christian church and Islam both drew on Aristotle's beliefs on usury to help develop their own disapproving views of the practice. However, as time passed, society developed economically and socially and the Church lifted its ban on usury. Islam has developed as well, yet it still continues to view usury as detrimental to society. The debate on usury has witnessed countless arguments over the past two millenniums, and it will continue to perceive them due to varying opinions and the religious passages in the Bible and the Quran.

History of Usury

Aristotle was revered for his contributions to philosophy and economics. His writings and ideas on usury were significant in Ancient Greece and his influence continues to be seen today. Aristotle distinguished between natural and unnatural exchange to define his view on usury. Natural and unnatural exchange is also known as *arête* (the art of being a good citizen) versus *chrematistike* (the acquisition of wealth) (Madra, 2010, Ancient Greece).

The discrepancy between the two types of exchange heavily influenced people's thought in Ancient Greece and the Middle Ages. As time progressed, this difference became less important, and it ultimately contributed to a less critical view of usury. On this distinction of exchange he says the following:

“There are two sorts of wealth-getting, as I have said; one is a part of household management, the other is retail trade: the former necessary and honorable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another. The most hated sort, 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, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of a modes of getting wealth this is the most unnatural” (Aristotle, mid 300 B.C., cited from Medema, 2003, Excerpts from Politics).

To understand the quote one must comprehend the Greek *polis*; or an independent city state where the citizens have a large role in their public life (Backhouse, 2002, p. 23). In order to survive and carry out their civic role, the citizens required materials to continue living on their estate. This was termed “household management” which was considered to be perfectly natural exchange. The people did take part in trade, however only for necessary items they could not produce themselves. This is the reason Aristotle terms natural trade “necessary and honorable” (Aristotle, mid 300 B.C., cited from Medema, 2003, Excerpts from Politics).

People involved in this household management therefore had a limit on the natural amount of wealth they could accumulate. The ultimate goal for the Ancient Greeks was to obtain the “good life” which entailed being a citizen of the *polis* (which as explained above entailed household management). Aristotle believed in this good life and urged people to acquire it.

Unnatural trade involved one person benefiting from another, an action viewed as usury. The excessive accumulation of wealth solely for profit was considered abnormal and ethically wrong. One would be acting rationally for their “self interest”. If in doing so, one disregards others, then acting in “self interest” is viewed as wrong.

The Greeks viewed usury as the “most hated sort” of trade (Aristotle, mid 300 B.C., cited from Medema, 2003, Excerpts from Politics). Lending money at a high interest rate was using money to make a profit. This was frowned upon

because money was meant to be used for exchange, not for making more money. Aristotle viewed unnatural exchange as a producer of avarice which led to social problems (Kozel, 2006, p.20) He believed that people obsessed with attaining wealth, would be too preoccupied to participate in the *polis* and fail to perform their civic duties (Kozel, 2006, p. 25).

Aristotelian thought is continued and reflected in the Christian church during the Middle Ages. Religion is combined with Aristotle's ideas to influence economic thought on usury during this time period. Citizens involved in trade questioned whether profit was considered moral. They turned toward the Church to address this problem. They looked at Jesus who had his followers give up all their possessions (Backhouse, 2002, p.33). Saints were respected and followed, yet not as extreme. Some Saints did not believe in owning property, because they did not want people to become obsessed with the accumulation of it (Backhouse, 2002, p.34). This fixation with acquiring wealth has always been one main argument against usury.

The Saints in the Christian church reflect Aristotle's negative views on wealth. St. Paul urged people to give up their worldly possessions (Madra, 2010, Middle Ages). They would not have wealth and they would not be distracted with the goal of accumulating money. St. Augustine argues that "wealth should be a means not an end" (Madra, 2010, Middle Ages). St. Augustine is agreeing with Aristotle that the natural exchange of money is deemed appropriate. People need enough money as a "means" to survive. It should not be an "end" and the only goal in one's life.

The Church and the Saints supported a ban on usury by drawing from Aristotle as well as from the Bible. The following biblical passage swayed many Christians that usury was a sin.

“But love ye your enemies, and do good, and lend, hoping for nothing again; and your reward shall be great, and ye shall be the children of the Highest: He is kind unto the unthankful and to the evil” (Luke vi: 35, cited from Nelson, 1949, p.8).

When Christians heard the word of a disciple speak of lending but “hoping for nothing”, they followed their example and adhered to it. The Church thus placed a ban on usury for these religious and moral reasons.

The Crusades also posed an economic reason for the prohibition of lending with interest. Usurers were seen as taking advantage of profits in “commodity corners and loans on the security of lands” that had been placed on the market by nobles gone to fight (Nelson, 1949, pg.7). With the elimination of these usurers, these profits would then be directed toward the promotion of the crusades instead. For efficient and influential promotion of the Crusades, several Popes required the inhibition of usurers (Nelson, 1949, pg.7). Leading up to the Crusades, discussion on the definition of a usurer had been unclear. The Popes then curtailed all usury to solidify the distinction. These actions let it be clear that one of the motives for the Crusades was the elimination of usury. The Crusades also experienced much land being placed on the market by men fighting in the Holy Wars (Nelson, 1949, pg.7). Usurers then exploited the market, seeking profit from the absence of these warriors. While Christianity opposed usury, Islam was seen holding similar views.

