History of Usury Prohibition
A Short Review of the Historical Critique of Usury

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Abstract

Usury - lending at interest or excessive interest - has, according to known records, been practiced in various parts of the world for at least four thousand years. During this time, there is substantial evidence of intense criticisism by various traditions, institutions and social reformers on moral, ethical, religious and legal grounds. The rationale employed by these wide-ranging critics have included arguments about work ethic, social justice, economic instability, ecological destruction and inter-generational equity. While the contemporary relevance of these largely historical debates are not analysed in detail, the authors contend that their significance is greater than ever before in the context of the modern interest-based global economy.

Keywords: usury, interest, debt, discounting, Islamic banking

INTRODUCTION

The concept of "usury" has a long historical life, throughout most of which it has been understood to refer to *the practice of charging financial interest in excess of the principle amount of a loan*, although in some instances and more especially in more recent times, it has been interpreted as *interest above the legal or socially acceptable rate*[i]. Accepting this broad definition for the moment, the practice of usury can be traced back approximately four thousand years (Jain, 1929), and during its subsequent history it has been repeatedly condemned, prohibited, scorned and restricted, mainly on moral, ethical, religious and legal grounds. Among its most visible and vocal critics have been the religious institutions of Hinduism, Buddhism, Judaism, Islam and Christianity. To this list may be added ancient Western philosophers and politicians, as well as various modern socio-economic reformers. It is the objective of this paper to outline briefly the history of this critique of usury, to examine reasons for its repeated denouncement and, finally, to intuitively assess the relevance of these arguments to today's predominantly interest-based global economy. The scope will not extend to a full exploration of some of the proposed modern alternatives to usury, except to describe the growing practice of Islamic banking as an example.

HISTORY OF THE CRITIQUE OF USURY

Usury in Hinduism and Buddhism

Among the oldest known references to usury are to be found in ancient Indian religious manuscripts and Jain (1929) provides an excellent summary of these in his work on *Indigenous Banking in India*. The earliest such record derives from the *Vedic* texts of Ancient India (2,000-1,400 BC) in which the "usurer" (*kusidin*) is mentioned several times and interpreted as any lender at interest. More frequent and detailed references to interest payment are to be found in the later *Sutra* texts (700-100 BC), as well as the Buddhist *Jatakas* (600-400

BC). It is during this latter period that the first sentiments of contempt for usury are exressed. For example, Vasishtha, a well known Hindu law-maker of that time, made a special law which forbade the higher castes of *Brahmanas* (priests) and *Kshatriyas* (warriors) from being usurers or lenders at interest. Also, in the *Jatakas*, usury is referred to in a demeaning manner: “hypocritical ascetics are accused of practising it”.

By the second century AD, however, usury had become a more relative term, as is implied in the *Laws of Manu*of that time: “Stipulated interest beyond the legal rate being against (the law), cannot be recovered: they call that a usurious way (of lending)” (Jain, 1929: 3-10). This dilution of the concept of usury seems to have continued through the remaining course of Indian history so that today, while it is still condemned in principle, usury refers only to interest charged above the prevailing socially accepted range and is no longer prohibited or controlled in any significant way.

Usury in Ancient Western Political Philosophy

Among the Ancient Western philosophers who condemned usury can be named Plato, Aristotle, the two Catos, Cicero, Seneca and Plutarch (Birnie, 1958). Evidence that these sentiments found their concurrent manifestation in the civil law of that period can be seen, for example, from the *Lex Genucia* reforms in Republican Rome (340 BC) which outlawed interest altogether. Nevertheless, in practice, ways of evading such legislation were found and by the last period of the Republic, usury was once again rife. It was the Democratic party in Rome who rededicated themselves to the cause of those suffering the burden of debt, and under the banner of Julius Caesar, a ceiling on interest rates of 12% was set, and later under Justinian, lowered even further to between 4% and 8% (Birnie, 1958). Clearly, this left fertile ground for the assault on usury which the Church would mount following its Christianisation of the Roman Empire.

Usury in Islam

The criticism of usury in Islam was well established during the Prophet Mohammed's life and reinforced by various of his teachings in the *Holy Quran*[ii] dating back to around 600 AD. The original word used for usury in this text was *riba* which literally means “excess or addition”. This was accepted to refer directly to interest on loans so that, according to Islamic economists Choudhury and Malik (1992), by the time of Caliph Ulmar, the prohibition of interest was a well established working principle integrated into the Islamic economic system. It is not true that this interpretation of usury has been universally accepted or applied in the Islamic world. Indeed, a school of Islamic thought which emerged in the 19th Century, led by Sir Sayyed, still argues for a interpretative differentiation between usury, which it is claimed refers to consumptional lending, and interest which they say refers to lending for commercial investment (Ahmed, 1958). Nevertheless, there does seem to be evidence in modern times for what Choudhury and Malik describe as “a gradual evolution of the institutions of interest-free financial enterprises across the world” (1992: 104). They cite, for instance, the current existence of financial institutions in Iran, Pakistan and Saudi Arabia, the Dar-al-Mal-al-Islami in Geneva and Islamic trust companies in North America. This growing practice of Islamic banking will be discussed more fully in a later section as a modern application of usury prohibition.

