

**The Concept of Interest:  
History, Philosophy, Theology, Modernity**

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*Interest is nothing but a price we pay for time. The question is whether this meaning of economic time is adequately negotiated.*

Sometimes the complaint is heard that philosophers and theologians distance themselves from discussions about economic life. There is much truth to this, but for one who takes an honest look, there is one exception: *interest*. Perhaps one should say there *was* an exception, for in the current discussion over interest one hardly hears from them anymore, even though such discussions are ongoing.

Greece has problems because borrowing money has become so expensive for them. Because of doubts about her solvability and the resulting mistrust, interest based on Greek state financial documents have increased to sometimes more than 25%.

In the Dutch Lower Chamber there are ongoing discussions about the reduction of mortgage interests, which, in turn, contributes to uncertainties in the housing market. And did the financial crisis that we experienced some time ago not have its source in cheap loans—the so-called “sub prime rates—to American home owners who were not credit worthy? Over the past few years, the Dutch pension funds lost approximately 110 billion within less than half a year because of disappointing investment incomes. Some time ago, the newspaper *Het Parool* published an article under the heading “*Nederland nietklaarvoor islamitisch bankieren.*”<sup>2</sup> That is a pity for The Netherlands, for interest-free Islamic banking is experiencing an enormous surge. Moroccan banking is gaining a foothold in the Dutch economy. The *Islamic Finance Report* of 2010 reported with pride that it had crossed the thousand-billion-dollar threshold.

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<sup>1</sup>Roel Jongeneel, trans. Jan H. Boer, “Met Rente.” *Sophie*, March 2011, pp. 28-31.

<sup>2</sup>“The Netherlands not prepared for Islamic banking.”

## *Religions*

Many religions have prescribed some form of a ban on interest. This is true not only in Islam, but even earlier in Judaism, Christianity and Hinduism. The Talmud compares a person who charges interest with a murderer. The Roman Catholic Church denied a usurer access to the Eucharist, while they forfeited their right to a Christian burial. Some religions changed with the times and softened the sharp edges of the ban. They did this, for example, by introducing a clear distinction between interest and usury or by way of “creative” theological considerations. Other religions, among them Islam, retain their strict principles. The prophet Muhammad compares those who charge interest with idol worshippers some 35 times in the Qur’an, or, in the strong images of the East, as committing incest with one’s mother. Thus absolutely wrong and contrary to nature! Criticism of charging interest can thus hardly be ignored and is wide spread. After all, the followers of these religions constitute about a third of the world’s population.

## *Aristotle*

Along with Plato, Aristotle (384-322 BC) is one of the most influential philosophers in the Western tradition. In fact, the term “economy” is derived from what he referred to as “*oikonomia*,” a term that intimated proper management of a household or a country estate. One of his most famous sayings is that money does not generate money. What did he mean by that? In short, to earn money purely by loaning money is unnatural. Money is different from property or cattle. Both of the latter can generate profit: the harvest from the land or the calf from a cow. If a piece of land is rented out or a cow is loaned, the increase enables one to repay the owner. That is natural. But that is not the way with money and therefore it is unnatural to calculate a price or interest for its use. Money generates nothing and can therefore not yield a profit.

The demand for interest, according to Aristotle, belongs to the terrain of the unnatural economy, which he preferred to designate “*chrematistike*.”<sup>3</sup> This standpoint of Aristotle has been very influential, also in the Christian tradition. The question is, however, whether this position is either good philosophy or bad

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<sup>3</sup>According to Wikipedia, “The term χρηματιστική ( *chrēmatistikḗ* , sc. *téchnē* ) is generally translated by ‘the art of acquiring money’, but should be understood in a wider sense as the practice of acquiring exchange goods ( *χρήματα* , *chrēmata* ).” Accessed May 18, 2019.

economics. I suspect the latter. But it is difficult to reproach him, because it would be a long time before economics emerged as a scholarly discipline. But it was not so difficult to realize that money can be used as a means to unfold activities that can actually be profitable, so that money is thus not that different from property. It was the French economist Turgot who contended and recognized this last thesis.

