The Scholastic View on Usury and Economic Instability

Emil B. Berendt
Mount St. Mary's University

Abstract. This article argues that much of Scholastic and neo-Scholastic teaching on usury rests on practical considerations regarding redistribution and market instability. This aspect of usury is underappreciated by economists, especially those in the field of the history of economic thought. A core question usury raises regards the allocation of surplus value in a transaction. Usury is the result of a zero-sum transaction in which the terms of the agreement necessarily leave one party better off at the expense of the other. This links usury to wealth redistribution and market declines. Seen through this lens, the concept of usury is still relevant for modern monetary policy, business cycle moderation, and bubble mitigation.

Keywords: usury, redistribution, interest, Scholasticism

1. Introduction

The concept of usury has a long history spanning many cultures. In the West, it is typically associated with medieval Scholasticism. The connection between usury and economic instability, which is an aspect of usury theory that is underappreciated by modern economists, is the focus of this article. After first sketching the history of usury, this article proceeds to outline current approaches taken by economists, as exemplified in history of economic thought (HET) textbooks. The Catholic Church's position is introduced for two reasons. The first is that, whether justified or not, the typical HET presentation conflates Scholastic thought with Church doctrine, which means that any discussion of the modern economists' thinking on Scholasticism should include Catholic teaching. The second reason has to do with the fact that a proper exegesis of a historical document investigates how contemporaries interpret the writing. Church doctrine provides an important witness in this regard. The final section of this article explores certain aspects of Scholastic and neo-Scholastic monetary theory and then outlines some recent work done in applying it to current economic questions.[1]

[1] Thomas Aquinas is one of the most prominent Scholastics to have influenced the Church's views on usury. HET textbooks tend to use him exclusively as a representative of this system of thought. This approach is adopted here, with subsequent development in Scholastic thought noted as appropriate. Chafuen (2003) has a discussion of some of the writings of the later Scholastics on usury.

2. Usury in the history of economic thought

Economists have taken a wide variety of approaches in presenting the history of usury, as seen in a survey of HET textbooks. When they do bring it up, it is typically in the context of Catholicism.[2] Some authors, such as Hunt and Lautzenheiser (2011), Heilbroner (1999), Heilbroner and Milberg (2012), Sandmo (2011), and Barber (2009), either ignore it or simply make a cursory reference to it.

Other authors offer accounts with varying detail on the Scholastic or the Church's position. Landreth and Colander (2002, 38) have a paragraph on usury, defining it as "*any* taking of interest" (emphasis in original). Blaug (1997, 29-31) devotes most of his discussion to the question of how much the Scholastics influenced Adam Smith. He argues against Keynes and Schumpeter, who held that Smithian thinking was affected by the Scholastics.[3] Blaug summarizes the Scholastic teaching by stating that it "treats all interest on borrowed money as 'usury' and therefore in principle unjustified." Staley (1989, 7-8) offers three paragraphs on the subject and states that usury was "defined as *any* payment of interest on loans" (emphasis in original). Brue and Grant (2013, 135) devote two paragraphs to the medieval understanding of usury and define it as "lending money at interest."[4]

Spiegel (1991, 63-9) presents one of the more thorough discussions among HET textbooks. He brings out the Scholastics' distinctions between different types of contracts and categories of goods. He does, however, seem to equate usury with charging interest. Ekelund and Hébert (2014, 33-8), likewise, have a detailed and nuanced discussion. According to their account of Scholastic thought, "interest" and "usury" are two mutually exclusive concepts. The former is permissible while the latter is not. They also mention that the prohibition of usury does not apply to all financial contracts. Screpanti and Zamagni (2005, 19-21) delve into some of the details of Thomas Aquinas' argument, discussing the Scholastic distinction between interest and usury. In contrast to some authors who assert that usury exists when more is collected than is loaned out, Schumpeter (1954, 103-7) argues that a "simple exegesis of St. Thomas' teaching" proves that this is not the case.

The inconsistency in textbook expositions was noted long ago by De Roover (1955, 161-2), who writes that "the treatment is not only superficial but replete with errors which could have been avoided by going to the sources instead of repeating clichés." Unfortunately,

---

[2] Authors of HET textbooks typically treat "Catholic" and "Scholastic" as interchangeable. While this makes for simplicity of exposition, they are not identical. Theologians have expressed a range of differing opinions on economic matters as, for example, documented by Langholm (1998, 59-76). Church teaching comes from ecclesiastical institutions such as councils and popes. While much of Catholic teaching on usury is based on Scholastic thought, ecclesial discipline and canon law are rooted in magisterial teaching and not directly based on the writings of theologians.

[3] One of the most recent to argue for a substantial influence of the Scholastics on the Scottish School is Chafuen (2003, 15-6).

[4] Inexplicably, Brue and Grant state that Aquinas "reached that conclusion [that usury is a sin] based on the Bible, citing Luke 6:35." Aquinas used the Roman legal concept of the *mutuum* loan and explicitly cites Aristotle in reaching his conclusion. See *Summa Theologica,* II-II, 78, 1, co.

the situation has not improved. Most HET textbooks, when they do cite sources, still rely on secondary sources for the Scholastic or ecclesial views on usury. Economists specializing in medieval studies often reference primary sources. However, with a few exceptions (such as Wood 2004 and Noonan 1957) they tend to avoid magisterial documents.[5]

3. The history of usury

Restrictions on charges for loans are commonly associated with Judaism, Christianity, and Islam. However, such proscriptions have been found in non-monotheistic societies as diverse as Classical Greece, Republican Rome, the First Babylonian Dynasty, and the Sutra period in ancient India. The widespread acceptance of these restrictions across diverse cultures implies that such thinking is not peculiar to Abrahamic religions but reflects a more common socio-economic concern.