Usury in Judaism

Criticism of usury in Judaism has its roots in several Biblical passages in which the taking of interest is either forbidden, discouraged or scorned[iii]. The Hebrew word for interest is *neshekh*, literally meaning "a bite" and is believed to refer to the exaction of interest from the point of view of the debtor. In the associated Exodus and Leviticus texts, the word almost certainly applies only to lending to the poor and destitute, while in Deuteronomy, the prohibition is extended to include all moneylending, excluding only business dealings with foreigners. In the levitical text, the words *tarbit* or *marbit* are also used to refer to the recovery of interest by the creditor.

In addition to these biblical roots are various talmudic extensions of the prohibitions of interest, known as *avak ribbit*, literally "the dust of interest" which apply, for example, to certain types of sales, rent and work contracts. This is distinguished from *rubbit kezuzah*, interest proper in an amount or at a rate agreed upon between lender and borrower. The difference in law is that the latter, if it has been paid by the borrower to the the lender, is recoverable from the lender, while the former, once paid, is not recoverable, although a contract tainted by the dust of interest will not be enforced. (The Jewish Encyclopedia, 1912).

Despite the prohibition on taking interest, there is considerable evidence to suggest that this rule was not widely observed in biblical times. In addition to several references in the Old Testament to creditors being exacting and implacable in their extraction of interest[iv], from the Elephantine papyri it appears that among the Jews in Egypt in the fifth century B.C.E. it was a matter of course that interest would be charged on loans (Encyclodpedia Judaica, 1971). This charitable nature of the prohibition on interest suggests that its violation was not regarded as a criminal offense with penal sanctions attatched, but rather as a moral transgression.

The phenomenon of evasion can also be partly explained by changing economic conditions, beginning in the amoraic period in Bayolonia when interest prohibition was held to no longer be compatible with the eocnomic needs of the community. In time, a standard form of legalization of interest was established, known as *hetter iskah*, meaning the permission to form a partnership, which has become so accepted that nowadays all interest transactions are freely carried out in accordance with Jewish law, by simply adding to the note or contract concerned the words *al-pi hetter iskah*. (Encyclodpedia Judaica, 1971).

Usury in Christianity

Despite its Judaic roots, the critique of usury was most ferverently taken up as a cause by the institutions of the Christian Church where the debate prevailed with great intensity for well over a thousand years[v]. The Old Testament decrees were resurrected and a New Testament reference to usury added to fuel the case[vi]. Building on the authority of these texts, the Roman Catholic Church had by the fourth century AD prohibited the taking of interest by the clergy; a rule which they extended in the fifth century to the laity. In the eighth century under Charlemagne, they pressed further and declared usury to be a general criminal offence. This anti-usury movement continued to gain momentum during the early Middle Ages and perhaps reached its zenith in 1311 when Pope Clement V made the ban on usury absolute and declared all secular legislation in its favour, null and void (Birnie, 1952).

Increasingly thereafter, and despite numerous subsequent prohibitions by Popes and civil legislators, loopholes in the law and contradictions in the Church's arguments were found and along with the growing tide of commercialisation, the pro-usury counter-movement began to grow. The rise of Protestantism and its pro-capitalism influence is also associated with this change (McGrath, 1990), but it should be noted that both Luther and Calvin expressed some reservations about the practice of usury despite their belief that it could not be universally condemned. Calvin, for instance, enumerated seven crucial instances in which interest remained “sinful”, but these have been generally ignored and his stance taken as a wholesale sanctioning of interest (Birnie, 1952). As a result of all these influences, sometime around 1620, according to theologian Ruston, “usury passed from being an offence against public morality which a Christian government was expected to suppress to being a matter of private conscience [and] a new generation of Christian moralists redefined usury as excessive interest” (1993: 173-4).

This position has remained pervasive through to present-day thinking in the Church, as the indicative views of the Church of Scotland (1988) suggest when it declares in its study report on the ethics of investment and banking: “We accept that the practice of charging interest for business and personal loans is not, in itself, incompatible with Christian ethics. What is more difficult to determine is whether the interest rate charged is fair or excessive.” Similarly, it is illustrative that, in contrast to the clear moral injunction against usury still expressed by the Church in Pope Leo XIII's 1891 *Rerum Novarum* as “voracious usury ... an evil condemned frequently by the Church but nevertheless still practised in deceptive ways by avaricious men”, Pope John Paul II's 1989 *Sollicitude Rei Socialis* lacks any explicit mention of usury except the vaguest implication by way of acknowledging the Third World Debt crisis.

