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THE ZERO INTEREST CHARITABLE LOAN

by Gary North

Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals [food], usury of any thing that is lent upon usury: Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the LORD thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess it (Deut. 23:19-20).

The theocentric principle here is that God protects His people as a shepherd protects his flock. The text specified that the covenant-keeping lender was to imitate God by not lending at interest to a brother in the faith, i.e., a person who publicly confesses faith in the God of the Bible and who had subordinated himself to the covenanted ecclesiastical community by means of an oath-sign. In the Old Covenant, this was circumcision. Those who were outside of the covenanted ecclesiastical community could be lawfully treated as a shepherd would treat sheep outside his flock. These sheep did not recognize his voice. These sheep were not under his authority; therefore, they were not under his protection.

What is judicially crucial here is the biblical concept of becoming a brother's protector. The shepherd-sheep relationship implies **subordination by the sheep**. "The rich ruleth over the poor, and the borrower is servant to the lender" (Prov. 22:7). The Mosaic law recognized that a sheep enters the debt relationship as a subordinate. As we shall see, the cause of this subordination was to be a factor in the lender's decision as to which kind of loan is involved: charitable or business. The poor brother who had fallen on hard times through no moral fault of his own was morally entitled to a zero-interest charitable loan. This subordination aspect of a loan is universal. This law was therefore not a land law. It had implications for the Israelites' maintenance of the kingdom grant, but its legitimacy was not based on this grant.

This law indicates that God protects covenant-keepers in a way that He does not protect covenant-breakers. He regards the former as deserving of special consideration. This is a matter of inheritance:

The wicked borroweth, and payeth not again: but the righteous sheweth mercy, and giveth. For such as be blessed of him shall inherit the earth; and they that be cursed of him shall be cut off. The steps of a good man are ordered by the LORD: and he delighteth in his way. Though he fall, he shall not be utterly cast down: for the LORD upholdeth him with his hand. I have been young, and now am old; yet have I not seen the righteous forsaken, nor his seed begging bread. He is ever

merciful, and lendeth; and his seed is blessed. Depart from evil, and do good; and dwell for evermore. For the LORD loveth judgment, and forsaketh not his saints; they are preserved for ever: but the seed of the wicked shall be cut off. The righteous shall inherit the land, and dwell therein for ever (Ps. 37:21-29).

There was a positive sanction attached to this law: "that the LORD thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess it." Moses promised that God would provide visible blessings in the land. The land was not the positive sanction attached to this law, for it would soon be their inheritance. But comprehensive blessings inside the land's boundaries would be the result of honoring this law. There can be no doubt about this law's importance. This law was highly specific, but the blessings attached to it were so comprehensive that they were unspecified.

Two Kinds of Loans

In the other case laws dealing with zero-interest loans, it was the poor brother who was to be benefited. "If thou lend money to any of my people that is poor by thee, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury" (Ex. 22:25). This protection extended to the resident alien. "And if thy brother be waxen poor, and fallen in decay with thee; then thou shalt relieve him: yea, though he be a stranger [geyr]; or a sojourner [toshawb]; that he may live with thee. Take thou no usury of him, or increase: but fear thy God; that thy brother may live with thee. Thou shalt not give him thy money upon usury, nor lend him thy victuals for increase" (Lev. 25:35-37). There were two deciding factors in making a zero-interest loan: the would-be borrower's poverty and his status as legally protected.

One biblical principle of interpretation is this: the more narrowly specified text is considered authoritative over the more broadly specified text. That which is narrowly defined is clearer. It provides more data on how the text is to be understood. We should move from the clear to the less clear, from the specific to the general. In the interpretation of this case law, we conclude that if God had prohibited covenant-keepers from charging interest to anyone, He would not have excluded the stranger from the prohibition. Similarly, if He had prohibited covenant-keepers from charging interest to other covenant-keepers, He would not have specified poor brethren as coming under the prohibition. There would have been no need for God to identify a smaller group among the brethren as deserving of special treatment if all brethren were equally deserving of such treatment.

