The History Of Interest Throughout Time

By Luigi Frascati

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Although I am sure that someone at the State Department will argue otherwise, Cyrus The Great (590 – 529 BC), founder of the Persian Empire, was no terrorist. Quite far from it. Although one might not have wanted him as next-door neighbor, Cyrus II of Persia was very illuminated for his times, according to the Greek historian Herodotus. Cyrus, in fact, beheaded only those who would not bend under his rule. But all others were spared. Such was the case with Croesus of Lydia, whose life was spared by Cyrus after the battle of Pterium, and that of Nabodinus after the battle of Opis and the siege of Babylon. However Cyrus, like all military geniuses, had his ... shall we say ... pet-peeves: if he ever caught anyone charging interest on loans, he would order him tied at the stake, would personally pull out his Zippo and ... woosh, set him ablaze right there and then.

In this day and age of mortgage and lending interest rates as well as returns on investment and yields, it is interesting to look at how the very concept of interest - both active and passive interest - has developed throughout the centuries to the point of where we acknowledge and understand it today. Looking back at how things were once seen is always gratifying, to the extent that it provides us with a measure of how times have changed.

The 'phenomenon on interest' as it was once called first became the object of question only in the form of loan interest for a full two thousand years. What especially caught the attention - and the ires - of our ancestors was the fact that loan interest has its source not in labor but, as it were, in some bounteous mother-wealth. In societies of the past where work and productivity stood at the very essence of existence, making a profit by - quite literally - not producing anything for the common good must have looked almost sacrilegious. The acquisition of wealth without labor, moreover, ran diametrically opposite to many early religious tenets, both Pagan as well as Christian.

The history of the interest phenomenon, therefore, begins with a very long period in which loan interest, or usury, alone is the subject of investigation. This period begins deep in ancient times and reaches down to the Eighteenth century. It is occupied with the contention of two opposing doctrines: the elder of the two is hostile to interest, while the later defends it. In the early stages of economic development there regularly appears a lively dislike to the taking of interest. Credit has still little place in production. Almost all loans are loans for consumption and are, as a rule, loans to people in distress. The creditor is usually rich, the debtor poor; and the former appears in the hateful light of a man who squeezes something from the little of the poor in the shape of interest to add to his own superfluous wealth.

It is no wonder, therefore, that both the Ancient World and the Christian Middle Ages were exceedingly unfavorable to usury. The Ancient World, in spite of some few economical flights, had never developed very much of a credit system and the Middle Ages, after the decay of the Roman culture, found themselves - in industry as in so many other things - thrown back to the circumstances of primitive times. As a result, in both eras several laws were enacted forbidding the taking of interest, or the paying of it.

Perhaps the Greek philosopher and thinker Aristotle in his book "Politics" is the most vociferous opponent of interest. Here is what he wrote : "*Of the two sorts of money-making one, as I have just said, is a part of household management, the other is retail trade: the former necessary and honorable, the latter a kind of exchange which is justly censured; for it is unnatural, and a mode by which men gain from one another. The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and* *not from the natural use of it. For money was intended to be used in exchange, but not to increase at interest. And this term usury, which means the birth of money from money, is applied to the breeding of money, because the off-spring resembles the parent. Wherefore of all modes of making money this is the most unnatural*". Quite a statement! One may want to bring this up to the attention of his banker when applying for a loan the next time around.

Aristotle's thinking may be summed up this way: money is by nature incapable of bearing fruit. As such, the lender's gain cannot come from the peculiar power of money. And, consequently, it can only come from a defrauding of the borrower. Interest is therefore a gain got by abuse and injustice (another point that can be discussed with a banker).

Things began to change somewhat under the Roman Empire, when economic exchange and trading of goods reached such complexity that gratuitous credit began not to make sense any longer. And yet even the Romans - perhaps in line with the theological credo of the time - put severe legal constraints to the amount of interest that could be charged. And to canonize these limits (which varied on a case-by-case basis), they were the first to publish a list of interest rates. This list grew more and more complicated with time, since the Senate thought that interest rates should be less for friendly countries and more for the unfriendly, thereby instating the first international economic agreements among countries of the Mediterranean Basin (though these economic 'agreements' where unilateral, i.e. imposed by Rome on to everyone else).

Things began progressively worse, however, following the break up of the Roman Empire and the advent of Christianity. In fact in the sacred writings of the New Testament were found certain passages which, as usually interpreted, seemed to contain a direct divine prohibition of the taking of interest. This was particularly true of the famous passage in Luke: "*Lend, hoping for nothing in return*" (third point one should point out to a banker). The powerful support which the spirit of the time, already hostile to interest, thus found in the express utterance of divine authority, gave it the power once more to draw legislation to its side. The Christian Church lent its arm. Step by step it managed to introduce the prohibition into legislation. First the taking of interest was forbidden by the Church, and allowed to the clergy only. Then it was forbidden to everyone, but still the prohibition only came from the Church. At last even the temporal legislation succumbed to the Church's influence and gave its severe statutes the sanction of Roman Law.

The *status quo* remained cast into stone for the following fifteen centuries, until the advent of Mercantilism and of the Industrial Revolution. Here the monarchies of the time, most notably the Crown of England, decided to back private entrepreneurs with their own money. They chose to do so to gain a political and strategic edge over other monarchies and other states. And so as to encourage their own citizens not only to manually work, but also to think, they cheerfully invested large sums in the development of their inventions - some archaic but others of very practical application. In doing so, however, the monarchies wanted to reap also an economic profit and thus the modern concept of interest - both simple and compounded - was finally born.

Luigi Frascati

Luigi Frascati is a Real Estate Agent based in Vancouver, British Columbia. He holds a Bachelor Degree in Economics and maintains a weblog entitled the Real Estate Chronicle at http://wwwrealestatechronicle.blogspot.com where you can find the full collection of his articles. Luigi is associated with the Sutton Group, the largest real estate organization in Canada, and is based with Sutton-Centre Realty in Burnaby, BC.

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