

USURY¹

If you lend money to my poor who dwell with you, you shall not extort from them, nor oppress them with usury.

Exodus 22: 25

I

When I lend my neighbour something such as a house, a car or a tractor, I do not transfer ownership. The thing is mine and he enjoys, for the present, the use of it. I might, then, justly ask some return of him for that use. In contrast, when I lend him something such as corn, bread, wine, meat or eggs, I *do* transfer ownership, for his use consumes the commodity lent. What he returns to me in due course is not the thing I have lent him; it is something standing in its place, a surrogate. Now money is of this nature, something consumed in its use.² The technical name for the category into which such things fall is *fungible*.³ The words 'lend' and 'borrow' are not used strictly in respect of such things, but analogously.

Now, no one is entitled to charge his neighbour a price for the neighbour's use of what is his own. To do so is a species of tyranny akin to the exaction of 'protection money', where one man compels another who wishes to exercise his natural, i.e., God-given, right to be industrious, to pay a fee for the privilege. The exaction of such a charge is usury. Nor does usury cease to be tyranny through being universally tolerated in any society.

Money

"Every article of property has a double use: both uses are uses of the thing itself, but they are not similar uses; for one is the proper use of the article in question, the other is not. For example a shoe may be used either to put on your foot or to offer in exchange..."⁴

Money is the means (medium) of exchange. It divides an exchange of goods into two. Two loaves of bread might be exchanged for one kilogram of potatoes but if I can sell the loaves of bread I have made without being compelled to take the potatoes (which I may not need) it frees me to use the wealth represented by the bread to buy something that I do need. So money serves a valuable purpose in freeing up exchange. Money (taken as money—not as slips of paper, or metallic discs) is useless for any purpose other than as means of exchange.⁵ The man

¹ The inspiration for this paper is the Australian Catholic layman, the late Paul Brazier, who frequently lamented the fact that while the Pope and the better bishops rightly insisted on adherence to the Church's teaching against contraception, they neglected the cognate issue of the burdens a world sunk in usury and self indulgence imposes on young married couples in complying with that teaching.

² Cf. generally on this topic of transfer of ownership, Fr B. W. Dempsey S.J. in his article, *Money, Price and Credit*, in Volume Three, *St Thomas Aquinas, Summa Theologica*, First Complete American Edition, New York (Benziger Bros.), 1948, p. 3366 et seq. at p. 3373.

³ A word taken from the Latin verb *fungor, functus* (to perform; to discharge), from which comes also the word *function*. Things like a house, a car or a tractor, things whose use does not destroy them are categorised as *non-fungibles*.

⁴ Aristotle, *Politics*, 1, x.

⁵ Save where gold or silver is used in coins in part or in whole.

removed from society, the man on a desert island, with a million pounds in notes in his possession might think the only worth his money had was to serve as fuel for a fire. It is society, clearly, which bestows on money its function as a medium of exchange: it is society which gives money its worth.

In the order of causality money is not an end (final cause) but a means to an end. Money is an instrumental cause. This character (of means) appears, too, in the way money serves as an indicator of value, of wealth. Money enables us to put a precise price, in the current market, on bread, potatoes, shoes, and on every other of the almost infinite variety of things needed by men living in society. As Aristotle says:

“Money, like a measure making all things commensurable, equalises them.”⁶

The Principles

Some three hundred and forty years before Christ, the same philosopher revealed usury’s fundamental defect—

“The practice of charging interest on money... is much disliked, and justifiedly so, for it seeks to make a gain, not out of the product of that for which money is provided, but out of the money itself. Money was intended to be a means of exchange, but interest pretends that money of itself is productive. The very term ‘interest’ seeks to demonstrate the birth of money from money as offspring resembles its parent. Wherefore, of all the modes of getting wealth, this is the most contrary to nature.”⁷

And fifty years before Christ, in his study of duties or obligations, Cicero observed—

“[W]hen [Old Cato] was asked what was the most profitable feature of an estate, he replied: ‘Raising cattle successfully.’ What next to that? ‘Raising cattle with fair success.’ And next? ‘Raising cattle with but slight success.’ And fourth? ‘Raising crops.’ And when his questioner asked, ‘How about money-lending?’ Cato replied: ‘How about murder?’⁸

In the thirteenth century, St Thomas Aquinas, commenting on the above passage from Aristotle said this—

“We observe that those things which are born according to nature are of the same species as those that bear them. So is there a sort of offspring when money increases from money. Hence this manner of acquiring is most especially not according to nature, for it is according to nature that money be acquired from natural goods, but not from money.”⁹

And in his *Summa Theologiae*, he wrote—

“To take usury for money lent is unjust in itself because this is to sell what does not exist, and this evidently leads to inequality, which is contrary to justice. [Let us] observe that there are certain things the use of which consists in their consumption: thus we consume wine when we use it for drink, and we consume wheat when we use it for food. Wherefore, in such like things the use of the thing must not be reckoned apart from the thing itself, and whoever is granted the use of the thing is granted the thing itself and for this reason, to lend things of this nature is to transfer the ownership. Accordingly, if a man wanted to sell wine separately from *the use of* the wine, he would be selling the same thing twice; or he would be selling what does not exist; for which

⁶ *Nicomachean Ethics*, Bk V, 1133a & b.