The earliest known Mesopotamian laws did not condemn charges for loans but regulated them.[6] The Greco-Roman world saw usury as both a public policy issue and a philosophical question. For example, the biographer Plutarch (1914, 443-7) reported that the Athenian reformer Solon abolished usury. Plato (1968, VIII, 555-6) and Aristotle (1970, I.B.3.X, 1258b) both condemned it. Aristotle argued that some things—such as plants and animals—produce more of their kind; it is thus natural to make a gain from trade in such items. Money, however, does not reproduce on its own—which implies that, in a monetary exchange, if one gains then it is "at the expense of other men."[7]

In the Roman Republic the responsibilities of the *curule aediles* included prosecuting usurers.[8] The senator and historian Cato the Elder, who commended the productivity of an agricultural estate, equated usury with murder (Cicero 1928, II.25.89). Such views continued into the early Roman Empire. In the first century, the *praetor* M. Caelius Rufus proposed that certain interest payments be abolished (Caesar 2016, III.20). Plutarch (1936, 10) condemned usury, as did Seneca the Younger (Seneca 1935, VII, 10).[9]

The Hindu traditions address usury, although different teachings offer different degrees of leniency toward it. The earliest tradition in the Vedic period mentioning usurers is

[5] This is not to say that thoughtful analysis of usury has not been done. The Scholastic approach connects usury with its understanding of the just price. Hence, researchers interested in finance and in the just price have investigated it. See, for example, Baldwin (1959) and McCall (2013). This literature, however, is often not cited in the standard textbooks.

[6] See Laws #18A-21 of the "Laws of Eshnunna" in *ANET*, 162, and Laws #48-51, #88-91 of the "Code of Hammurabi" in *ANET*, 168-9. Maloney (1974) has further details.

[7] Unfortunately, Aristotle did not appreciate that activities such as retailing provide *bona fide* services. Aristotle correctly points out, however, that if an exchange does not lead to any increase in the production of goods and services, then it is a zero sum game—in which case, if one party benefits then the other loses.

[8] "Aediles," *Harper's Dictionary of Classical Literature and Antiquities*. Prohibitions against usury were codified in the Twelve Tables and *Lex Genucia*, although enforcement was uneven (Verboven 2003, 7-28). Both Livy (1924, X:23) and Pliny the Elder (1952, XXXIII.6) describe public projects funded by penalties imposed on usurers.

[9] See also Maloney (1971).

in the Satapatha Brahmana (Satapatha Brahmana, 13:4:3:11). The Sutra period saw the regulations of interest become more explicit and they are found in the Gautama Sutras (1898, XII, 29-36), Baudhayana Dharma Sutras (1882, I, 5, 10, #21 and #22) and Vashishta Dharmashastra (1882, II, #40-42, #48-51). Kautilya, a Mauryan official in the fourth century B.C.E., wrote about limits on interest in the *Arthashastra* (Sihag 2009). Since the first centuries of the Common Era, the smitris of Manu restrict it in certain circumstances (Manu Smitri 1886, VIII, #102, #140, #151-155; X, #115-117).[10] By the 6th century interest was regulated in detail in the Narada smitri (Naradasmriti 1889, I.6-I.7).

The fact that the proscription of usury exists in many cultures over the millennia suggests that the motivations relate to broader economic, social, and political as well as ethical considerations. Aristotle and Plato hinted at the economic considerations by connecting usury to a lack of economic growth resulting from the exchange. Other writers also expressed a practical concern about the redistribution of wealth from debtors to creditors and the resulting social instability. Historian Max Weber (2003, 268) noted that a heavily indebted peasantry would be unable to equip itself in the event of war—hence the laws banning interest charges to others belonging to the same tribe. He attributed the prohibitions in China, India, Rome, and the Old Testament to such reasons. Niewdana's (2015, 34-7) historical survey points to the use of usury in ancient times as a tactic by which the wealthy acquired land and forced debtors into enslavement.

4. Scholastic concerns over economic stability and redistribution

Spurred on by the inflationary speculative credit boom of the twelfth and thirteenth centuries that came on the heels of the Reconquista and the discovery of silver mines in Germany, the Scholastics applied their methodology to the topic of usury (Mews and Abraham 2007, 3). Echoing some of the ancient writers, their teaching rests in large part upon the concern over earning economic profit (i.e., revenue exceeding accounting and opportunity costs) from the sale or lending of a nonproductive asset. Such an activity results in a redistribution of assets and violates the ethical principle of reciprocity. In other words, usury re-slices the proverbial economic pie without making it bigger. This leads to an increased concentration of economic and political power and is not sustainable in the long run. Hence, the themes of redistribution and economic imbalance are two sides of the same coin. The Scholastic solution is adherence to the principle of reciprocity; that is, an exchange of things of proportionate value.[11]

Modern jurisprudence, which is concerned with protecting borrowers, places caps on charges for lending money. For the Scholastics, however, the objective is to protect both borrowers and lenders. The lender is not expected to suffer losses from the transaction, so

[10] For further discussion, see Jain (1929).