Not only was the economic status of the circumcised brother a criterion, so was the kind of loan. A charitable loan was morally compulsory. "If there be among you a poor man of one of thy brethren within any of thy gates in thy land which the LORD thy God giveth thee, thou shalt not harden thine heart, nor shut thine hand from thy poor brother: But thou shalt open thine hand wide unto him, and shalt surely lend him sufficient for his need, in that which he wanteth" (Deut. 15:7-8). Moral compulsion is not legal compulsion. The State was not to impose negative sanctions on anyone who refused to lend. God would provide positive sanctions on those with open wallets: "Thou shalt surely give him, and thine heart shall not be grieved when thou givest unto him: because that for this thing the LORD thy God shall bless thee in all thy works, and in all that thou puttest thine hand unto" (Deut. 15:10). To this type of loan was attached a negative civil sanction for a debtor's failure to repay: a period of bondage that lasted until the next national year of release (Deut. 15:12). This could be up to six years of bondage. Yet it was also possible for a debtor to be enslaved for a much longer period for a failure to repay a debt: until the next jubilee year (Lev. 25:39-41). This could be up to 49 years of bondage. This raises a major question: What criteria distinguished sabbatical-year debt servitude from jubilee-year debt servitude?

The first criterion was the presence of an interest rate. If a poor man sought a morally compulsory zero-interest loan from his brother in the faith, he placed himself at risk for up to six years. At the end of that time, either the loan was automatically cancelled by law or else he, having previously forfeited repayment, was released from bondage and sent out with food and drink by his creditor (Deut. 15:13-14). A second criterion was that a charitable loan did not require a man's landed inheritance as collateral. His collateral was either some form of goods or else his willingness to become a bondservant for defaulting. The text does not indicate that he was required to pledge his family's landed inheritance in order to collateralize a charitable loan.

If a man who possessed a rural inheritance that he could use as collateral decided to seek a non-charitable loan, he had no moral claim on the lender, nor could he reasonably expect to receive an interest rate of zero. This loan would have been either a business loan or a consumer loan. This would-be debtor was not truly poor unless his land holdings were too small to support him. The presence of jubilee-bondage loans in addition to sabbatical year-bondage loans indicates that there were commercial loans in Israel. If the interest-bearing commercial debt contract placed him at risk of bondage, then by forfeiting payment on the loan, the debtor placed himself in a much longer term of bondage. This is evidence that commercial loans were much larger than charitable loans. Such loans could be made for longer periods of time than six years. The collateral was the income stream of the land and even the individual for up to 49 years. In short, a commercial loan could place at risk the fruit of a man's inheritance until the next jubilee.

Two Kinds of Aliens

The alien or stranger [*nokree*] was eligible for an interest-bearing loan at any time. Loans to him were permanent; the year of release did not benefit him. "And this is the manner of the release: Every creditor that lendeth ought unto his neighbor shall release it; he shall not exact it of his neighbor, or of his brother; because it is called the LORD'S release. Of a foreigner [*nokree*] thou mayest exact it again: but that which is thine with thy brother thine hand shall release" (Deut. 15:2-3). The foreigner here was an alien who either was not a property-owning resident in Israel or was not circumcised. He was not a permanent resident who had settled in a city, i.e., a sojourner.

The Mosaic law distinguished between the two kinds of aliens in other ways. In the law governing unclean meat, we read: "Ye shall not eat of any thing that dieth of itself: thou shalt give it unto the stranger [*geyr*] that is in thy gates, that he may

eat it; or thou mayest sell it unto an alien [*nokree*]: for thou art an holy people unto the LORD thy God" (Deut. 14:21a). The permanent resident could receive the unclean meat as a gift, but it could not be sold to him, i.e., it offered no profit for the Israelite. In contrast, it was lawful to sell ritually unclean meat to a foreigner [*nokree*].

The permanent resident [*geyr*] was to be treated as a brother: he was not to be charged interest on a charitable loan (Lev. 25:35-37). He was a kind of honorary Israelite. Not being a citizen of Israel – a member of the congregation – he could not serve as a judge. If he was not circumcised, he could not enter the temple or eat a Passover meal. But as a man voluntarily living permanently under biblical civil law, he was entitled to the civil law's protection, including the prohibition against interest-bearing charitable loans.

Lending at interest was one of God's means of bringing foreigners under the authority of Israel. "For the LORD thy God blesseth thee, as he promised thee: and thou shalt lend unto many nations, but thou shalt not borrow; and thou shalt reign over many nations, but they shall not reign over thee" (Deut. 15:6). This was an aspect of **dominion through hierarchy**: "The rich ruleth over the poor, and the borrower is servant to the lender" (Prov. 22:7). The foreigner was fair game for a program of profitable money-lending. This included loans to poor foreigners. When a foreigner was desperate for money, an Israelite was allowed to take advantage of the situation and lend to him at interest. In contrast, the resident alien was legally protected; he was to be treated as a brother. He was already voluntarily under God's civil law and some of the ritual laws, such as ritual washing after eating meat that had died of natural causes (Lev. 17:15). There was no need to bring him under dominion through debt. He had already acknowledged his debt to God.