⁷ *Politics* I, x, 1258a & b.

⁸ *De Officiis*, ii, 25 ed. Graev.

⁹ *Comment. in Polit.* Bk. I, lesson viii.

reason, clearly, he would commit a sin of injustice. In like manner he commits an injustice who *lends* wine or wheat, and asks for double payment, viz., first, the return of the thing in equal measure; and second, a price for the use, which is called usury... Now money, according to the Philosopher, was invented chiefly for the purpose of exchange and consequently the proper and principal use of money is its consumption or alienation whereby it is sunk in exchange. Hence it is by its very nature unlawful to take payment for the use of money lent, which payment is known as usury.”¹⁰

In his commentary on *The Sentences* of Peter the Lombard, he exposed another reason why usury is reprehensible—

“Any advantage or gain which accrues to the borrower from a loan, comes from the borrower’s own industry in employing the money shrewdly. But it is not lawful for me to charge a man a price for his own industry, just as I should not be put to any loss by his want of skill [in employing the money lent].”¹¹

Another definition of usury is contained in a complaint to Pope Leo X in 1515 about those who conducted the *Montes Pietatis*, charitable institutions which allowed a charge on loans made to cover the expenses of their officials—

“This is the true interpretation of what is meant by usury that an attempt is made to obtain fruit and gain without labour, expense or risk from something which is barren.”¹²

When a man invests his capital in the business of another—and in all likelihood he will do this using money as a means—he runs with that other the risks of the business, whether of profit or of loss. But the usurer never places his ‘investment’ at risk. No matter what losses befall the borrower, the moneylender is immune, his position secure, a security to which frequently he adds by insisting on a mortgage¹³, or bill of sale, further burdening the borrower.¹⁴ Only if the security fails and no fund remains for him to milk is he troubled.

Fungible things are given us by God “Who makes His sun to shine and His rain to fall on good and evil men alike”¹⁵ The farmer is entitled to charge for his labours in providing the wheat, milk, eggs, honey, grapes, sheep, cattle, and the multifarious other fruits of the earth to his fellow man. But he may not charge him for *the use of* the fruits he sells them. To do so is to arrogate God’s bounty to himself.

“[Usury] is not a sin because it is prohibited; rather it is prohibited because it is in itself sinful, for it is contrary to natural justice.¹⁶... Harm to the innocent evidences an evil; one may never engage in such activity, as neither may one lend at usury.”¹⁷

¹⁰ *Summa Theologiae*, II-II, q. 78, art. 1. My emphases.

¹¹ *In III Sent.* dist. 37, art. 6, ad 4 (St Thomas’s Commentary on the *Sentences* of Peter the Lombard) quoted in *Mr Belloc on Usury*, by Edward J. Coyne S.J., *Studies*, June 1932, Vol XXI, No 82, at p.290.

¹² Quoted in *Mr Belloc on Usury*, by Edward J. Coyne S.J., *Studies*, June 1932, Vol XXI, No 82, at p.296. Cf. Densinger 739.

¹³ There is doom in the word ‘mortgage’ as anyone who investigates its philology may see.

¹⁴ There is nothing wrong with a security document ensuring the return of an amount equal to the sum advanced. What is pernicious is the use of the device to secure ‘interest’.

¹⁵ *Matthew* 5: 45

¹⁶ St Thomas Aquinas, *De Malo*, q.XIII, art. 4, in corpore, quoted in Edward J Coyne SJ, *Mr Belloc on Usury*, op. cit., p. 285.

¹⁷ *De Malo*, q.XIII, art. 4, ad 11 quoted *ibidem*. Fr Coyne cites the second passage in Latin < Occidere innocentem importat determinationem mali; et hoc numquam potest bene fieri, sicut nec dare mutuum ad usuram. > This is my translation.

Non-fungible things also are given us (whether directly or indirectly) by God. Their use is something emanating from them. That emanation may be *above* utility, as a jewel adorns its wearer, or a fine painting serves to elevate the soul of the spectator; it may be of *bare* utility, as a house provides shelter and comfort for a man and his family; or it may be of *productive* utility, as a tractor enables its user to multiply the works he can produce by a factor of twenty, or thirty, or more.

Nothing in this analysis opposes the justice attendant upon investment by a man of portion of his wealth—designated *capital*—to generate further wealth. A man may licitly invest this wealth in the business of his neighbour and justly receive a return for the contribution it makes to the result.

