

## The problem of interest

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To understand the significance of Calvin's ethics of credit, it is necessary to recall the doctrine he inherited. The prohibition of usury, which Part A has already mentioned, had deep roots. The Hebrew Bible prohibited lending at interest to a fellow Israelite, while allowing it to foreigners.<sup>1</sup> Aristotle had argued that money was sterile, a means of exchange that could not by its nature produce offspring, and that the making of money from money, which the Greek word for interest, *tokos*, meaning offspring, expressed, was the most unnatural form of acquisition.<sup>2</sup> The Church Fathers condemned usury as a sin against charity, while the councils of the Middle Ages extended the prohibition to all Christians.

The scholastic theologians of the thirteenth century, above all Thomas Aquinas, systematised the prohibition. For Aquinas, a loan of money was a transfer of ownership of a consumable good, and to demand more than the sum lent was to sell the use of something that did not exist separately from the thing itself, which was contrary to justice. The scholastics recognised, however, that a lender might suffer a loss or forgo a gain by lending, and they developed a doctrine of extrinsic titles that justified compensation in certain cases: *damnum emergens*, a loss actually suffered by the lender because of the loan; *lucrum cessans*, a gain that the lender forwent because he could not use his money otherwise; *periculum sortis*, the risk of losing the principal; and *poena conventionalis*, a penalty for late repayment.<sup>3</sup> Together with the rent contract, the partnership and the bill of exchange, these titles allowed a large part of the credit economy of the late Middle Ages to operate within the law.

The result was a legal and moral order in which interest was prohibited in principle and permitted in practice, provided it took an approved form. The prohibition shaped the forms of credit, favouring rents, partnerships and exchange contracts. It also placed a moral stigma on open lending at interest, which was left to Jews, Lombards and others tolerated as

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exceptions. The merchants and bankers of the late Middle Ages lived with this ambiguity, many of them fearing for their salvation. The Medici, whose bank was built on exchange contracts that skirted the prohibition, spent large sums on churches and charitable foundations, partly to atone for the sin of usury.

### 1 Notes

1. Exodus 22:25, Leviticus 25:35–37 and Deuteronomy 23:19–20 (prohibition of interest between Israelites; permission to take interest from a foreigner). See the standard literature on biblical economic law. ↩
2. Aristotle, Politics I.10, 1258b, on usury (tokos) as the most unnatural mode of acquisition. See the standard translations. ↩
3. On the scholastic doctrine of usury (Thomas Aquinas, Summa theologiae II-II q. 78) and the extrinsic titles (damnum emergens, lucrum cessans, periculum sortis, poena conventionalis), see the standard literature on medieval economic thought, e.g. Noonan, The Scholastic Analysis of Usury, 1957. To be verified. ↩

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