[11] Thomas Aquinas defined value as the true market value of the thing exchanged and not a particular individual's utility derived from that good. Aquinas was aware that in a freely made exchange, the utility gained by the parties exceeds the market value of the goods given up; they would otherwise not agree to the trade. See Aquinas (1920, II-II, 77, 1, co.) and Aquinas (1964, V. IX. 980 and 983).

the costs of providing the loan should be borne by those benefitting from the transaction (i.e., the borrowers). It would therefore be unjust to not receive repayment above principal to cover legitimate costs. In Scholasticism, *interest* refers to the sum that a lender is entitled to receive above principal to cover costs. On the other hand, a payment above principal that is redistributive and potentially destabilizing is *usury,* and not permissible.[12]

The foundation of the Scholastic approach is commutative justice.[13] An exchange which is structured in such a way that it inevitably leaves one party with more wealth at the expense of the other results in unjust enrichment.[14] Compensation for covering actual costs, opportunity costs, and normal risk is allowed. It is important to note that the Scholastic proscription does not depend on whether the income from the asset in question is earned or unearned, and is irrespective of the incomes of the parties to the loan.[15]

In modern times, neo-Scholastics extended the understanding of usury as a special case of the just price. Perhaps the clearest summary of this approach was penned by Messner, a neo-Scholastic who defined usury as "the overreaching of others in economic exchange, that is, the appropriation of economic value without corresponding value rendered in return. Thus it is an infringement of equivalence in exchange, that is to say, in the exchange of goods, in wage agreements, and in credit transactions" (Messner 1949, 757). Pesch, another neo-Scholastic, writes that, "[b]y usury in its most general sense, therefore, we mean any *contractual appropriation of obvious surplus value*" (Pesch 2002, 103, emphasis in original).

5. The Catholic Church's understanding of usury

The Catholic Church accepted much of the Scholastic understanding of usury, and sees it through the lenses of the twin themes of redistribution and economic imbalance. As early as the thirteenth century, Pope Innocent IV linked usury with underinvestment. He noted that if usury were permitted, then the wealthy would prefer to put their money in a usurious loan

[12] For more details on the Scholastic definition of usury and interest, see Divine (1959, 3-5).
[13] In contrast, the Hebrew Scriptures primarily address distributive justice (the distribution of goods among groups delineated by tribal or wealth status). The primary biblical citations in the Pentateuch pertaining to usury are Exodus 22:25, Deuteronomy 23:20, and Leviticus 25:35-7. These passages prohibit charges for loans only to certain groups. Aquinas clearly states that the argument for the just price, of which usury is special case, rests upon commutative justice (Aquinas, *Summa Theologica* II-II, 61, 2, co.).
Aquinas defines the two forms of justice: "On the first place there is the order of one part to another, to which corresponds the order of one private individual to another. This order is directed by commutative justice, which is concerned about the mutual dealings between two persons. On the second place there is the order of the whole towards the parts, to which corresponds the order of that which belongs to the community in relation to each single person. This order is directed by distributive justice, which distributes common goods proportionately" (*Summa Theologica* II-II, #61, 1, co.).
[14] See Aquinas, *Summa Theologica*, II-II, 78, 1, co.
[15] An example of unearned income that can be licitly collected from the use of an asset is a landlord collecting rent from a tenant (Aquinas, *Summa Theologica*, II-II, 78, 1, co.). The distinctions between commercial and consumption loans and whether the borrower is poor or wealthy in the determination of when usury exists originate with the Protestant John Calvin (De Roover 1967, 28). See O'Brien (1920, 183). Pope Benedict XIV (2009), in his encyclical *Vix Pervenit* (3.II), also makes this point.

rather than invest in agriculture, resulting in famine (Noonan 1957, 49). Noonan agrees with Pope Innocent's assessment and points out that it is based on historical precedent: "Innocent's argument…may seem naive or exaggerated at first, but the experiences of agricultural communities, such as ancient Greece, or China throughout most of its history offer considerable corroboration" (ibid.). Pope Innocent's concern over the incentives created by usury is also seen in Canon 25 of the Third Lateran Council (1179), which states that, "Nearly everywhere the crime of usury has become so firmly rooted that many, omitting other business, practice usury as if it were permitted" (*Decrees of the Ecumenical Councils* 1990, 223).

Church teaching explicitly states that a lender can charge for reimbursement of legitimate expenses. In the twelfth century, Pope Alexander III acknowledged the title (or right) to recover such expenses (Cleary 1972, 65-6). Session X of the Fifth Lateran Council (1512–1517) examined the question of whether the *montes pietatis*, or pawn shops, charged usury on their loans.[16] It relied on the definition that usury is, "when, from its use, a thing which produces nothing is applied to the acquiring of gain and profit without any work, any expense or any risk" (*Decrees of the Ecumenical Councils* 1990, 626). The council concluded that the charges in question were not usurious because they were used for covering legitimate expenses.

This understanding of usury continued into the early modern period, when in 1745 Pope Benedict XIV promulgated the encyclical *Vix Pervenit*. In it he reaffirmed the existence of the right to recover costs and retained the Scholastic teaching that usury does not apply to equity capital ("contracts differing entirely from loans"), because capital is by its nature productive (Benedict XIV 1981). In more recent times, in response to the 2007-2008 Financial Crisis, Pope Benedict XVI (2009, no. 65) alluded to the *montes pietatis* commended by the Fifth Lateran Council when he made it clear that charging interest is licit but usury is not.