“[U]nless a man applies his labour to his own property, an alliance must be formed between his toil and his neighbour’s property; for each is helpless without the other. This was what Leo XIII had in mind when he wrote: ‘Capital cannot do without labour, nor labour without capital.’”¹⁸

He will probably use money as the vehicle for the investment of his capital in that business. But the capital so invested remains his; it is *his share* in his neighbour’s enterprise. There are any number of morally licit contracts by which such investment may be made: shares, debentures, joint ventures, partnerships, etc. Nor is a man bound necessarily to accept the risks his neighbour may choose to embrace. He may, for example, hire an item of machinery to him for a just fee and the fee is payable regardless of how the neighbour uses it.

The Church’s Teachings

Usury was condemned by the Fathers of the Church, notably by St Ambrose, St Jerome, St Augustine and St Leo the Great. Usury was condemned by the Synod of Elvira (c.305), the Council of Arles (314) and the First Ecumenical Council, that of Nicea in 325. It was condemned by the Second Lateran Council (1139). These condemnations were repeated by Popes Alexander III, Gregory IX, Innocent III and Clement V. In canon 67 of the Fourth Lateran Council (1215), sanctions were directed at those Jews who practised usury to the cost of Christians.

The *Catechism of the Council of Trent* (1566) states—

“[W]hatever is received above the principal, be it money or anything else that may be purchased or estimated by money, is usury... Even among the Gentiles this was always considered a most grievous and most odious crime; and hence the question: ‘How about usury?’ answered by the question, ‘How about murder?’ For they who lend at usury sell the same thing twice, or sell that which has no existence.”¹⁹

In his encyclical to the bishops of Italy, *Vix Pervenit*, on November 1st, 1745, Pope Benedict XIV set forth the principles in five paragraphs which repeated the teaching of St Thomas with additions developed by later theologians.²⁰

¹⁸ Pius XI, *Quadragesimo Anno*, 15 May 1931,

¹⁹ Pt. III, ch. viii, q. xi. The reference is to Cicero’s study of duties or obligations, *De Officiis*, ii, 25 (ed. Graev.) quoted above.

²⁰ The five paragraphs are set out in the Appendix. The whole encyclical may be found at <http://www.papalencyclicals.net/Ben14/b14vixpe.htm>

“That species of sin which is called usury... consists in this: that someone, from the loan itself, which of its very nature demands that only as much be returned as was given, wishes more to be returned... the creditor... contending that some gain is owed him beyond the principal. But any gain which exceeds the amount given is illicit and usurious. Nor may any defence be summoned to justify [such a claim] by arguing that the gain is not great or excessive...; [nor]... that the borrower is rich; nor even by arguing that the money borrowed is not left idle, but is spent usefully, either to increase one’s fortune, to purchase new estates, or to engage in business transactions...”²¹

The Pope acknowledged the licitness of claims arising out of matters extrinsic to the ‘loan’ which would justify the ‘lender’ asking a return on the advance, not as something earned thereby, but as compensation for loss suffered or advantage reasonably foregone in making the loan—

“We do not deny that at times together with the loan contract certain other titles—which are not at all intrinsic to the contract—may run parallel with it [from which] entirely just and legitimate reasons arise to demand something over and above the amount due on the contract.”

There are perils in such claims: a ‘lender’ may easily persuade himself he has been disadvantaged by the advance, and seek compensation for the return he might have had through investment, but without its attendant risks. It is a short step to justifying ‘interest’ as compensation for advantage foregone. So the Pope added this in his directions to the bishops:

“[Y]ou must diligently consider this, that some will falsely and rashly persuade themselves—and such people can be found anywhere—that together with loan contracts there are other legitimate titles... for which it is permissible to receive a moderate amount of interest. Should anyone think like this, he will oppose not only the judgment of the Catholic Church on usury, but also common human sense and natural reason.”

St Thomas had anticipated him.

“The lender cannot enter an agreement for compensation through the fact that he makes no profit out of his money: because he must not sell that which he has not yet and which he may be prevented in many ways from having.”²²

Theologians have resolved the factors under which a claim may be made (in whole or in part) by a lender of money of a borrower, extrinsic to the loan itself, into the following three categories—

- a) compensation for loss suffered (*damnum emergens*)²³; or,
- b) compensation for advantage lost (*lucrum cessans*)²⁴; or,
- c) compensation against the possibility of loss of the amount lent (*periculum sortis*).

We will return to them hereafter.

²¹ The opening words are—‘Hardly had the new controversy... come to our attention, when several opinions began spreading in Italy that hardly seemed to agree with sound doctrine...’

²² *Summa Theologiae*, II-II, q. 78, art. 2, ad 1.

²³ Which includes the effects on savings of inflation, of exactions by government, whether local or state, through taxes, rates, fees and other fiscal burdens in excess of what is just, to fund unneeded services or burdens that follow from adoption of the ideology of socialism.

²⁴ The losses involved in the lack of availability of just investments...