Which Jurisdiction?

The negative sanction for forfeiture was a period of bondage. This placed the Mosaic debt laws under the civil government. But there were no stated penalties for a lender's refusal to lend, despite the moral compulsion aspect of the charitable loan. God promised to bring negative sanctions against the individual who refused to honor this aspect of the law (Deut. 15:9) and positive sanctions for the man who honored it (v. 10). The State is not a legitimate agency for bringing positive sanctions. As a matter of contract law, the State lawfully imposes only negative sanctions. It enforced bondage on those debtors who defaulted, but it did not compel lenders to make loans.

This means that the lender was under God's sanctions directly, while the debtor was under God's sanctions indirectly. The lender might give him the positive sanction of a charitable loan, and the State would enforce the penalty for non-repayment. The debtor's obligations were specific: pay back so much money by a specific date or suffer the consequences. The lender's obligations were not specific: lend a reasonable amount of money and subsequently receive unspecified blessings from God. There was no earthly institution that could lawfully enforce specific penalties on such unspecific transactions.

Civil law deals with specifics. This keeps the State from becoming tyrannical. The State is under law. It enforces contracts, but these contracts are narrowly specified in advance. It is therefore not the State's responsibility to mandate that potential lenders provide loans of a specific size and duration to borrowers.

Not Restricted to Money Loans

"Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals [food], usury of any thing that is lent upon usury." This clause in the law makes it plain that usury,

meaning a positive interest rate, applies across the board to all items lent. The phenomenon of interest is not limited to money loans. It is a universal aspect of lending, which is why the law specifies that the prohibition applies to loans in general, not merely money loans.

There is an ancient and widespread error going back at least to Aristotle that interest on money loans is unproductive because money, unlike animals, does not reproduce itself. In other words, money is sterile. Therefore, Aristotle concluded, "of all modes of acquisition, usury is the most unnatural." [Aristotle, *Politics*, I:x, trans. Ernest Barker (New York: Oxford University Press, [1946] 1958), p. 29.] Yet the critics of usury have generally viewed rent on land as legitimate. If I loan someone 20 ounces of gold and charge him one ounce per year in interest, I am viewed as a usurer and somehow morally questionable. If, on the other hand, I let the same person use my farm land, which is worth 20 gold ounces, and I charge him one ounce of gold per year as rent, I come under no criticism. Why this difference in opinion? In both cases, I give up something valuable for a period of time. I can either spend the gold or invest it in a business venture. Similarly, I can either sell the farm or plow it, plant it, and reap a crop. In both cases, I allow someone else to use my asset for a year, with which he can then pursue his own goals. I charge him for this privilege of gaining temporary control over a valuable asset. I charge either interest or rent because I do not choose to give away the income which my asset could generate during the period in which the other person controls it.

To expect me to loan someone my 20 ounces of gold at no interest is the same, economically speaking, as to expect me to loan him the use of my farm land on a rent-free basis. In fact, the thing which people conventionally call rental income is analytically an interest income. Because a payment for the use of land is seen as morally neutral, men describe the interest income generated by land by means of a morally neutral term: rent. Because a payment for the use of money is seen as morally reprehensible, men describe the interest income generated by money loans by means of a morally loaded term: usury. But the transactions are analytically identical. **Interest income and rental income are the same thing: payment for the use of an asset over time.**

There is a tendency to see interest as something exploitative and rent as something legitimate. Interest income is not seen as productive; rental income is seen as productive. Why the difference? Probably because people think that the creation of value must be associated with the creation of goods. This outlook is incorrect, and the best example is the discovery of a new idea. It is not physical. We can see this analytical error at work in a series of examples.

The Deciding Factor Is Not Material

Example number one. I sell a one-year lease to my abandoned gold mine, which no longer produces any gold. I charge one ounce of gold for this opportunity. The lease-holder discovers a new deposit, digs out 200 ounces of gold in one year, and gives back my 20 ounces plus one ounce. Nobody thinks this arrangement is exploitative on my part. He gets rich, and I get my agreed-upon ounce of gold. Even if he fails to find any gold, most people would regard my net income of one ounce of gold as legitimate. After all, I let him use my abandoned gold mine for a year. He made a mistake, but he might have struck it rich.