The decline of the Roman Empire was followed by the growth of Islam. The golden age of Islam continued to see religious and Aristotelian influences. Muslims drew on these influences to develop their argument that usury was morally and ethically wrong. The Prophet Muhammad argued that no interest should be required in transactions (Madra, 2010, Middle Ages). Muhammad was as admired and esteemed as Aristotle; and the ideas of the two men were revered.

The Qur'an, similar to the Bible, contains passages advising against the practice of usury. The Muslim word for excess when speaking of usury is *riba*. *Riba* is defined as lending money for interest without any risk to the lender (Jones, 1989, *Islam and Usury*). The following Qur'anic passage addresses the issue of *riba*.

“O you who believe! Eat no *Riba* (usury)” (Jones, 1989, cited from the Qur'an, Al Imran 3:130).

The ethics explained in the Qur'an were not to be reconciled with. In addition to the Qur'an, several Hadith were composed urging against the practice. The Hadith are narrations written describing the words and actions of Muhammad to provide them as a guide on how Muslims should lead their lives (Brown, 2009, p.89).

Muslim scholars emphasize the “consumable nature” of money and how it can lead to the distraction of an individual (Jones, 1989, *Islam and Usury*). The Qur'anic passage supports this view and helps Muslims understand the divine adverseness to usury. Muslims believe that God “permits trade yet forbids usury” (Visser, 1998, *Usury*). In the market individuals can make a profit through determination and efficiency in which a value-creating process occurs. While interest is set, profit is susceptible to change. One must work to guarantee that they receive profit, while with interest one knows the amount that they will receive (Visser, 1998, *Usury*).

Many Muslims view usury as the exploitation of the poor. Making money by abusing an economic relationship with the poor is strongly urged against. In Islamic society they have a Principle of Distributive Equity that its economy aims to maintain (Visser, 1998, *Usury*). Usury prevents this equity from being reached. Usury is viewed as making the wealthy more affluent, and the poor more deprived.

Usury is defined by many as a love for money. However, this passion for wealth is only one defining aspect of usury. Many, including the Church and philosophers, criticize usury not only because it is considered an act of greed, but also because it is delineated by the negative morals that one exhibits when one performs usury. Some philosophers and religious advisors disparage usury because it is the act of taking advantage of others. It is a disruption on individuals when they are consumed with the idea of making money, and they may neglect their other duties to society and their families. In addition to greed, the consequences on individuals due to partaking in usury are reasons in themselves to vilify the act.

Changing and Persisting Views on Usury

History has seen a great deal of change in society and the economy. Throughout the world, expansion has occurred and markets have developed. Change is inevitable and is seen every day. A decrease in the importance of religion, the emergence of long-distance trade, and the development capitalism has had an effect on many people's views on usury.

In the West, an emanation of trade has posed new thoughts on individuals' actions and decisions in the market. The decreasing importance of religion along with decreasing government censorship contributed to more new economic ideas. These emerging ideas influenced peoples' shifting opinions on usury. In the West, usury no longer carries a negative connotation and it is no longer viewed as a sin.

The world has evolved and trade has become more complex and defined. In the current globalized world, making profit is present and abundant in the economy. Making profit off of others is seen in exchange between two individuals and exchange on a global scale. Profit drives the market and keeps society in motion. Although some disapprove of the practice, usury is now a widely accepted social behavior.

Long-distance trade resulted in the creation of industries and commercialism. These then led to towns to support these markets and merchant capitalists became prominent (Hunt, 2002, p12). The number of people involved in the market and in trade has increased. As this number became augmented, people became to accept usury more.

The Church lifted its ban on usury around the 18th century as the practice was widely debated. No clear answer on its permissance was found. One philosopher states that while religion has influenced most laws, such as the Christian church and usury, its effects have gradually been “purged away during the past two centuries so that today there is almost nothing is left of them” (Berman, 1974, p.26).

Many view the crisis of religion being present in law as a result from the decrease in self-identification with religion and the Church (Berman, 1974, p.95). A society whose political and religious aspects have no principles of change is believed by some to be a society in danger (Berman, 1974, p.139). As stated previously, change is inevitable and societies must adjust to the evolving times.

As history unfolded, the Church came to realize that usury was economically detrimental to itself. During the Middle Ages, monasteries that existed were capable of lending money (Noonan, 2005, p.131). However, usury was banned and therefore the monasteries did not participate in such practices. As the twelfth century passed economists saw urban churches develop. These churches were also available to lend money (Noonan, 2005, p.131). These economic reasons, combined with an increase in long-distance trade and changing ideas, contributed to the lifting of the usury ban.