To conclude this section we should set out St Thomas's teaching on the question whether one who borrows cooperates in the usurer's sin.

"He that suffers injury does not sin... Now a usurer sins by doing an injury to the person who borrows from him under the conditions of usury. Therefore he that accepts a loan under a condition of usury does not sin... [H]e does not consent to the usurer's sin but makes use of it. It is for the good of the lending that he borrows, not to enable the usurer to indulge in usury."²⁵

II

The proliferation of usury in the western world was one of the innumerable evils set loose by the revolt against God and His rule initiated by Martin Luther and Henry Tudor in the sixteenth century.²⁶ Inevitably Protestantism's debilitating influence came to have effect even in countries which rejected its principles.

"After [the Protestant Revolt] usury... grew to be a general practice sanctioned by the laws, and the payment of it enforced by the civil magistrate. In England it was under the reign of Cecil, in the year 1571, that interest, though limited to ten per cent, became legal... The birth year of... 'Indiscriminate Usury' is 1609, when, under Calvinism, the Bank of Amsterdam started on its great career of stimulating fortunate capacity and ruining the unfortunate... To the new moral, or rather immoral, ideas thus introduced we owe the rapid development of banking in the 'reformed' nations, the financial hold they acquired and maintained for three centuries. Everyone at last fell into line, and today Usury works side by side with legitimate profit, and, confused with it, has become universal throughout what used to be Christian civilisation..."²⁷

This confusion of licit profit with illicit driven by the Protestant imperative seems to have led to the compromise of practical principle manifest in certain rulings given by the Vatican in the nineteenth century.

On 18th August 1830 Pope Pius VIII responded to a query from the Bishop of Rheims concerning a dispute that had arisen among the confessors of his diocese over the meaning of Pope Benedict's words in *Vix Peruenit* in respect of the profit received by penitents who had approached them from moneys lent to businessmen 'in order that they might be enriched thereby'. Arguments had been produced in favour, and against, such profits. What was the bishop to do? Could his priests give absolution to penitents who confessed to taking interest on loans to businessmen, if the penitent promised to conform in filial obedience to whatever judgement the Pope might pass? Could they, moreover, give absolution to penitents who, while appearing to be in good faith, did not confess a gain in circumstances where the priests knew (from other sources) that they had taken such a gain, and continued to do so, yet refrained from interrogating them through fear the penitents would refuse

²⁵ *Summa Theologiae*, II-II, Q. 78, a. 4 in corp. et ad 1.

²⁶ Contrary to the belief of many Catholics, the detail of those evils was not laid out by the Council of Trent (December 1545-December 1563). Indeed, it is only with the benefit of experience over a great deal of time that their extent may be appreciated.

²⁷ Hilaire Belloc, *On Usury*, reproduced in *Essays of a Catholic*, London, 1931; my copy a reprint by *Books for Libraries Press, Inc.*, New York, 1967 pp. 34-5. Note that Belloc's analysis of what constitutes usury does not accord with that of the Catholic Church. I have excised from the quote a phrase which reflects his erroneous view. That view is addressed hereafter.

to make restitution, or refrain from taking such profits? The Pope responded—*They are not to be disturbed.*

To a second query, whether the bishop could encourage other more rigid confessors who consulted him to follow the same course until the Holy See brought out an express opinion on the question, the Pope responded—*Provided for in the first.* In other words, the more rigid confessors were to be advised of the terms of the Pope's response to the first question. A year later, on 31st August 1831, his successor, Pope Gregory XIV addressed questions put to him by the Bishop of Viviers who sought to know, inter alia, whether the decree of Pius VIII related only to loans to businessmen. The Holy Office simply reiterated the decrees of Pius VIII.

Yet in 1836 their successor Pope Gregory XVI, Prospero Lambertini an eminent canonist, reaffirmed the Church's position.

"It was and is the constant teaching of the Catholic Church, established by the unanimous consent of all the Councils, Fathers and theologians [that usury] is prohibited by every law, natural, divine and ecclesiastical."²⁸

The 1917 *Code of Canon Law* repeated these condemnations in canons 1543 and 2354.²⁹

III

Views Of Various Commentators

Early in the Eighteenth century the Jansenist, Nicholas Broedersen a canon of Delft, in a book, *De Usuris licitis et illicitis*, claimed that interest on a money loan could be justified if three conditions were fulfilled: i) the borrower was rich; ii) the interest charged was moderate; and, iii) the loan was productive. Adverting to *Vix Pervenit*, St Alphonsus Liguori condemned Broedersen's views out of hand—

"This new opinion has rightly been condemned by the Supreme Pontiff."³⁰

In 1823 there was published a work by the late Bishop of Langres, Cardinal C ezar Guillaume de la Luzerne (1738-1821)³¹, in which he argued that a distinction was to be drawn between loans for production and loans for consumption and that while the latter were loans in the nature of *mutuum*, the former were loans in the nature of *locatio*—loans for hire of money (or capital)—and that there could be no criticism of the taking of interest as a just return on such loans. He was unable, however, to explain the words of Pope Benedict XIV forbidding the charging of interest on loans for productive purposes.