6. Scholastic and Neo-Scholastic thought on financial and monetary economics

The Scholastics make a clear distinction between financing and investing activities, arguing that it is not the acquisition of money but its role in investing in real capital that is the key to productivity.[17] Economic growth, and by extension the interest rate, comes from the creation of goods and services by the application of labor (including entrepreneurial effort) to capital goods (McCall 2008, 566). Stated another way, human effort is the principal cause and money is an instrumental cause of economic growth and profit.[18]

[16] In medieval times, pawnshops did not have the negative reputation they have today. These were institutions specifically created to protect borrowers from predatory lenders (McPadden 2003, 834-5).
[17] "Real capital" is broadly used here as distinct from "financial capital," and includes resources such as intellectual assets and human capital.
[18] If money were inherently productive, the Scholastics argue, then the act of holding currency should earn a return. The purchase of a bond is not a true economic investment because it merely transfers purchasing power from one party to another. The economic investment occurs when the funds raised

Property rights to productive assets are comprised of two components: the right to the disposition of the asset itself and the right to enjoy its use (that is, the stream of services or benefits proceeding from that asset). For example, in the purchase of a car, both of these rights pass with the title and are included in the price. After a car is sold the seller has no right to charge a usage fee. Such a fee would be usurious because the buyer would then be paying double for the right to enjoy the benefits provided by the car.[19]

Two further points should be made regarding the Scholastic view of property rights. First, ownership of an asset implies the assumption of risks and responsibilities. The landlord, and not the tenant, for example, takes responsibility for unexpected major repairs. Second, it holds to a matching principle whereby the returns to an asset should go to the owner of the asset. For example, when a manufacturing company rents a facility and places its own machines in it, then it keeps the profits earned from its operations. The return from the building itself goes to its owner in the form of rent. The building owner has no right to the profits earned from operations inside the building.

As to money, Thomas Aquinas explains, "[h]e who lends money transfers the ownership of the money to the borrower. Hence the borrower holds the money at his own risk and is bound to pay it all back" (Aquinas, *Summa Theologica*, II-II, 78, 2, ad. 5). Moral hazard exists for money loans precisely because the borrower has full ownership of the funds. Once the debtor takes possession of the funds, there is generally nothing to prevent its use to build a business or to be squandered at a casino. The Scholastics considered the loan to be a sale with deferred payment; the lender has no right to any surplus value created by the debtor from the use of the money because it would be an appropriation of the fruits of the exertion of the borrower.[20]

Pesch informs us that the "transfer of ownership of the object of the loan is the real reason why the Middle Ages did not want to recognize that, once a sum of money had been transferred in a loan transaction, one could share in the gain which the other party might make with the money" (Pesch 2002, vol. 5, bk. 2, p. 190). In contrast to a loan, in a business equity investment, "he that entrusts his money to a merchant or craftsman so as to form a kind of society, does not transfer the ownership of his money to them, for it remains his, so that at his risk the merchant speculates with it, or the craftsman uses it for his craft, and

by the bond issue are used to purchase assets that enhance productive capabilities. Usury can exist in financing contracts, but not in investing activities. See Aquinas, *Summa Theologica*, II-II, 78, 3, ad. 3.

[19] This scenario is far from hypothetical. The John Deere Company installed software in their tractors that made it impossible for farmers who purchased the equipment to make their own repairs because the software belongs to the company. The company maintained that the sale is only for a license to operate the equipment (effectively rendering it a type of rental); see Bloomberg (Apr 30, 2017) and Wiens (April 25, 2015). Interestingly, Microsoft is moving from perpetual licenses to annual licenses for its Office products—from a *de facto* ownership to a rental. See Keizer (Oct 29, 2018). The moral question in these two cases is whether the sellers adjusted their prices appropriately to reflect that they are transferring fewer rights. See Aquinas, *Summa Theologica*, II-II, 78, 1 co. for a Scholastic view on the question.

[20] Examples in today's financial markets of loans in which ownership rights pass from lender to borrower can be found in practices such as selling short and engaging in repurchase agreements.

consequently he may lawfully demand as something belonging to him, part of the profits derived from his money" (Aquinas, *Summa Theologica*, II-II, 78, 2 ad. 5).

Aquinas defined money as a medium of exchange (Aquinas, *Summa Theologica*, II-II, 78, 1, co).[21] Money as a store of value and standard of deferred payment are merely extensions of money's primary function of medium of exchange through time. It is money as a store of value that provides an economy with the resources out of which business investment is funded. Hence, there is a link between saving and economic increase. (Messner 1949, 723 ff.) Since true economic growth is rooted in productive capital, Aquinas argued that an increase in money is to be acquired from the fruit of productive assets and not from money itself (Aquinas 2007, I, 8, 10). However, he was cognizant that one can use money to purchase income-generating property, which is a topic developed by subsequent Scholastics.[22]

To the question, "when is money really capital and when is it merely money?," Messner's answer is that true capital comes from saving. He notes there are two sources of credit: stored up purchasing power from saving and new purchasing power from money creation. In the former, purchasing power is transferred from one party to another to buy existing capital goods. In the latter, purchasing power is created in the anticipation of future production, creating the potential for inflation and its accompanying redistributive effects (Messner 1949, 743). Hence, money "is not in itself capital, and the creation of money and the expansion of purchasing power do not create capital" (ibid., 739-40).

7. Titles justifying interest

The Scholastic analysis rejects the time value of money as a justification for interest because time value is not an *intrinsic* characteristic of money. Time is a condition but not a cause because time, *qua* itself, does not directly change economic values. Rather, the relevant cause is the actions of economic agents and investment in the capital stock that influence circumstances, which then affect values (Dempsey 1948, 197).

The Scholastics allow for charging interest to indemnify the lender. As Dempsey states, "These titles were called 'extrinsic' as being something apart from the money itself but yet involved in the loan transaction when viewed concretely as a whole" (ibid., 171). Much like regulators in a modern rate of return case determining which costs are allowable to be passed on to buyers through higher prices, the task the Scholastics set for themselves is to define which costs can legitimately be passed to borrowers. The four predominant titles are *damnum emergens* (emergent loss, primarily operating expenses), *lucrum cessans* (cessant gain or

[21] This definition is similar to the central banks' M1 (which primarily consists of currency and checkable deposits). Interestingly, M1, which includes the forms of money used primarily for transactions, earns no or minimal interest. The non-M1 portion of M2 approaches money capital and does earn interest.
[22] See Aquinas (*Summa Theologica*, II-II, 78, 3, co.). For a discussion on the later Scholastics regarding the relationship between money and financial capital, see O'Brien (1920, ch. 3, sec. 2, §4) and Dempsey (1948, 157-60).

opportunity cost), *poena conventionalis* (damages from failure to return the loan on time) and *periculum sortis* (damages due to default) (ibid., 171-5).