Example number two. An inventor comes to me. He thinks that he has discovered a way to increase the output of gold mines – say, a chemical method of extracting more gold out of the ore. He does not have the money to complete his final experiment and file for a patent. I lend him 20 ounces of gold for a year at one ounce of gold interest. During this year, he completes the testing, files the patent, and sells the patent for a

fortune. He returns my 20 ounces plus one ounce of gold. Have I exploited him? No. But what if his final test proves that the process does not work? Or what if he files the patent incorrectly and someone steals his idea, leaving him without anything to show for his effort? Am I an exploiter because I demand the return of my 20 ounces plus one? I was not a co-investor in the process. I would not have shared in his wealth had everything gone well. His use of my gold did allow him to follow his dream to its conclusion, whether profitable to him or not.

Example number three. What if he borrows the gold to complete tests on another invention that is unrelated to gold mining? Has the economic analysis changed? No. The borrower seeks his own ends by means of the 20 ounces of gold. Meanwhile, the lender seeks his ends: an interest payment. Each party to the transaction pursues his own individual goals. Each believes that he can benefit from the transaction.

Conclusion: the physical nature of the asset lent for a fixed payment over time has nothing to do with the analytical basis of the transaction, but it has a lot to do with people's confusion about interest. ~~The heart of the matter is not material; it is~~ temporal. The lender gives up something of value for a period of time, and he will not do this voluntarily without compensation unless he believes that his refusal to make a zero-interest loan to a poor brother will result in negative sanctions from God, which it did in Mosaic Israel. "Beware that there be not a thought in thy wicked heart, saying, The seventh year, the year of release, is at hand; and thine eye be evil against thy poor brother, and thou givest him nought; and he cry unto the LORD against thee, and it be sin unto thee" (Deut. 15:9).

Deuteronomy 23:19-20 acknowledges the identical nature of these lending transactions irrespective of the physical composition of the items loaned. An interest payment was not to be charged on the kind of loan described here: a charitable loan to a brother in the faith. The charitable aspect of the loan was the interest income foregone by the lender. He could have used the asset to generate income for himself; instead, he lent freely and asks only that what he has lent be returned to him. He is charitable because he forfeited the income which his asset would have generated for him in the business loan market. He gave away this income to the borrower, who paid nothing for it.

Compensation for Risk

It is not simply that the lender forfeits income that others would otherwise pay him to use his asset for a year. The lender also bears risk. First, he bears the risk that the loan will not be repaid. The text governing charitable loans makes this clear: "Beware that there be not a thought in thy wicked heart, saying, The seventh year, the year of release, is at hand; and thine eye be evil against thy poor brother, and thou givest him nought; and he cry unto the LORD against thee, and it be sin unto thee" (Deut. 15:9). Charitable debts became unenforceable in Israel in the seventh year. Also, all those who were in debt bondage for having failed to repay a charitable loan went free (Deut. 15:12), so the loan's collateral in the form of the borrower's future work would not be available to the lender as compensation for a default.

Second, the lender bears the risk that if he lends money, the government or the central bank may inflate the nation's domestic money supply, thereby lowering the value of the money which he receives at the end of the loan period. To compensate him for this risk, the lender adds an inflation premium to the interest rate. The threat of price inflation due to monetary inflation is one reason why self-interested lenders should organize politically to pressure the government: 1) not to increase the money supply; 2) to prohibit the central bank from doing so.

If the money is gold or silver, and there is no fractional reserve banking, there will be a slow decline in prices over time in a productive economy, since increasing economic output (supply of goods and services) will lower prices in the face of the relatively fixed money supply. The price of goods approaches zero as a limit: the reversal of God's curse in Eden. In such a world, the lender of money reaps a small return: the money returned to him will buy slightly more than it would have bought when he lent it. In such a monetary environment, the borrower would be better off to borrow consumer goods rather than money.

The lender must be compensated for known risk; otherwise, he will not make the loan. In commercial loans, borrowers compensate the lender for this risk. The risk of one borrower's default is paid for by a **risk premium factor** in the interest rate which is charged to all borrowers within the same risk classification. In the case of the charitable loan to the poor brother, God becomes the risk-bearer. He offers the lender the same shepherd-like protection in hard times that the lender offers the poor brother in hard times. The lender's faith in God's protecting hand is revealed by his willingness to lend at no interest to a righteous poor brother. Also, he thereby acknowledges that God has given him his wealth: "For the LORD thy God blesseth thee, as he promised thee: and thou shalt lend unto many nations, but thou shalt not borrow; and thou shalt reign over many nations, but they shall not reign over thee" (Deut. 15:6).