In 1892 Claudio Jannet, Professor of Economics at *L'Institute Catholique* in Paris, sought to distinguish between *un pr et   la consommation* and *un pr et   la production* to

²⁸ *De Synodo diocesana*, 1, 10, c. 4, n. 2; quoted in Edward J Coyne SJ, *Mr Belloc on Usury*, op. cit., at p. 286.

²⁹ Canon 1543 stated: "No profit may be taken for the contract of the loan of a fungible but it is not necessarily wrong to agree to payment of the profit that might lawfully have been made with it (de lucro legali pacisci) unless that is obviously immoderate. Even more may be taken if there is a just and proportionate title to do so." Canon 2354 inflicted severe penalties on both clergy and laity guilty of usury.

³⁰ *Moral Theol.* Lib. III. Quoted in Edward J. Coyne S.J., *Mr Belloc on Usury*, op. cit., at p. 290.

³¹ *Dissertations sur le pr et de commerce.*

explain the legitimacy of interest on money loans for productive purposes.³² The eminent Belgian moral theologian, Fr Arthur Vermeersch SJ (1858-1936), rejected these views. Irish Jesuit, Fr Edward J Coyne, offered this telling comment on it in an article in the Irish theological review, *Studies*:

“[T]his theory cuts... across the fundamental principle of justice on which [the Scholastics] built up the doctrines of the just price and of usury. That principle is: that the advantage or gain of the buyer (or borrower) can never justly be reckoned as a sufficient reason for increasing the price (or charging interest on a loan). The advantage or gain which a borrower obtains from his use of the money which I have... lent him, does not belong in justice to me, and consequently, I cannot justly demand a price for it in the form of a share in the product of the loan, or in any other form...”³³

Again, in the 1930s the influential Catholic layman, Hilaire Belloc, published an essay, *On Usury*, in which he contended that the Church’s position was that it was licit to pay interest on a loan for productive purposes.³⁴

At Sydney’s *Aquinas Academy* in the 1950s the thesis was advanced that with the rise of the age of capitalism money began to be used as an instrumental cause for the acquiring of further money. It thereupon ceased to be a mere means of exchange and was no longer a *fungible*. The same thesis appeared in the 1959 text on theoretical and practical ethics of American Jesuit, Fr Austin Fagothey.

“[A] loan of money generally carries with it a contract of interest. Formerly all interest was called *usury*, from the Latin *usura*, the price for the use of a thing; but now usury means only excessive interest. It is well to note this in reading Aristotle’s and St Thomas’s condemnation of *usury*; they do not mean excessive interest only, but any interest. Since they were only reflecting the common view of their day, we ask: why was interest-taking formerly thought wrong and now is the accepted thing?”³⁵

After quoting the teachings of Aristotle (*Politics* I, x, 1258a & b) and St Thomas (*Summa Theologiae* II-II, q.78, a.1) set out above, Fr Fagothey set out his views. It is worth quoting his text *in extenso* as it raises well, if it does not solve, the various issues that confront the modern student of usury.

“These views are no longer held, not because of any change in the moral principles of justice involved, but because of a change in the function of money. Interest was condemned as an attempt to get gain by no labor, expense, or risk from something which does not fructify (money) and hence can afford no just title for the gain.

“In former ages Aristotle’s statement that money is merely a medium of exchange was literally true. It could not be easily turned into capital. There were only handicrafts, no large factories. The only capital worth the name was land, and land, since it was owned by the nobility and was the title to their rank, was not generally on the market for sale. All that a man could do with his surplus money was to keep it locked in a chest or spend it on furnishings and luxuries.

³² *Le Capital, la Spéculation et la Finance au XIXme Siècle*.

³³ *Mr Belloc on Usury*, op. cit., at p. 291.

³⁴ Reproduced in *Essays of a Catholic*, op. cit.

³⁵ Austin Fagothey S.J., *Right and Reason*, (Second Edition) St Louis, 1959; my copy Tan Books, Rockford, Illinois, 2000, at p. 471.

“The change in the function of money was brought about by the introduction of the capitalistic system, appearing first in the mercantile and later in the industrial form. When feudalism was breaking up and the new class of wealthy burghers was coming into prominence, the latter formed joint stock companies to finance projects greater than the wealth of any single man, the profit to be distributed in proportion to the amount contributed. Since the development of these enterprises, and more so after the industrial revolution, money can always find profitable investments and can be readily turned into capital. By such investments money brings profit, breeds more money, and so does fructify.

“Nowadays the person who lends money to another deprives himself of the opportunity of investing his money in profitable enterprises and is deserving of compensation for this loss. This is the modern function of interest. Now that anyone can readily invest his money and turn it into capital, there is no reason why he should ever lend money to another unless he can receive profit in the form of interest. To charge an excessive rate is unjust, and this has now become the crime of usury.