It is important to note that interest is not an automatic pass-through of all costs. The loss must be unavoidable and prudently managed, "for he who loaned the money ought to have guarded against incurring a loss to himself, and the borrower ought not to incur a loss [i.e., pay more interest] because of the stupidity of the lender" (Aquinas 1995, 13, 4, ad. 14).

Aquinas dealt at length with *damnum emergens*. He made it clear, however, that the lender can only ask for compensation for costs that have already been proven to have been incurred. Costs not yet incurred may be unknown, unmeasured or unverifiable by the borrower and are therefore speculative. These amounts cannot be included as part of the *ex-ante* interest negotiations of the contract (*Summa Theologica*, II-II, 78, 2 ad. 1).

Aquinas was hesitant in granting the *lucrum cessans* title because the loss was not certain (*Summa Theologica*, II-II, 62, 4 co.). Opportunity costs of money could only be reasonably estimated with the emergence of deep financial capital markets (i.e., markets with large volumes of transactions) for acquiring business funding.[23] Although such markets did not exist in Aquinas' day, by the mid-1400s vibrant financial markets had become established and the Scholastics accepted the title as practicable (Gordon 1975, 195-9).

As financial markets grew and developed, the Scholastics reexamined their position on the titles.[24] For example, in the earlier days of the *montes pietatis*, Franciscan theologians defended the interest charged by appealing to the titles of *damnum emergens* and *lucrum cessans*. The Dominicans, on the other hand, opposed it on the basis that payment was asked at the beginning of the loan and that it was asked of the poor (Divine 1959, 57-8). The Fifth Lateran Council finally settled the question in favor of the Franciscans.

In the fourteenth century, the cities of Florence, Venice, and Genoa raised funds by means of compulsory loans primarily on merchants. The question arose of whether the interest was usurious. The Augustinians and Dominicans argued it was, but the Franciscans held that this was a case of *lucrum cessans* because the loans were involuntary and the interest rate was lower than the rates of profit earned by the lenders.

By the 1500s, the financial markets in Italy reached a point such that the later Scholastics accepted as practicable both *lucrum cessans* and *damnum emergens* as the basis for charging interest. Bernardine of Siena went as far as stating that money held as transaction balances is capital and therefore incurs an opportunity cost when loaned out. Antonine of Florence even included funds held as a speculative balance as also incurring such a cost (Gordon 1975, 195-9).

The School of Salamanca further refined the understanding of the role of money. Cardinal Cajetan convincingly argued that a voluntary loan of funds intended to be used by a

[23] In illiquid markets, the terms reflect the negotiating power of the two parties, making an estimate of these costs subjective. Lenders have incentives to pad the stated opportunity cost, especially if their intentions regarding alternate uses of their funds are unverifiable.

[24] These debates were not limited to the theologians. For an interesting discussion on the canonists, see Baldwin (1959).

business owner for productive purposes incurs *lucrum cessans* (ibid., 201). On the question of *mora*, or costs of delay, the earlier Scholastics held that a charge for delay should be made only if the repayment is late. This view changed over time. The Salamancan Navarrus argued that a lender incurs costs from the time the loan is given, so that there is no reason to require that a period of time elapse before charging for the loss. The later Scholastics also contended that lenders who were merchants did not necessarily need to offer proof of loss. The Flemish Leonardus Lessius pointed out that this cost is knowable among merchants (Divine 1959, 83).

8. Modern applications

Scholasticism experienced a revival in the late 19th and 20th centuries. Scholars such as Heinrich Pesch, S.J., Johannes Messner, and Bernard Dempsey, S.J. applied Scholastic principles to the modern economy. Prices and interest rates are now determined not by individual negotiation or institutions such as the guilds but in open and impersonal markets. Easily accessible markets for financial capital provide opportunities for true investments, and returns to financial capital are publicly known. (Mulcahy 1952, 152-3). Costs such as *lucrum cessans* are now objectively quantifiable. Risks such as those underlying *periculum sortis* are more easily estimated, and lenders today routinely do so. The risks associated with an individual loan are difficult to assess, but one can estimate the percentage of debts turning bad in a portfolio of a large number of loans.[25] As early as the 17th century, Lessius had already argued that the common estimation of the interest rate in the financial markets includes this cost (Decock 2016, 281).

Neo-Scholastics and some modern economists hold that usury still exists in today's financial systems. John Maynard Keynes alluded to this when he wrote, "I now read these discussions [on the Scholastic understanding of usury] as an honest intellectual effort to separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital" (Keynes 1964 [1936], 351-2). He linked the disequilibrium between saving and investment to the incentive that usury creates to divert resources away from productive activity (Keynes 1932, 135-7). In the absence of usury, interest rates would be lower, which would provide lenders a greater incentive to devote more money to capital investment. McCall explains Keynes' point as follows: "In the scholastic's language, the distinction between a rate of interest and marginal efficiency of capital was the difference between usury from a *mutuum* and profit derived from a true *societas* or *census*" (McCall 2008, 600).[26] Dempsey observed that the titles "correspond very closely to the circumstances in which Fisher's Rate of Return over Cost would be positive, Keynes' Marginal

[25] Nowadays, accountants routinely quantify the allowance for bad debt on their balance sheets.