Usury in Modern Reformist Thinking

Some may be surprised to discover that Adam Smith, despite his image as the “Father of the Free-market Capitalism” and his general advocacy of laissez-fair economics, came out strongly in support of controlling usury (Jadlow, 1977; Levy, 1987). While he opposed a complete prohibition of interest, he was in favour of the imposition of an interest rate ceiling. This, he felt, would ensure that low-risk borrowers who were likely to undertake socially beneficial investments were not deprived of funds as a result of “the greater part of the money which was to be lent [being] lent to prodigals and projectors [investors in risky, speculative ventures], who alone would be willing to give [an unregulated] high interest rate” (Smith, 1937: 339).

The great twentieth century economist John Maynard Keynes held a similar position believing that “the disquisitions of the schoolmen [on usury] were directed towards elucidation of a formula which should allow the schedule of the marginal efficiency to be high, whilst using rule and custom and the moral law to keep down the rate of interest, so that a wise Government is concerned to curb it by statute and custom and even by invoking the sanctions of the Moral Law” (1936: 351-3).

Another less well known anti-usury economic reformist was Silvio Gesell (1904), yet Keynes wrote that the world could learn more from him than from Marx. Gesell, as a successful nineteenth century merchant in Germany and Argentina, condemned interest on the basis that his sales were more often related to the ‘price’ of money (i.e. interest) than people's needs or the quality of his products. His proposal of making money a public service subject to a use fee led to widespread experimentation in Austria, France, Germany, Spain Switzerland, and the United States under the banner of the so-called “stamp script movement”, but these initiatives were all squashed when their success began to threaten the national banking monopolies (Kennedy, 1995). Margrit Kennedy (1995), a German professor at the University of Hannover, is one of the most vocal contemporary critics of interest who builds on Gesell’s ideas, believing that “interest ... acts like cancer in our social structure”. She takes up the cause for “interest and inflation-free money” by suggesting a modification of banking practice to incorporate a circulation fee on money, acting somewhat like a negative interest rate mechanism.

Finally, another school of modern interest critics have their roots in the complementary work of several socio-economic reformists of the early twentieth century, namely Douglas (1924), Fisher (1935), Simons (1948) and Soddy (1926). Their chief common premise was that it is completely wrong and unacceptable for commercial banks to hold a monopoly on the money or credit creation process. For banks to then charge interest (including to government) on money which they had in the first place created out of nothing, having suffered no opportunity cost or sacrifice, amounted to nothing less than immoral and fraudulent practice. Various alternative systems are proposed by the original authors and carried forward by their modern-day torch-bearers, for example, the Social Credit Secretariat and the *Committee on Monetary and Economic Reform*.

RATIONALE FOR THE CRITIQUE OF USURY

Throughout the history of the criticism of usury, various reasons and rationale have been forwarded in support of this position. While some are unique to particular traditions or individuals, many tread on common ground which this section will briefly attempt to synthesise.

Usury as Unearned Income

The Church's simplest and perhaps earliest objection to usury was on the basis that it constituted unearned income, an idea which stemmed from its general doctrine of Just Price. The Lateran Council of 1515 clearly expressed such a view of the Church: “This is the proper interpretation of usury when gain is sought to be acquired from the use of a thing, not in itself fruitful (such as a flock or a field) without labour, expense or risk on the part of the lender.” Birnie reinforces this point by noting that “to live without labour was denounced as unnatural, and so Dante put usurers in the same circle of hell as the inhabitants of Sodom and other practisers of unnatural vice” (1952: 4).

This is also the rationale Ahmad uses to explain why in Islam God[vii] “permits trade yet forbids usury”: “The difference is that profits are the result of initiative, enterprise and efficiency. They result after a definite value-creating process. Not so with interest"; also "interest is fixed, profit fluctuates. In the case of interest you know your return and can be sure of it. In the case of profit you have to work to ensure it" (1958: 25). Perhaps Aristotle had similar sentiments in mind when he argued that "a piece of money cannot beget another".