“That this modern idea of interest does not rest on a change of moral principles, but only on a new interpretation of money, is confirmed by the fact that even the ancients admitted the right to compensation for the expenses of the transaction (*damnum emergens*), the loss of the opportunity to seize good bargains (*lucrum cessans*), and the risk of not recovering the principal (*periculum sortis*). In ancient times these were not always present or were negligible; now the reverse is true.

“The above refers to private loans only, in which the just rate of interest would be calculated to offset the loss of potential gain incurred in each case. But how explain the uniform rates of interest prevailing in the money markets? And how is a man justified in taking interest on money loaned to the capitalistic enterprises themselves, in supporting those very institutions that make interest taking on private loans almost an economic necessity? An investor in stocks is entitled to dividends which are his share in the profits, but why is the holder of bonds, who owns no share in the company entitled to interest on his money?

“The answer must be based on the function of credit in the modern financial world. The granting of credit is the placing of economic power at somebody’s disposal. This is an economic service, and as such is worth its price like any other service. He who makes his property available for another’s use charges rent for it. He who makes his money or credit available for another’s use can likewise charge for this use in the form of interest. Interest in this sense has changed radically from interest on private loans. It ceases to be the old contract of interest and becomes much like one of hire or lease. It is rendering a service to the enterprise and thereby to the whole community, whose economic prosperity consists in the total complex of these enterprises. It sets up a market in money as in any other commodity, and the just price is determined in the same way as the price for any other service. The natural rate of interest is what people in general are willing to pay on the open market, and the legal rate is fixed by law.”³⁶

IV

Defects In These Views

1. St Thomas was well aware of the principle underlying the so-called ‘age of capitalism’.

³⁶ Austin Fagothey S.J., *Right and Reason*, op. cit. pp. 472-474.

“He 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: wherefore the lender must not exact more. On the other hand, he who entrusts his money to a merchant or craftsman so as to form a kind of society with him, does not transfer the ownership of his money, for it remains his, so that at his risk the merchant speculates with it, or the craftsman uses it for his craft: consequently he may lawfully demand as something due to him, part of the profits derived from his money.”³⁷

He anticipated the capitalist system in both its ‘mercantile and... industrial form[s]’, and denied these provided any exception to the principle that the charging of interest on a loan of money is illicit. Fr Fagothey’s argument that the principle had somehow altered because the activities had proliferated with ‘large factories’ replacing ‘handicrafts [only]’ will not run. ‘The age of capitalism’ entailed no change in economic principle, simply an enlargement of its application.

St Thomas foresaw, moreover, how usury might proliferate.

“Human laws leave certain things unpunished, on account of the condition of those who are imperfect and who would be deprived of many advantages if all sins were strictly forbidden and punishments appointed for them. Wherefore human law has permitted usury, not that it looks upon usury as harmonising with justice, but lest the advantage of many should be hindered. Hence, it is that in civil law [*Institutes of Justinian*, II, iv] it is stated that *those things according to natural reason and civil law which are consumed by being used, do not admit of usufruct, and that the senate did not (nor could it) appoint a usufruct to such things, but established a quasi-usufruct, namely, by permitting usury...*”³⁸

2. Money remains what it ever was, something consumed in its use. Its characteristic exhaustion in the purchase of commodities is no different in the 21st century AD to what obtained in Aristotle’s time in the 4th century BC. We acknowledge this in our language. We say we ‘spend’ money; i.e., we exhaust it. Money remains the medium of exchange; it remains the measure of value, or worth. Nor have developments in its workings and functions with the flourishing of the use of credit effected a change in its nature.

Money is an instrumental, not a principal, cause. It is not value, but its indication: it is not wealth, but its representation. It is not capital (wealth set aside for the generating of further wealth), but the means of applying, or transferring or gathering, capital. No matter what function money serves, it never rises above its nature as the measure, or sign, of something else. It is never (in Aristotle’s telling condemnation) capable of generating natural offspring. It remains (as the mediaeval theologians insisted) something barren *per se*. A sort of sleight of hand is involved. For while money is one thing; it seems to be another.

Every use of money (as instrumental cause) for the acquiring of further money is reduced to this: that wealth, which money represents, is applied for the acquisition of further wealth, whether —

³⁷ *Summa Theologiae*, II-II, 78, 2, ad 5.

³⁸ *Summa Theologiae*, II-II, Q. 78, a. 1, ad 3.

- o licitly, as in contracts of partnership, or shares in projects, or joint stock companies, or debentures, or joint ventures; or,
- o illicitly, as in usury, or in dealings involving the exaction of unjust rents, or returns beyond a just price, or prices artificially raised through monopoly control, or prices falsely contrived through false information; or in quasi-usury as occurs when shopping centre owners exact from their tenants not only the contracted rental, which may itself be so excessive as to be unjust, but a proportion of their tenants' earnings;³⁹ or, by the exaction, through fear, of 'protection money'.