### ***Thomas***

In the Roman Catholic Church there exists a long tradition around the ban on interest. They would appeal directly to the Bible. It was especially Thomas of Aquinas (1225-1274), the great Medieval scholastic theologian-philosopher, who expressed and defended the ban in his *Summa Theologica*. There he asks whether it is sin to receive money after you give someone a loan. His response is that it is indeed unlawful, for it is as it were selling something that does not even exist. This is contrary to all the demands of justice. After all, one cannot demand money if there is no contra-achievement. Once the debtor returns the original amount, has the transaction not been completed? To insist on interest is in that case the equivalent to usury.

Usury was repeatedly condemned as sin, among others, by the second Lateran Concilium (1179), the third (1215) and the fourth (1215), as well as by the second Concilium of Lyon (1274). In addition, like the Greeks, Scholastics were clear that money is an inanimate or dead entity that cannot reproduce itself like animals. Nevertheless, during the course of the centuries under certain circumstances a few restricted exceptions were tolerated.

### ***Calvin***

Luther and other Reformers agreed with the ban on interest held by the old mother church, but there was one exception among them and that was Calvin. According to him, it cannot be said that the Bible rejects the interest phenomenon *per se*. To be sure, the laws of Moses forbid such interest, but, according to Calvin, this no longer has authority. In Deuteronomy 23, for example, the issue is political law. The political character of the chapter is demonstrated by the fact that demanding interest from strangers was allowed. Have these political laws then lost all their relevance? Yes, if you attempt to accord them concrete validity for today. Calvin emphasizes that to determine the meaning of these laws for today, it is necessary to

lay them next to the Decalogue with their continued validity. The substance of the political law retains its significance. Seen in the light of the Decalogue, the political laws demonstrate the concern for fairness and justice and these must constantly be given concrete formats.

Calvin's break with the ban on interest says much about his thought pattern. This breakthrough is the fruit as much of his sharp exegesis of Scriptural data as it is of his analysis of changing economic life. His exegesis shows Calvin that the purpose of the interest ban is to protect desperate people. In the Old Testament, loans negotiated among the Israelites themselves were mostly consumptive loans. Borrowers had landed in problems for whatever reasons. They needed money to survive. It always had to do with the extremely vulnerable. Thus it was always about emergency loans and consumer credit. It would have been easy for lenders to abuse these situations. A needy person is no longer "free" to make his/her own decisions, but has his back to the wall. God issued this ban precisely to prevent this kind of abuse. The more fortunate Israelite was not allowed to use the adversity of her compatriot via a loan to squeeze the latter empty. To the contrary, as sisters and brothers we are called to help each other and practice mercy. It is no coincidence that the people were called upon to remember they used to be slaves in Egypt and were liberated from that circumstance by the hand of God Himself.

However, if the loan was for a stranger or foreigner, then interest could be charged. It should be noted that in general the stranger, for example, someone who served a Jewish family as slave, received also necessary protection, but here, according to Calvin, the concern is a certain kind of stranger, namely traveling traders who wandered through the country in caravans to sell their wares. These were business people. Often they were in comfortable circumstances, but they regularly needed money to finance their activities. Such financial relations were naturally risky, given all that could happen, but if they succeeded, it could yield them a hefty profit.

We are thus dealing here with a precursor of the modern system of productive credit: investing with borrowed money in order to profit from it many times over. It seems only reasonable that the lender in such a situation also receive compensation. That is no more than fair and reasonable in view of the risk he took. That is the reason the interest ban does not apply to such loans.