There is an important psycho-political dimension to this argument. Keynes' biographer, Skidelsky, intriguingly comments that "Keynes's sense that, at some level too deep to be captured by mathematics, 'love of money' as an end, not a means, is at the root of the world's economic problem" (1992: 454). Hence, at a fundamental level of analysis, the so-called evils of usury must be understood as being connected with money being a social psychological construct legitimised by the power dynamics of a given political economy which may or may not be democratically and consciously legitimatised. An illustration of this understanding can be seen in the Christian tradition where Jesus is asked whether taxes should be paid to Caesar. Before uttering the famous words, "Render unto Caesar what is Caesar's," he tellingly first asks to be shown a coin and inquires, "Whose image and superscription hath it? (Luke 20:24)". In other words, "What power structure legitimises this currency?" Jesus's response therefore said much more than merely "pay your taxes." It invited questioning of the very psycho-spiritual power dynamics that constitute the deep roots of human relationship in economy, and which have always caused matters of political economy to be central to prophetic witness.

Usury is what marks the distinction between money being simply a socially contracted abstract mechanism to lubricate between supply and demand, and money as an end in itself. As an end in itself, as a social commodity legitimised through usury to tax other economic activity, the honest process of living by the sweat of one's brow is short-circuited. The true dignity and full reward of ordinary labour is compromised. Money thus becomes self-perpetuating power in itself rather than just a mediating agent of power. And it is the relentlessness of compound interest in the face of adversity that sets the potential cruelty of usury apart from equity-based return on investment. Resonant with Skidelsky's comment about Keynes, one can see how it is the love of money as an end in itself, not the use of money itself, that is said to be the root of all evil (1 Timothy 6). It was in recognition of the the need to have corrective feedback mechanisms that Islam not only injuncts usury, but also imposes Zakat or wealth tax. And more radical still, the Old Testament proposes a complete economic readjustment through the "Jubilee" process every fifty years (Leviticus 25), though there is no evidence that such wholescale redistribution of wealth in all forms was ever actually carried out. Perhaps it is a prophetic vision whose time has yet to come.

Usury as Double Billing

A slightly more obscure rationale was employed by the Church later in the Middle Ages in order to strengthen its anti-usury doctrine. Drawing on some of the concepts of Civil Law, it argued that money was a consumable good (*fungible*), for which the ownership passed from lender to borrower in the course of the loan transaction (*mutuum*), with the fair price of 'sale' therefore being the exact amount of the money advanced. Hence to ask for more in the form of interest was illegal and immoral, "like selling a loaf of bread and then charging in addition for the use of it" (Birnie, 1952: 6). Or, as Aquinas intimated in his *Summa Theologiae*, it would be to sell the same thing twice (Ruston, 1993).

Usury as Exploitation of the Needy

The condemnation of usury in the form of charging for loans to the poor and destitute is a recurring theme in several traditions. This is clearly the contextual meaning of the Judaic biblical passages in Exodus and Leviticus (Encyclopedia Judaica, 1971) and Ruston suggests that "the original target of the medieval usury laws was the medieval equivalent of the 'loan shark' [but that] the medieval theory was unsatisfactory because it could not distinguish the helpful loan from the oppressive" (1993: 173). Sir Sayyed's school in Islam similarly interprets *riba* as "the primitive form of money-lending when money was advanced for consumptional purposes" (Ahmed, 1958: 21). In the Indian tradition, this understanding of usury can be also found, as is evident from this twentieth century quote: "It is Usury - the rankest, most extortionate, most merciless Usury - which eats the marrow out of the bones of the *raiyat* [cultivators] and condemns him to a life of penury and slavery" (Jain, 1929: 110-111).

Ruston (1993) claims usury as exploitation of the needy still exists in modern times. He cites as an example the findings of a 1992 Policy Studies Institute report which concludes that the poor pay more in absolute terms for their money, while seeking credit only for absolute necessities rather than to finance the acquisition of luxury goods which they cannot afford. This is borne out by a recent study by the National Consumer Council (1995) on financial services and low income consumers; as one respondent put it: "It's like being caught, gotcha, and then they [the banks/lenders] start winding you in". Hence, the poor have to sweat doubly so that the rich might live on interest.

A parallel modern argument relates to the devastating social impact of the so-called "Third World debt crisis", a situation which even Pope John Paul II (1989) acknowledges in his *Sollicitude Rei Socialis* when he states: "Capital needed by the debtor nations to improve their standard of living now has to be used for interest payments on their debts". This critical modern manifestation of usury is dealt with in more depth and detail in the comprehensive works of Susan George, *A Fate Worst Than Debt* (1988) and *The Debt Boomerang* (1992), among numerous others. For now, it is only worth pointing out to critics of the Islamic interest-free banking system that if sovereign debt during the 1970's had been advanced on an equity investment basis, debtor countries would not have been caught on the rack of compounding interest at rates established by non-domestic macroeconomic factors. Servicing costs could not have burgeoned whilst at the same time most commodity prices paid to debtor nations collapsed. Return on capital and perhaps capital repayment itself, being commensurate with a nation's economic wellbeing, would have fluctuated in accordance with ability to pay. The debtor nations would therefore have enjoyed fiscal security akin to that of a low geared company. Of course, the fact that much sovereign debt comprised recycled dollars from oil producing Moslem countries is an irony, and a disgrace, that should escape notice no more than eyes should be averted to the hypocricy of usury-promoting countries such as Britain and the United States whose leaders often proclaim Christian values. Be that as it may, by applying the Islamic approach, a lot of human misery could have been avoided. Applying the same principle, this could be the case for the countless individuals and enterprises caught in the trap of impoverishment through non-sovereign debt.