[26] A *mutuum* loan is one of a fungible good which is consumed in use (i.e., is alienated). A money loan is a *mutuum* loan. The *societas* is a joint commercial partnership and the *census* is an annuity backed by a fruitful real-estate base. These were two common forms of investment in capital in medieval Europe (for more details, see McCall (2008, 571ff.).

Efficiency of Capital would be positive, and Schumpeter's Entrepreneur would have superior alternative uses for capital awaiting exploitation" (Dempsey 1958, 437-8).

Dempsey also described what he calls "institutional usury" in a fractional reserve banking system. Using the distinction between money loans of existing and of new purchasing power, Dempsey noted that credit created *ex nihilo* has minimal costs of production and no opportunity cost. Hence, there is no emergent loss or cessant gain. The return lenders receive from such loans is "pseudo-income" because it is not derived from productive activity. Furthermore, the inflationary consequences of such money creation redistributes income away from those on fixed incomes and owners of deposits (ibid., 432ff.)

Clary (2011) extended Dempsey's institutional usury to the Federal Reserve's decision to pay interest on reserves. In response to the 2007-2008 crisis, banks limited lending and held onto their reserves to boost liquidity. Because there was no intention of using the funds elsewhere in the short term, there was neither emergent loss nor cessant gain—and thus no title to interest. Interest on reserves resulted in a net transfer from taxpayers to financial institutions.

Furthermore, Clary suggested that the interest rates charged in the emergency lending programs were usurious because they were too low given the poor quality of the securities the financial institutions used as collateral. In other words, the interest charged did not cover the *periculum sortis*—resulting in a subsidy of financial institutions at the expense of taxpayers.

Burke (2014) approached the zero interest rate policy (ZIRP) in light of *lucrum cessans*, *damnum emergens*, and *periculum sortis*. These titles roughly correspond to the variables economic theory uses to explain nominal interest rates—inflation, risk, other costs, and the risk-free interest rate. If ZIRP is just, then at least one of these costs would have to be negative if the others are greater than zero.

The *periculum sortis* is nonnegative because the risk of default must be at least zero. *Damnum emergens* has two components, the explicit costs of providing the loan and the costs due to changes in the overall price level. The direct costs of providing the loan are always positive. It is conceivable in a severe deflationary period for *damnum emergens* to be negative. *Lucrum cessans* would normally be positive. However, in a recession there may be a lack of suitable ventures and investors would simply hold onto their funds, waiting for the return of viable projects. The opportunity cost would then be negligible. It is possible that *lucrum cessans* might even be slightly negative. Widespread financial failures might induce investors to place their money in financial investments that are secure but provide a negative return. After examining the data, Burke concluded that the ZIRP in the wake of the Great Recession was unjust because the interest rate was too low to compensate depositors and lenders, resulting in a redistribution of wealth from savers to borrowers.

McCall (2013) proposed that the root cause of the 2007 subprime mortgage market collapse was usury because interest rates far exceeded the costs of providing the loans. First, the origination fee in the mortgage market is meant to cover the administrative costs of

providing the loan. If this were the case (and it is not clear whether mortgage providers truly charged such costs up front), then the mortgage interest rate should be lower than the interest rate for other comparable types of loans because it would exclude *damnum emergens*. Second, to the extent that mortgages are funded by credit there should not be any *lucrum cessans*. Third, there is evidence that many borrowers who took out subprime loans also qualified for prime loans. If these borrowers were good credit risks, then they were likely overcharged for *periculum sortis*. McCall concluded that the high rates caused economic dislocations by diverting financial resources away from real wealth-producing assets.

As mentioned above, usury applies to any transaction where there is an unearned taking of surplus value. Berendt (2019) showed that the rise in demand (fueled by loose credit) that occurred during the housing bubble preceding the Great Recession resulted in the rise in home prices far exceeding the capital expenditures put into housing. Flippers purchased homes with the intent of selling them at higher prices with minimal physical investment in the homes, resulting in a transfer of surplus value. This trend was unsustainable and the market collapsed.

9. Conclusions

The economics profession is divided into two groups in their views on the Scholastic teaching on usury. One, exemplified by many HET authors, takes a dismissive stance toward it. The other, represented by economists who specialize in medieval studies or have a theological background, appreciates the challenges usury presents to an economy. It is argued here that economists should take another look at the question. The persistence of the concept of usury across many cultures suggests that it is rooted in economic reality. Until now, however, very little research has been done by economists to explore the cross-cultural data.

The Scholastic proposal that costs and revenue should be examined through a moral lens can make contribution to modern economics. It offers another perspective on the economist's concept of equilibrium, how the balance between costs and revenue affects economic stability, and the nature of economic surplus. Regarding the question of the appropriation of surplus, it asks who has property rights to it. When can a seller or lender morally appropriate the surplus, and when would doing so violate justice?

The analysis and basic principles of Scholasticism apply to nonfinancial markets as well (Messner 1949, 758). An example can be found with pricing. Managerial economics textbooks present pricing structures such as first-degree price discrimination for extracting consumer surplus. The Scholastic analysis, however, points out that price discrimination redistributes wealth from buyer to seller. This is usurious if the buyer finds an innovative use of the product that generates surplus value and the seller expended no effort in creating that value.

Usury also applies to cases of high market concentration, including monopolies and monopsonies. A monopolist has the potential to raise price in order to appropriate wealth,

while a monopsonist can force a lower price on a seller to the latter's detriment. Finally, the Scholastic analysis can be used to examine changes in income and wealth distributions to see if they are due to changes in productivity or because of usury. There are many fruitful avenues of research for economists to apply the Scholastic and neo-Scholastic concept of usury to today's dynamic economy.

References

Ancient Near Eastern Texts Relating to the Old Testament (*ANET*), 3rd ed. 1969. Edited by James B. Pritchard. Princeton, NJ: Princeton University Press.