## *Modern Economics*

How does economics as an academic discipline explain the interest phenomenon? Popularly speaking, we are dealing here with two issues. First of all, money is seen here as a means for investing, after which such investment renders a certain profit. Thus it is definitely possible to earn money with money indirectly, namely by investing it. In that sense, money is productive, even though you need to consider that there is a time lag between the moment of investing and the moment at which the revenues can be harvested. In the second place, economic theory points to the time preference of people when it comes to consumption and with that, thus, also to the spending of money. In short, it comes down to this that people value possession or consumption more *now* than possessing them *later*. In the consumption context, money has a time value. This means that one euro is more valuable for its owner now than next year. Perhaps he finds the value of one euro now comparable to 1.10 euro next year, in which case the time value factor amounts to ten per cent per year. In addition, there is also the risk factor when you lend money.

According to economic theory, these two factors, then, namely the impatient consumer who want the money now and the investor who wants to borrow the money and pay it back later, lead to a market where supply of and demand for capital meet each other. Here a variety of motives and issues are finally brought to a balance with the resulting price balance being the interest.

The deviating factor in the afore-mentioned Islamic banking culture is that it rejects working with or towards such a price balance. The interesting thing here, however, is that in their own chosen solution, they agree on a specific price for each investment project, which amounts to profit sharing in place of interest. In this approach the lender is not only more intensely involved in the projects in which the money is used, but this also help set measurable goals. Besides, there is a reasonable chance that aspects other than the financial receive earlier and more emphasis in financial decisions.

It is of importance that the capital market functions well. The issue here is nothing less than the realization of a social balance between consumption and investment, whereby investments form the engine for economic growth. Economic growth, in

turn, later leads to extra income and consumer possibilities. A reduced expectation about return on investment can lead to shifting the accent one-sidedly to the financial-fiscal dimensions, while the challenge today is increasingly on realizing green and sustainable growth. If you look at its footprint, Western consumption is out of sync with what the earth can bear. Thus, from the global perspective, there is a demand to push back excessive consumption. To achieve this, a focus on interest subsidy for sustainable investments could be helpful.

### ***Philosophizing about Time***

In retrospect, the contribution of philosophers and theologians has been disappointing. Interest is a complicated matter and the conversion of money to capital something that was hardly understood. If you don't understand something, you can hardly speak to it. With respect to his views on interest, Aristotle was more a bad economist than a good philosopher. And theologians were far from the realization that, in addition to the Bible, there are other sources to be tapped for forming a perspective on interest. There was too much moralization and a failure to make a clear distinction between "honest interest" and bad usury. A balanced ethic requires more than the contributions theologians and philosophers had to offer.

Where then is the point where we should place our focus? It appears to me that the time value of money can serve as key here. A genuine philosophy of interest must be a philosophy of time. A good philosophy of time must include a perspective on the temporality of all that exists and on what the revelation offers us. Augustine has said integrating things about time in his *Confessions* (vol. xi):

What, then, is time? If no one asks me, I know what it is. If I wish to explain it to him who asks me, I do not know. Yet I say with confidence that I know that if nothing passed away, there would be no past time; and if nothing were still coming, there would be no future time; and if there were nothing at all, there would be no present time.<sup>4</sup>

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<sup>4</sup> Translator's note: Saint Augustine, trans. Albert C. Outler, *Confessions by Saint Augustine*. Dallas: Perkins School of Theology, Southern Methodist University, 1955. This book is in the public domain. It was scanned from an uncopyrighted edition by Harry Plantinga ([planting@cs.pitt.edu](mailto:planting@cs.pitt.edu)). The eternal Creator and the Creation in time. Augustine ties together his memory of his past life, his present experience, and his ardent desire to comprehend the mystery of creation. This leads him to the questions of the mode and time of creation. He ponders the mode of creation and shows that it was de nihilo and involved no alteration in the being of God. He then considers the

## *The Time Value of Money*

One's view on the time value of money betrays something about the vision of the here and now as well as over expectations for the future. Reformational philosophy has given an extensive account of time and distinguishes in this context the concept "economic time." The higher appreciation of the present versus the future is a typical example of it.<sup>5</sup>

There is not only "economic time," but the debate about interest also shows that economics has its own definition of time and the debate mirrors that. After all, interest is nothing but a price for time. It is a question whether this meaning of time in economics is adequate. For example, in the economy non-renewable sources are used on a large scale. The more we use now, the less there will be later. It is interesting that, according to environment economics, interest plays a decisive factor. A low interest leads to excessive use of the sources and to excessive consumption. A low interest also leads to extra consumer loans and thus increased consumption, and is favourable for investing.