Since money is intrinsically worthless, it is impossible that money could ever 'be turned into' capital. Stand for capital? Yes. Itself be capital? Never

3. The flourishing of usury did not occur because of the break up of feudalism. Feudalism broke up as a consequence (in large measure) of the burgeoning greed that drove the Protestant revolt. Usury—universal usury⁴⁰—emerged in the train of this movement to buttress and systematise that greed.

4. That the formation of joint stock companies enabled the establishment of projects involving wealth greater than that of any single man (the profits distributed in proportion to the amounts contributed) imports no justification of usury. The necessary contributions could, in every case, be made using licit means. Nor does the conclusion offered by Fr Fagothey—*By such investments money brings profit, breeds more money, and so does fructify*—follow from the premises. It is not *money* that brings the profit in a business undertaking, but the application of human ingenuity and labour to the wealth (capital) represented by the money.

5. The assertion—

“Now that anyone can readily invest his money and turn it into capital, there is no reason why he should ever lend money to another unless he can receive profit in the form of interest” —

has several defects. It a) assumes the conclusion asserted; b) confuses licit with illicit investments, as if both were entitled to a just return; c) confuses licit payments in the nature of compensation to the lender (under extrinsic titles) with illicit, usurious, returns; and, d) denies the fundamental principle underlying the common good, charity. As Pope Benedict XIV taught, there may be justification for the taking by a lender of a payment by way of compensation—wrongly expressed by the name 'interest'—but there is every reason why a man should lend money without the expectation of material profit, namely, for charity's sake, consistent with that saying of Our Blessed Lord, “Use money... to win you friends in eternity.”⁴¹ Here is the principle that can solve the problem of usury.

³⁹ Another notorious instance occurs when tour bus operators demand a proportion of the profits of a shop, in whose proximity they bring their buses to a halt, from the spending of their passengers.

⁴⁰ Usury has always existed within the body economic, but as an aberration, and promoted by those not moved by Catholic principle. In much the same way, prostitution has always existed in societies not devoted to the reign of Almighty God.

⁴¹ *Luke 16: 9*

6. The argument—

“He who makes his property available for another’s use charges rent for it. He who makes his money or credit available for another’s use can likewise charge for this use in the form of interest. Interest in this sense has changed radically from interest on private loans. It ceases to be the old contract of interest and becomes much like one of hire or lease...” —

is simply a restatement of the argument of Cardinal de la Luzerne. It runs foul of St Thomas’s teaching distinguishing fungible things from non-fungible, as of the condemnation in *Vix Peruenit*. The argument could only have force if the nature of money had changed from fungible to non-fungible: but it has not.

Credit, with which most transactions in the modern world are conducted, consists in this, that in place of the physical transfer of specie for the purchase of some thing, I give to the purchaser an order on my banker directing the transfer to him of the value of the purchase price; he on his side agreeing that that value should be credited to an account with his banker.⁴² As money facilitates exchange through convention so, through convention, does credit facilitate money’s movements and obviate most of them. If anything, the operation of credit has made the issue clearer; money is something exhausted in its use.

7. Once admit that usury is not evil but a good, i.e., that it is licit to charge interest on a loan, and there is no limit to the rate of interest that may be charged. That a particular rate is ‘excessive’ is determined only by popular opinion.⁴³ Fr Fagothey’s reference to a “legal rate fixed by law” does not assist. One may hope that the posited law of a state is grounded in moral principle, but it is not necessarily the case. Posited laws are frequently grounded in nothing but expediency.

In any society which tolerates usury the members must sue the moneylender for his bounty in an endeavour to improve themselves, their need aggravated by the artificial raising of prices brought about by usury’s universal availability. Shakespeare’s characterisation in *The Merchant of Venice* is no caricature. The moneylender is notoriously arrogant.⁴⁴

V

There is nothing that passes through our hands that has not been created by God. In the very act of giving things being (whether as fungible, or non-fungible) He gives them this quality, *value*. Notwithstanding that money is something contrived by men, then, it is intimately involved with God’s gifts.

⁴² Until the invention of the ‘credit’ card, this process involving cheques was relatively clumsy and its acceptability suspect in a society where a man’s word could not necessarily be trusted. Electronic advances have ensured that the availability of necessary funds in the account of the purchaser can be assured to the vendor within seconds.

⁴³ In line with his view justifying interest on loans for productive purposes, Belloc argued that a very high rate of interest might in some circumstances be justified, namely, where the loan had facilitated the very high earnings of the man to whom the money had been lent.

⁴⁴ Marked by gross invasions of the privacy of the ‘borrower’, and the imposition of burdensome conditions as part of the price of the moneylenders’ ‘liberality’.