Usury as a Mechanism of Inequitable Redistribution of Wealth

The observation that usury acts as a mechanism by which 'the rich get richer and the poor get poorer' is common to several traditions. Islam rejects financial interest on the basis that it contradicts the Principle of Distributive Equity which its political economy strives to enshrine: "Interest in any amount acts in transferring wealth from the assetless section of the population" (Choudhury and Malik, 1992: 51). Coming from a totally different perspective as a self declared 'individualist', Birnie reaches a similar conclusion: "Interest, by making capital a quasi-monopoly, effectually prevents the establishment of a true competitive system" (1958: 1). Kennedy (1992) provides some excellent empirical evidence of this phenomenon which relates to Germany in 1982. She shows that, while the poorest 2.5 million households paid out (net) DM 1.8 billion in interest, the richest 2.5 million households received (net) DM 34.2 billion. She even goes on to suggest that this covert redistributive mechanism technically works against the constitutional rights of the individual in most countries given that money is a government service to which the public should have equal access.

The psychological effect of this on the relatively poor can be seen to be magnified when merely quantitative evaluation of transfers from poor to rich is superceded by consideration of the qualitative cost of such a wealth transfer. For the relatively rich, the utility gain provided by usury is marginal to the already substantial utility of the principal sum. The principle of the diminishing marginal utility of wealth therefore applies to each incremental unit of wealth procured by interest earnings. The poor, however, experience the converse of this. For them, the loss in utility incurred by having to pay interest is qualitatively much greater than the gain to the rich. Each unit of interest paid incurs increasing marginal utility loss. Permitting usury to operate in an economy therefore reduces overall utility in the economy. This must count as one of the strongest arguments against usury. Any justification of it as an efficient economic instrument would have to first demonstrate that it functions to increase total utility. In the absence of such demonstration, it can justifiably be condemned as a tool of tyranny.

Usury as an Agent of Economic Instability

Gesell's (1904) main objection to interest is that it is an endemic factor in the instability of interest-based economies, i.e. the cycles of boom and bust, recession and recovery. Similarly, Ahmad, arguing from an Islamic perspective, claims "the greatest problem in the capitalist economy is that of the crises [and] interest plays a peculiar part in bringing about the crises" (1958: 36). Even Keynes, the campaigner for interest-based monetary policy, admits the fact that "the rate of interest is not self-adjusting at the level best suited to the social advantage but constantly tends to rise too high" (1936: 350). Kennedy (1995) is bolder, suggesting that the compounded growth of interest may in fact cause inflation. She shows, for instance, how in Germany, while government income, Gross National Product and the salaries and wages of the average income earner rose by about 400% between 1968 and 1989, the interest payments of the government rose by 1,360% which she claims implies an inflationary effect.

Usury as Discounting the Future

The last reason cited for condemning usury relates to the concept and practice of discounting future values. Because compound interest results in an appreciation in invested monetary capital, it is presumed rational for people to prefer having a specified amount of currency now than the same amount some time in the future. This simple and rarely questioned logic has several disastrous implications. For instance, Pearce and Turner (1990) note that discounting affects the rate at which we use up natural resources - the higher the discount rate (derived partly from the interest rate), the faster the resources are likely to be depleted. Daly and Cobb (1990) take this observation to its logical conclusion and show that discounting can lead to the "economically rational" extinction of a species, simply if the prevailing interest rate happens to be greater than the reproduction rate of the exploited species. Another consequence of the discounting principle, argued by Kula, is that "in evaluating long term investment projects, particularly those in which the benefits and costs are separated from each other with a long time interval, the net present value rules guide the decision maker to maximise the utility of present generations at the expense of future ones" (1981: 899).

In this context it is fitting to observe that a key feature that distinguishes financial economy from nature's economy is that the one operates on a compound interest basis, whereas the other is based on simple interest. Money deposited in the bank may yield 10% plus interest on the compounded sum next year, but in nature, if you leave this year's crop of apples on the tree, you are unlikely to pick a compoundedly heavier crop next year! Accordingly, usury permits a disjunction between financial and ecological economy. The result is either the progressive destruction of nature, or in the absence of redistributive social justice, an inbuilt necessity for periodic financial crashes throughout history. The point is well made by the illustration that if Judas Iscariot had invested his thirty pieces of silver at just a few percentage points compound, repayable in silver as of today, the amount of silver required would be equivalent to the weight of the Earth.