The Enlightenment philosophers and the ideas of Adam Smith helped influence a lifting on the ban of usury. In the past acting in one’s own “self-

interest” helped define usury. However, ideas such as Smith’s thoughts on public good and on society shed new light on the debate. Self-interest is argued to be congruent with a flourishing society. Smith’s *Wealth of Nations* describes how a society can prosper even while individuals act in their own self interest (Backhouse, 2002, p.123). While this is possible, he emphasizes that justice must be present in order for society to function properly.

The emergence of capitalism and a free market changed the West’s view on usury. Capitalism led to the break-up of medieval feudalism which was an economic system that supported usury (Hunt, 2002, p.11). Privately owning inputs for production and making a profit became more common and excepted. Capitalism has many definitions, and many individuals began to define it as “honest trade and entrepreneurialism” (Visser, 1998, Usury).

The influence of capitalism was seen as early as the Middle Ages. A subtle shift towards accepting usury is present in loans during this time period. Individuals involved in the market agreed that if the “lender shared in the risk of the venture, the loan was legal” and it was not prohibited (Jones, 1989, Islam and Usury). Laws prohibiting usury rarely intervened with commercial capitalism. Merchants were able to receive a loan if their agreements made them susceptible to risk as well (Jones, 1989, Islam and Usury).

As commercialism became more prominent, a pro-capitalism movement developed in response to a pro-usury movement (Visser, 1998, Usury). The pro-capitalism movement certainly contained more momentum and support. Usury gradually was changing from being viewed as a morally wrong act against others, to being viewed as a more personal action which was not considered ethically wrong.

While the West experienced a major shift in its view on usury, Islam has held fast to its negative connotation on the practice. It has developed with the changing world, but ultimately Islam has not altered its view.

Many Muslims continue to view usury as detrimental to society. Religiously, the Muslims adhere strictly to their sacred texts and the teachings of their Prophets. They do not easily allow modern times to change their opinion on their traditions. Concerning capitalism, the Islamic perspective speaks that “the greatest problem in the capitalist economy is that of the crises and interest which plays a peculiar part in bringing about the crises” (Visser, 1998, Usury).

The evolution of the market economy is unavoidable and the Muslims are seen adjusting to it. To continue being an active participant in the developing world, Muslims have established a new system of Islamic banks. These banks do lend money, however they do not do so usuriously (Jones, 1989, Islam and Usury). The banks are expected to share the risk concerning money with the borrower. Agreements made between the borrower and lenders of the banks do not entail a “predetermined amount over and above principle” (Jones, 1989, Islam and Usury). Money must not be made from money.

In the 1960s, the first modern bank was created in Egypt, and the consecutive three decades have seen great expansion of the system (Visser, 1998, Usury). By doing so, Muslims are attempting to make their national banks function in accord with the teaching of Muhammad and the Qur’an. Muslims claim that their system of banks provides a stable, equitable, and more lucrative, system of lending (Visser, 1998, Usury).

Conclusion

The debate over usury has been intriguing philosophers, economists, and society for the past two millennia. Countless religious, social, and economic reasons are utilized to argue for and against the practice.

Beginning with ancient Greece around 300 B.C., Aristotle is seen emerging with ideas opposing usury. His arguments of natural versus un-natural trade influence people of his time as well as provide the foundation for future arguments. An emphasis is placed on the importance of the Greek *polis* and the citizens' duty and involvement in it. He urges individuals not to be caught up in greed and money making so that they will be able to fulfill their civic duties.

Christianity and Islam emerge during the Middle Ages and draw on Aristotle's teachings. Each respective religion also is seen reviewing sacred texts to support a ban on usury. The Christian church and its Saints explain how usury is morally wrong. They argue how one can be corrupted for exploiting others and being consumed with making a profit. Islam draws on Muhammad's teachings and the Qur'an to prohibit usury. They argue for equity among all; and they frown upon usury as it can take advantage of the poor.

Long-distance trade, capitalism, and a decrease on the emphasis of religion appeared as time passed and the world evolved. More people became involved in the markets and trade became more prominent. New ideas and thoughts on usury emerged as it became a more common practice.

In the West, most of society accepts usury and no longer considers it a sin or a socially unmoral practice. The decline in the importance of religion has contributed to this. The sacred texts and the traditions of the Church have less influence on individuals and their actions in the economy.

Islam however has not experienced such a change of viewpoints on usury. Muslims continue to see the practice as ethically wrong. In response to the evolving world, modern Islamic banks have developed. These banks do not lend money usuriously; and they were created so that all national banks will adhere to Muslim religious law.

The teachings of Aristotle and the sacred texts of both Islam and Christianity will always be available for discussion. Philosophers and economists will draw from these to argue for and against the practice of lending money at interest. While it is important to understand that usury will always be disputed, it is also essential to comprehend that the world is susceptible to change and that adjustments can be made accordingly.

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