Uncertainty vs. Risk

There is an analytical distinction between uncertainty and risk. Risk is a statistically calculable function. Certain classes of events can be forecasted accurately, i.e., within statistical limits. The discovery of this social fact made possible the modern economic world. [Peter L. Bernstein, *Against the Gods: The Remarkable Story of Risk* (New York: Wiley, 1996).] In contrast, uncertainty cannot be measured in advance. Some kinds of events cannot be forecasted by means of statistical techniques, such as inventions or the discovery of a gem or a gem of an idea.

While we all are to some degree both risk-bearers and uncertainty-bearers, there are only a few people who are professional uncertainty-bearers. We call them entrepreneurs. These people forecast the economic future and then buy and sell goods and services in terms of their forecasts in order to profit from their hoped-for accurate knowledge. When successful, they reap profits. When unsuccessful, they reap losses. Because the kinds of events they deal with have not yet been successfully converted into risk events, the market does not enable investors to deal with these events in a scientific, analytical manner. We call such events high-risk events, but this is incorrect analytically. They are uncertain events.

Lenders who seek a legally predictable rate of return lend money at interest. In contrast, investors who are willing to put their money "at risk" – really, **at uncertainty** – in order to share in any profits must also share in any losses. The gains and losses of entrepreneurial ventures are not predictable, or at least not predictable by most people. An entrepreneur who has discovered a way to deal with formerly uncertain events by means of proprietary or as yet not widely recognized statistical techniques is in a position to make a great deal of money until others discover these techniques.

People who are uncertainty-averse but not equally risk-averse lend to people who are willing to bear uncertainty, but

who prefer to gain the capital necessary to develop a venture by promising lenders a legally enforceable fixed rate of return. The distribution of risk and uncertainty to those who are willing to bear each of these is made possible through the market for loans. Those entrepreneurs who make statistically unpredictable breakthroughs that benefit society can be funded in their ventures by others who are unwilling to bear uncertainty but who are willing to bear some degree of risk. Without such a social institution, only two kinds of entrepreneurs could fund their ventures: 1) those with capital of their own to invest; 2) those who are willing to share their profits with co-owners of any discovery, and who also have the ability to persuade these investor-owners to put their money into the venture.

Conclusion

The more general language of this case law – brothers in the faith – has misled commentators for two millennia. This law must be interpreted in terms of the more narrowly focused reference point of the other laws governing interest: poor brothers in the faith, as well as poor resident aliens, who have fallen on hard times through no moral fault of their own. This case law applied to charitable loans made to brothers in the faith and resident aliens who lived voluntarily under God's civil laws. It did not prohibit interest-bearing commercial loans. It also did not apply to charitable loans to foreigners [*nokree*]. The prohibition against interest-bearing loans applied only to morally compulsory loans made to impoverished neighbors.

By failing to understand the context of the Mosaic laws against interest-taking, the medieval church placed prohibitions on all interest-bearing loans. This drastically restricted the market for loans. It restricted the legal ability of people who were averse to entrepreneurial uncertainty from making loans at interest. It thereby restricted the ability of entrepreneurs to obtain capital for their ventures. The result was lower economic growth for the entire society.

The New Testament principle broadens the restriction to all borrowers who are in trouble through no fault of their own. We must loan to those who may not be able to repay. "And if ye lend to them of whom ye hope to receive, what thank have ye? for sinners also lend to sinners, to receive as much again. But love ye your enemies, and do good, and lend, hoping for nothing again; and your reward shall be great, and ye shall be the children of the Highest: for he is kind unto the unthankful and to the evil. Be ye therefore merciful, as your Father also is merciful" (Luke 6:34–36). The context is the merciful charitable loan, not the legitimate business loan. This is another example that explodes the myth of the Old Covenant as more rigorous than the New. In this case, the New Testament is far more rigorous than the Old.

Because of the broadening of this law to include covenantal enemies of God, the New Covenant lender must see to it that the borrower is truly in need. At zero interest, there is greater demand for loans than supply of them. At zero repayment, the demand is nearly infinite. So, the lender must exercise good ethical judgment in allocating charitable loans. The goal is to assist desperate people in their hour of need, not gain the money back. Even if a borrower may not be able to repay, he is still entitled to consideration. But the lender must not lend money to subsidize evil. He must lend to those in desperate need. Otherwise, he will be out of loanable funds by the end of the day.

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