The implicit ethics, or dearth thereof, of discounting can be used to illustrate clearly why usury corrupts the natural world as well as social relations. For instance, consider the impact of net present value discounted cash flow methodolgy in appraising the trade-off between natural and human made capital which, over the fullness of time, can usually be justified only if the utility of future generations is discounted (McIntosh, 1996). This violates intergenerational equity - a key principle of sustainable development recognised by both the 1987 Brundtland Commission and the 1992 Rio Earth Summit of the United Nations. It also violates an age old percept of right livelihood which flies in the face of the presumption of time value of money on which interest rates are based: that is, it violates the presumption of many traditional land users that the land should be handed on to the next generation in at least as good heart as it was inherited from the forebears. Discounting, as the counterpoint of usury, can be thus exposed as rueful device employed to justify theft of the children's future. Exploration of the theoretical basis and practical illustrations of this argument perhaps provides much scope for future micro and macroeconomic research in ecological economics.

A MODERN APPLICATION OF USURY PROHIBITION

Islamic Banking

A previous section on Islamic prohibition of usury made mention of the rejection by Islam of financial interest or *riba*, largely on the grounds of its negative distributive justice and equity effects (Khan, 1986). Out of this prohibition has developed perhaps the most sophisticated and complete theoretical systems of interest-free political economy in the world (Chouhury & Malik, 1992).

The specific methods for implementing Islamic banking have centred around financial equity based approaches, most notably *Mudarabah* - a joint venture between the bank and a 'partner' with both contributing to the capital of the project and sharing the profit or loss - and *Musharakah* - in which all the capital for an investment is provided by the bank in return for a predetermined share of the profit or loss of the business undertaking (Kahn & Mirakhor, 1986).

The first modern Islamic bank was established in the 1960s in Egypt (The Banker, 1989) and in the ensuing three decades, Islamic banking has grown into an industry with $80 billion in deposits and 100 banks and finance houses (Khalaf, 1995). Much of this growth has been as a result of the comprehensive attempts by Iran, Pakistan and Sudan over past 10 years to restructure their national banking systems to bring them into accordance with Islamic law of the *Shari'ah* (Aftab, 1986; *The Economist*, 1992a). In addition, increasing numbers of banks outside these countries, including in Western countries, have begun to offer parallel Islamic banking services (O'Brien & Palmer, 1993). As recently as 1996, the UK joined these latter ranks, with Flemmings Merchant Bank (1996) offering the first Islamic banking service, the Oasis Fund, to British customers.

The claimed advantages of the Islamic banking approach to finance are that it results in: more just and equitable distribution of resources; more responsible and profitable lending due to the necessarily closer bank-client relationship; less volatile business cycles; and more stable banking systems (Taylor & Evans, 1987); as well as "the relative efficiency of the interest-free money system over the alternative interest-based system" (Darrat, 1988). On the other hand, the Islamic banking industry has been criticised on a number of counts too: for its lack of uniformity and standardisation of products, accounting systems and endorsements by different *sharia*boards (Khalaf *op.cit*); various bad-debt complications (Shreeve, 1988); the information-gathering burden on potential consumers and banks themselves to ensure the security and profitability of their funds, as well the lack of an interest-rate mechanism to use as a macro-economic tool (*The Economist*, 1992b). However, these limitations must be viewed against the backdrop of Islamic banking as a young and innovative growth market.

CONCLUSION: The preceding paper has attempted to briefly describe the extensive history of the critique of usury, and to crystallise and synthesise the main tenants of the arguments used in support of this position. The fact that we live in a global economic system which is more usurious/interest-based than ever before begs the question, therefore: Are any of these criticisms of the past either serious and convincing enough or currently relevant enough to merit a legitimate challenge to the status quo? In the authors' opinon, every one of the reasons cited in the critique of usury, perhaps with the exception of "double billing", seems more pressing and relevant now than ever. In particular, it is the belief of the authors' that individuals or organisations in the West with money to invest, especially those which like to consider themselves as being ethical, might have rather more to learn from Islam than is generally acknowledged. But first, society needs to be re-conscientised to the relevance of the age-old usury debate in modern times.

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POSTSCRIPT ON THE CREDIT CRUNCH, 2009 (This is not part of the original paper published by ABFH): The global so-called "credit crunch" (defined as "a severe shortage of money or credit") is generally considered to have "started" on 9 August 2007 when disturbing figures from the French bank BNP Paribas raised the cost of credit and awoke the financial community to the wider seriousness of the situation (see the BBC's detailed timeline at http://news.bbc.co.uk/1/hi/business/7521250.stm).