Aquinas, Thomas. 1920. *Summa Theologica*, transl. Fathers of The English Dominican Province. London: Burns Oates & Washbourne.

Aquinas, Thomas. 1964. *Commentary on the Nicomachean Ethics.* Vol. 1. Transl. C. I. Litzinger, O.P. Chicago: Henry Regnery.

Aquinas, Thomas. 1995. *On Evil*. Transl. John A. Oesterle, and Jean T. Oesterle. Notre Dame, IN: University of Notre Dame Press.

Aquinas, Thomas. 2007. *Commentary on Aristotle's Politics*. Transl. Richard J. Regan. Indianapolis: Hackett.

Aristotle. 1970. *The Politics of Aristotle.* Edited and transl. by Ernest Barker. Oxford: Oxford University Press.

Baldwin, John W. 1959. "The Medieval Theories of the Just Price: Romanists, Canonists, and Theologians in the Twelfth and Thirteenth Centuries." *Transactions of the American Philosophical Society New Series* 49, no. 4: 1–92.

Barber, William J. 2009. *A History of Economic Thought*. Middletown, CT: Wesleyan University Press.

Baudhayana Dharma Sutras. 1882. In *The Sacred Laws of the Aryas as Taught in the Schools of Apastamba, Gautama, Vashishtha, and Baudhayana, Part 2*. Transl. Georg Bühler. Oxford: Clarendon Press.

Benedict XIV. 1981. "Vix Pervenit" in *The Papal Encyclicals: 1740-1878*. Edited by Claudia Carlen. McGrath Publishing Company.

Benedict XVI. 2009. *Charity in Truth* (*Caritas In Veritate*). Washington, D.C.: United States Conference of Catholic Bishops.

Berendt, Emil B. 2019. "The Housing Bubble: An Application of the Just Price." *Review of Social Economy* 77, no. 3: 393–416.

Blaug, Mark. 1997. *Economic Theory in Retrospect*. Cambridge, UK: Cambridge University Press.

Bloomberg, Jason. Apr 30, 2017. "John Deere's Digital Transformation Runs Afoul of Right-to-Repair Movement," *Forbes*. Retrieved from <www.forbes.com/sites/jasonbloomberg/2017/04/30/john-deeres-digital-transformation-runs-afoul-of-right-to-repair-movement/#72a228b05ab9>.

Brue, Stanley L., and Randy R. Grant. 2013. *The Evolution of Economic Thought*. Mason, OH: South-Western Cengage.

Burke, Joseph A. 2014. "The Scholastic Analysis of ZIRP: Justice, Usury, and the Zero Interest Rate Policy." *Journal of Markets & Morality* 17, no. 1: 105–24.

Caesar. 2016. *Civil War*. Transl. Cynthia Damon. Cambridge, MA: Harvard University Press.

Chafuen, Alejandro A. 2003. *Faith and Liberty: The Economic Thought of the Late Scholastics*. Lanham, MD: Lexington Books.

Cicero. 1928. *De Officiis*. Transl. Walter Miller. London: William Heinemann.

Clary, Betsy Jane. 2011. "Institutional Usury and the Banks." *Review of Social Economy* 69 no. 4: 419–38.

Cleary, Patrick. 1972. *The Church and Usury: An Essay on Some Historical and Theological Aspects of Money Lending*. Hawthorne, CA: The Christian Book Club of America.

Decock, Wim. 2016. "Spanish Scholastics on Money and Credit." In *Money in the Western Legal Tradition: Middle Ages to Bretton Woods*, edited by D. Murray, and W. Ernst, 268–83. Oxford, UK: Oxford University Press.

Decrees of the Ecumenical Councils, Vol. 1. 1990. Edited by Norman P. Tanner, S.J. London: Sheed & Ward.

Dempsey, Bernard W. 1948. *Interest and Usury*. London: Dennis Dobson.

Dempsey, Bernard W. 1958. *The Functional Economy: The Bases of Economic Organization*. Englewood Cliffs, N.J.: Prentice-Hall.

De Roover, Raymond. 1955. "Scholastic Economics: Survival and Lasting Influence from the Sixteenth Century to Adam Smith." *Quarterly Journal of Economics* 69, no. 2: 161–90.

De Roover, Raymond. 1967. *San Bernardino of Siena and Sant'Antonino of Florence: The Two Great Economic Thinkers of the Middle Ages*. Boston: Baker Library.

Divine, Thomas F. 1959. *Interest: An Historical & Analytical Study in Economics & Modern Ethics*. Milwaukee: Marquette University Press.

Ekelund, Robert B., Jr. and Robert F. Hébert. 2014. *A History of Economic Theory & Method*. Long Grove, IL: Waveland.

Gautama Sutras. 1898. In *The Sacred Laws of the Aryas as Taught in the Schools of Apastamba, Gautama, Vashishtha, and Baudhayana, Part 1, 2nd ed*. Transl. Georg Bühler. New York: Christian Literature Company.

Gordon, Barry. 1975. *Economic Analysis before Adam Smith: Hesiod to Lessius*. New York: Harper & Row Publishers.

Harper's Dictionary of Classical Literature and Antiquities. 1898. Edited by Harry Thurston Peck. New York: Harper & Brothers.

Heilbroner, Robert L. 1999. *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*. New York: Simon & Schuster.

Heilbroner, Robert L. and William Milberg. 2012. *The Making of Economic Society*. Upper Saddle River, NJ: Pearson Education.

Hunt, E. K., and Mark Lautzenheiser. 2011. *History of Economic Thought: A Critical Perspective*. Armonk, NY: M.E. Sharp.