Interest does not only depend on the number of savers and investors, but also on the extent money creation that is allowed via monetary policy. One could argue that opportunism and an open monetary policy lead to dangerously low interest. That lures people into a trap of too many and irresponsible loans. The credit crisis has shown us the results of that.<sup>6</sup>

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question of the beginning of the world and time and shows that time and creation are co-temporal. But what is time? To this Augustine devotes a brilliant analysis of the subjectivity of time and the relation of all temporal process to the abiding eternity of God. From this, he prepares to turn to a detailed interpretation of Gen. 1:1, 2. <[www.ling.upenn.edu/courses/hum100/augustinconf.pdf](http://www.ling.upenn.edu/courses/hum100/augustinconf.pdf)>. See a more extended quotation at this website. It is unfortunate that the author failed to provide the bibliographical data for this quote. As translator, I've done the best I could. For another but older translation, see: *Saint Augustine*, trans. Edward B. Pusey, *The Confessions of Saint Augustine*. New York: Pocket Books, Inc., 1957, Book xi., p. 224. For an extended relevant discussion go to <http://www.sacred-texts.com/chr/augconf/aug11.htm>.

<sup>5</sup>A. Troost, *Anthropocentrische totaliteitswetenschap; Inleiding in de reformatorischewijsbegeerte van H. Dooyeweerd*. Budel: Damon, 2005, p. 144. The comments made about economic time are interesting, but no more than a place to begin. Serious reflection on this point is yet to be embarked upon.

<sup>6</sup>Note from Translator: Canada does not seem to have learned a lesson from the global economic contraction of 2008. At the time of translating (May 2019), Capital Direct is publishing TV ads luring people into loans by reminding them that interest rates are "still" at almost record low.



The interest policy must not follow short-term advantages so much as to help direct the economy towards long-term issues. Such a climate is not friendly to an interest ban or zero interest. It would be much better to institute a considerably higher interest rate. Such would discourage consumptive credit, lead to saving in place of consuming and brake arbitrary investments. If this were to be combined with an interest subsidy to lower interest for green and sustainable investments, it would in addition provide a stimulant to utilize available techniques as soon as possible in order to save both the climate and the earth. Is this not the requirement of our time?

### ***Conclusion***

Issues of interest and capital have once again riled the emotions today. Under such circumstances it is advisable to continue reflecting about such problems and not to allow ourselves to be caught up in the web of the delusions of the day. The surprise is that in this respect philosophers and theologians have in the past not left us without witness. In spite of the fact that interest is a difficult phenomenon, they have placed their analyses and advices on the table. Unfortunately, the value of their contribution is disappointing. This may be that for a long time we lacked a good economic analysis of interest. Philosophy should have concentrated more on the time value of money and contribute by examining the assumptions undergirding it. Theology prevented the unfurling of economic life with her non-nuanced moralism, while that was the exact point where she could have delivered a positive contribution.

It is fascinating that in Islamic banking the ban on interest sometimes offers new developments. It is striking that during the recent financial crisis the Islamic banking sector proved much more robust than its western counterpart. In Islamic banking an appropriate solution is sought for each investment project, while no attempt is made to create a one-size-fits-all price balance, i.e., market level interest rate. This forced measurement standard via a profit-sharing mechanism has the additional advantage that the lender tends to be less anonymous and is more involved in and responsible for the project to be financed. This is all to the good.

The relatively low interest rate betrays an opportunistic interpretation of time and a monetary policy that focuses too much on economic growth *now*. Instead, interest policy needs to be speedily turned more towards sustainability of the economy.