Underlying this had been a rise in US interest rates between 2004 and 2005 from 1% to 5.35%, resulting in high levels of default at the "sub-prime" end, which is to say, the high risk end of the housing market. Because mortgage lenders had sold on their debts via hedge funds to other financial institutions, the consequence of irresponsible lending spread contagiously through banking systems, especially in the West, as house prices started to fall and the real estate asset value underpinning the loans became negative. When BNP Paribas told its investors that they would not be able to draw money out of two of its funds owing to a "complete evaporation of liquidity" it was the start of a domino effect, forcing governments to step in and avert potentially catastrophic runs on major banks.

From the perspective of our paper on usury which we now revisit more than a decade after its first publication in 1998, we find it instructive to reflect on how far such problems can be laid at the door of an interest-based banking system. Full consideration of this is beyond our current scope, but in this postscript we will confine ourselves to making three brief observations.

First, the credit crunch was a consequence of the preceding credit bubble inevitably bursting. In certain Western countries, including Britain and America, governments had deregulated financial agencies to an extent where irresponsible lending became normalised. For example, in Britain, through until 2008, it was easy for people to get mortgage loans on property of 120% of the property value with few questions asked. Property prices were rising sharply, the global economy was booming, and traditional banking caution was thrown to the wind. People re-mortgaged their homes to pay off credit card debts that carried very high rates of interest, and which had been sold to them by aggressive marketing. People had started to believe that ever-rising house values and continuing economic good times would generate property values that would continuously outstrip their liabilities. Far from failing to dispel this notion, leading lenders exploited it. City staff were rewarded with massive "fat cat" bonuses based on the size and quantity of loans made. Concerns about their overall quality of lending portfolios were silenced through hedging – the selling on and spreading out of risk on speculatively buoyant markets.

While everybody played the game and interest rates remained low the system appeared to be working. It met investor expectations with high rewards. But as US interest rates rose in a necessary effort to counteract the economic knock-on effects of house price inflation, the consequences of having bought into a usurious and greed-driven system started to hit home. Loan default rates reached the point of crisis. Those who were able to see it coming, mostly the wealthy and well-advised who had a greater variety of financial options open to them, were able to bail out in time. Those who had been caught with little option if they wanted to buy a house to live in were squashed – leaving many young families now struggling to pay off debts as their house values fell into negative equity. As the media rightly observed, Wall Street's gains are Main Street's losses, with the negative externalities of financial speculation passed on to society as a whole.

We might learn from this that an economics that canonises greed lays in store catastrophic weaknesses that will eventually hit the poor hardest.

Our second point is that globalisation, whilst creating massive new economic wealth from deregulated trade, has reduced resilience in the world financial system. Fire walls between different countries' economies that were held in place by measures such as controls on foreign currency transactions substantially fell away in the years that followed the "new right" economics of Reagan and Thatcher. Enabled by computerised production planning and stock control, new notions of just-in-time commercal supply systems profitably maximised economic efficiency. But there was a hidden cost. It also reduced the resilience that slack allows in highly interdependent chains of supply. Without slack, supply networks, like the socio-ecological systems on which they depend, become brittle. They become prone to breaking rather than bending when placed under stress. And for a monetarily based economic supply system, a bank running out of liquidity is like a car suddenly losing its oil. Devoid of lubrication the engine grinds to a sudden halt. That was why, in 2008, governments were left with no option but to bail out the banks.

This loss of resilience is what distinguishes the current situation from the bank crashes of the 1920s. Back then, society and especially its food production was less industrialised. People lived closer to the land. Most essential services such as food production were local production for local consumption. But today, essential chains of supply are long, often global, and therefore subject to international market and financial vagaries. A glimpse of the consequences of such dependency can be seen from what happened in Britain in September 2000 when fuel tanker drivers went on strike. Within five days, panic buying emptied some supermarket shelves and the media carried sporadic reports of fighting at the checkouts. The Blair government, fearing civil unrest, capitulated. Applied to the situation in 2008, we might ask much more unrest might have broken out if bank failure had resulted in the sudden loss of financial lubrication with its consequent immediate knock-on effects?

We might learn from this that the risks are too high for governments to wash their hands of regulating modern economies. Unfettered free markets expose the very fabric of civil society to the law of the jungle on a bad day. Overly deregulated markets can only be transient phenomena, like handing out free pizza. Because of their abstract nature based on confidence – the word means “faith together” – financial markets are all the more volatile. The brazenness by which financial engineers or rather, marketeers, tried to spread risk by creating derivative “products” driven ultimately by mortgage interest rates and their effect on property values reveal a massive collapse of responsibility. That collapse happened because faith shifted from having direct equity connection to tangible assets onto abstract financial connections that could be many times removed and diluted from the reality on the ground. Such derivatives had become ships of fantasy. Devoid of anchors, they drifted fecklessly with no bearings on the landmarks of reality until the rocks struck.