Though it is coextensive with the thing in which it is embodied, the value of a thing is distinct from it. But this is not the case with money; for money (taken as money) has no reality but the signification of value. It is, so to speak, embodied value. The flaw in the arguments seeking to justify usury seems, then, to lie in the erroneous attribution to money, the sign or measure, of this reality in the things it measures.⁴⁵ This, coupled with a denial of distinction reducing all commodities to non-fungibles, allows one man to justify charging another a price for the exercise of gifts God bestows freely on all.

The just price of any commodity is the price determined by men in a market unfettered by deceit or unjust pressure.⁴⁶ Greed imports illicit charges which inflate the just price. When such charges are imposed systematically, as is the case with usury, they diminish the value of money systematically. While usury affects the price of the commodities in respect of whose purchase it is most involved—land, buildings, cars, trucks, ships, aircraft, machinery—its effect percolates down into more essential commodities. The resultant reduction in purchasing power increases the cost of labour, for the worker must live and to live he must be able to afford the essentials of life. A man of average means could once afford to employ his fellows to work in his garden, or as cook or maid in his house, at a wage which would support them. Usury has rendered this impossible now for any but the very rich. The employment which was available universally has disappeared. It is a short step to the extensive unemployment which is the curse of the age.

Not only does usury burden the individual purchaser with an ongoing and unconscionable penalty, its effects touch everyone else. In truth, usury attacks the very structure of the society that tolerates it.

Michael Baker

4th November 2011 — *St Charles Borromeo, Archbishop of Milan*

[to be continued]

⁴⁵ This peril of confusing money with the value of the things it measures is, perhaps, what Christ Our Lord was referring to when He called it 'the mammon of iniquity', or as a more recent translation has it, 'that tainted thing' — *Luke 16: 9*.

⁴⁶ St Thomas Aquinas, *Summa Theologiae*, II-II, q. 77, art. 1. "... *Whatever that you would that men should do to you, you likewise should do to them. (Matt. 7: 12)* But no man wishes to buy a thing for more than its worth. Therefore no man should sell a thing to another man for more than its worth."

VIX PERVENIT

Extract from the Encyclical of Pope Benedict XIV
On Usury and Other Dishonest Profits
November 1st 1745

I. The nature of the sin called usury has its proper place and origin in a loan contract. This financial contract between consenting parties demands, by its very nature, that one return to another only as much as he has received. The sin rests on the fact that sometimes the creditor desires more than he has given. Therefore he contends some gain is owed him beyond that which he lent, but any gain which exceeds the amount he gave is illicit and usurious.

II. One cannot condone the sin of usury by arguing that the gain is not great or excessive, but rather moderate or small; neither can it be condoned by arguing that the borrower is rich; nor even by arguing that the money borrowed is not left idle, but is spent usefully, either to increase one's fortune, to purchase new estates, or to engage in business transactions. The law governing loans consists necessarily in the equality of what is given and returned; once the equality has been established, whoever demands more than that violates the terms of the loan. Therefore if one receives interest, he must make restitution according to the commutative bond of justice; its function in human contracts is to assure equality for each one. This law is to be observed in a holy manner. If not observed exactly, reparation must be made.

III. By these remarks, however, We do not deny that at times together with the loan contract certain other titles—which are not at all intrinsic to the contract—may run parallel with it. From these other titles, entirely just and legitimate reasons arise to demand something over and above the amount due on the contract. Nor is it denied that it is very often possible for someone, by means of contracts differing entirely from loans, to spend and invest money legitimately either to provide oneself with an annual income or to engage in legitimate trade and business. From these types of contracts honest gain may be made.

IV. There are many different contracts of this kind. In these contracts, if equality is not maintained, whatever is received over and above what is fair is a real injustice. Even though it may not fall under the precise rubric of usury (since all reciprocity, both open and hidden, is absent), restitution is obligated. Thus if everything is done correctly and weighed in the scales of justice, these same legitimate contracts suffice to provide a standard and a principle for engaging in commerce and fruitful business for the common good. Christian minds should not think that gainful commerce can flourish by usuries or other similar injustices. On the contrary We learn from divine Revelation that justice raises up nations; whereas sin makes nations miserable.

V. Moreover, you must diligently consider this, that some will falsely and rashly persuade themselves—and such people can be found anywhere—that together with loan contracts there are other legitimate titles or, excepting loan contracts, they might convince themselves that other just contracts exist, for which it is permissible to receive a moderate amount of interest. Should any one think like this, he will oppose not only the judgment of the Catholic Church on usury, but also common human sense and natural reason. Everyone knows that man is obliged in many instances to help his fellows with a simple, plain loan. Christ Himself teaches this: "Do not refuse to lend to him who asks you." In many circumstances, no other true and just contract may be possible except for a loan. Whoever therefore wishes to follow his conscience must first diligently inquire if, along with the loan, another category exists by means of which the gain he seeks may be lawfully attained.