Jain, L.C. 1929. *Indigenous Banking in India*. London: Macmillan.

Keizer, Gregg. Oct. 29, 2018. "Microsoft Hikes Office 2019 Retail Prices by up to 10%." *Computerworld*. Retrieved from: <www.computerworld.com/article/3316548/microsoft-hikes-office-2019-retail-prices-by-up-to-10.html>.

Keynes, John Maynard. 1932. "Saving and Usury: A Symposium." *Economic Journal* 42, no. 165: 135–7.

Keynes, John Maynard. 1964 [1936]. *The General Theory of Employment, Interest, and Money*, New York: Harcourt Brace Jovanovich.

Landreth, Harry, and David C. Colander. 2002. *History of Economic Thought*. Boston, MA: Houghton Mifflin.

Langholm, Odd. 1998. *The Legacy of Scholasticism in Economic Thought: Antecedents of Choice and Power*. Cambridge, UK: Cambridge University Press.

Livy. 1924. *History of Rome*. Transl. B. O. Foster. Cambridge, MA: Harvard University Press.

Maloney, Robert P. 1971. "Usury in Greek, Roman and Rabbinic Thought." *Traditio* 36: 79–109.

Maloney, Robert P. 1974. "Usury and Restrictions on Interest-Taking in the Ancient Near East." *Catholic Biblical Quarterly* 36, no. 1: 1–20.

Manu Smitri. 1886. In *The Laws of Manu Translated with Extracts from Seven Commentaries*. Transl. G. Buhler. Oxford: Clarendon Press.

McCall, Brian M. 2008. "Unprofitable Lending: Modern Credit Regulation and the Lost Theory of Usury." *Cardozo Law Review* 30, no. 2: 549–615.

McCall, Brian M. 2013. *The Church and the Usurers: Unprofitable Lending for the Modern Economy*. Ave Maria, FL: Sapientia.

McPadden, A. 2003. "Montes Pietatis." In *New Catholic Encyclopedia.* 2nd ed., vol. 9. Washington, D.C.: Gale.

Messner, Johannes. 1949. *Social Ethics; Natural Law in the Modern World*. Transl. J. J. Doherty. St. Louis, MO: B. Herder.

Mews, Constant J., and Ibrahim Abraham. 2007. "Usury and Just Compensation: Religious and Financial Ethics in Historical Perspective." *Journal of Business Ethics* 72: 1–15.

Mulcahy, Richard E. 1952. *The Economics of Heinrich Pesch*. New York: Henry Holt.

Naradasmriti. 1889. In *The Minor Law Books, Part 1*. Transl. Julius Jolly. Oxford: Clarendon Press.

Niewdana, Leszek. 2015. *Money and Justice: A Critique of Modern Money and Banking Systems from the Perspective of Aristotelian and Scholastic Thoughts*. New York: Routledge.

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

O'Brien, George Augustine Thomas. 1920. *An Essay on Medieval Economic Teaching*. London: Longmans, Green, and Co.

Pesch, Heinrich. 2002. *Lehrbuch der Nationalökonomie/Teaching Guide to Economics*. Transl. Rupert J. Ederer. Lewiston, NY: Edwin Mellen.

Plato. 1968. *The Republic of Plato*. Transl. Allan Bloom. New York: Basic Books.

Pliny. 1952. *Natural History*. Transl. H. Rackham. Cambridge, MA: Harvard University Press.

Plutarch. 1914. "Solon" in *Lives (Theseus and Romulus, Lycurgus and Numa, Solon and Publicola, vol. 1).* Transl. Bernadotte Perrin. Cambridge, MA: Harvard University Press.

Plutarch. 1936. *Moralia (That We Ought Not to Borrow).* Transl. Harold North Fowler. Cambridge, MA: Harvard University Press.

Sandmo, Agnar. 2011. *Economics Evolving: A History of Economic Thought*. Princeton, NJ: Princeton University Press.

The Satapatha-Brahmana According to the Text of the Mádhyandina School, Part 5. 1900. Transl. Julius Eggeling. Oxford: Clarendon.

Schumpeter, Joseph A. 1954. *History of Economic Analysis*. New York: Oxford University Press.

Screpanti, Ernesto, and Stephano Zamagni. 2005. *An Outline of the History of Economic Thought*. Transl. David Field, and Lynn Kirby. Oxford, UK: Oxford University Press.

Seneca. 1935. *De Beneficiis* (*On Benefits*). Transl. John W. Basore. Cambridge, MA: Harvard University Press.

Sihag, Balbir S. 2009. "Kautilya on Law, Economics and Ethics." *Humanomics* 25 no. 1: 75–94.

Spiegel, Henry William. 1991. *The Growth of Economic Thought*. Durham, NC: Duke University Press.

Staley, Charles E. 1989. *A History of Economic Thought: From Aristotle to Arrow*. Cambridge, MA: Blackwell.

Vashishta Dharmashastra. 1882. In *The Sacred Laws of the Aryas as Taught in the Schools of Apastamba, Gautama, Vashishtha, and Baudhayana, Part 2*. Transl. Georg. Bühler. Oxford: Clarendon.

Verboven, Koenraad. 2003. "The Sulpicii from Puteoli and Usury in the Early Roman Empire." *Legal History Review* 71 no. 1-2: 7–28.

Weber, Max. 2003. *General Economic History*. Transl. Frank H. Knight. Mineola, NY: Dover.

Wiens, Kyle. April 25, 2015. "We Can't Let John Deere Destroy the Very Idea of Ownership." *Wired*. Retrieved from <www.wired.com/2ad.015/04/dmca-ownership-john-deere/>.

Wood, Diana. 2004. *Medieval Economic Thought*. Cambridge, UK: Cambridge University Press.