Our third observation is that many people ask whether the “credit crunch” (the term sounds disarmingly like a packet of breakfast cereal, with a free gift inside) signals the “end of capitalism”. On the contrary, we consider that it represents only a cyclical spasm in the process by which capitalism periodically restructures itself in a crash that most hurts the weak. The consequence of job losses and repossessions in the housing market are that the relatively disadvantaged, many now saddled with negative equity, will be forced long term to work harder to pay off debts, including their share of the national debt that will manifest in tax rises. As such, the creditors – many from their offshore tax havens - retain and reconsolidate a grip that they would not have had if their involvement in the process had been through risk-shared equity holdings, as with Islamic banking principles. These investors will, in future, be the people who find themselves in a position to buy up repossessed (which is to say, bankrupt) housing stock, and thereby strengthen their arm in future as rentiers to those who have lost out. The relatively poor will be forced to work yet harder on a treadmill that damages family life and with it, weakens the future fabric of society.

Capitalism can be understood at many different levels, from honest trade and entrepreneurialism all the way to its advanced Anglo-American casino version. In the latter, the role of money undergoes a shift. It changes from its primary role as a means of recording and lubricating exchanges of goods and services. It takes on second order abstract qualities of being speculative. Here money alone generates more money, and the principle of usury – defining it as the lending of money at real positive rates of interest (i.e. rates greater than what is needed to cover inflation and risk) – is the inner wheel driving the system.

Although we believe capitalism in one form or another is here to stay, the "credit crunch" may go down in history as the most serious challenge yet to financially speculative advanced capitalism. Henceforth electorates and their governments should give more determined consideration to the oligarchic principle of allowing so much power and latitude to shareholders and their financial analysts whose investment motivation is purely to ‘play the market’.

2009 will probably mark the point at which the pendulum starts to swing back to more carefully and strongly regulated financial markets. As it turns out, this approach is entirely consistent with the philosophy of the iconic economists Adam Smith (who was after all a ‘moral philosopher’) and John Maynard Keynes (who warned against the dangers of speculative activities). Ironically, these are often cited by neoliberal market fundamentalists in support of their ideological deregulatory stance. Any of us who have knowingly participated in usury-related casino economics share the responsibility for what has happened. Whilst neither of the current writers is a Moslem, we cannot help but be reminded of the Islamic *hadith* that states: “The taker of usury and the giver of it and the writer of its papers and the witness to it, are equal in crime.” To put it in the language of other Abrahamic religions, we have worshipped at the shrine of Mammon, the god of wealth. Mammon has now transmogrified into Moloch – the fire-filled hollow stone god of the Hebrew Bible. Into his lap the children were reputedly sacrificed … and that, in the name of idolatrously seeking future economic prosperity.

Through the lens of such metaphor the “credit crunch” must, like the “climate change crunch”, be understood spiritually, or in terms of deep values. It is our consumer greed that has driven the problems now faced. Whatever our religious background if any, the crises of present times can be seen as a spiritual, or a values-based wake-up call. As such, modernity may still have something to learn from the ancients.

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(McIntosh also explores the relevance of ancient texts to modern climate change in,
"Hell and High Water: Climate Change, Hope and the Human Condition", Birlinn, Edinburgh, 2008.)

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Endnotes

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[i] Hence, "usury" and "interest" have been used interchangeably in this paper, except where interpretative difference occured historically, in which instance the relevant distinction will be made explicit. Also, "interest" has been taken to refer to any real rate after inflation, bad-debt provision and administrative costs.
[ii] Most notable of these is Surah 2 verses 188, 274-280; Surah 3 verse 130; Surah 4 verses 29, 161; Surah 9 verses 34-35, 43; Surah 30 verse 39.
[iii] Exodus 22:24-25; Leviticus 25:35-37; Deuteronomy 23:19-21; Ezekiel 18: 20; Proverbs 28:8; Psalms 15:5; Nehemiah 5:7.
[iv] I Samuel 22:2; II Kings 4:1; Isiah 50:1.
[v] For more first-hand detailed insight into the theological debate on usury, especially during the 16th and 17th Centuries, some republished original texts from that period include: Blaxton (1974), Culpepper (1974), Fenton (1975), Smith (1975) and Wilson (1925).
[vi] Luke 6: 34.
[vii] Whilst opinions differ on the correctness of doing so differ, the authors have presumed God and Allah to represent the same divine principle though expressed differently in the understanding of respective faiths.