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INTEREST-FREE UTOPIA: WHERE TIME IS NOT SCARCE

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Redeem the time. Buy it back. It is a scarce economic resource. So said the Apostle Paul. But there are Christians today who are unwilling to admit that time is a scarce economic resource which commands a price in the free market. They promote the idea of an interest-free economy. Anything else, they tell us, is the dreaded evil of **usury**. Are they correct?

Creatures of Time

The phenomenon of interest is inescapable in any economy. It is not something "extracted" from borrowers by lenders. It is inherent in the very way we all think about the future, whether as borrowers or lenders. We are creatures. We are always **time-constrained**. We live in the present. Those items that we presently possess are of greater use to us – and therefore of greater economic value to us – right now than the prospect of using those same physical items in the future. We are **covenantally** responsible **now** for the use of whatever we presently own or control. We therefore **discount future value** as against present value. It is this present market discount of future value, above all, which is the reason why there is an interest phenomenon in economics.

Any attempt to legislate away the inescapable effects of the rate of interest (a discount for time-preference) should be seen as a doomed attempt to escape both time and **creaturehood**. To put it as bluntly as possible, anyone who argues that an economy can operate apart from the effects of the time-preference factor has adopted the **economic equivalent of the perpetual motion machine**. Both arguments – perpetual motion physics and zero interest economics – rely on men's obtaining "something for nothing."

In fact, anyone who would recommend civil legislation against all interest payments is far more dangerous than a person who would argue for legislation prohibiting all machines except perpetual motion machines. The second person is instantly recognized as a crackpot whose proposed legislation would destroy civilization, assuming that the civil government would seriously attempt to enforce it. The anti-usurer isn't as readily recognized as a dangerous crackpot, even though his recommendation, if seriously enforced by civil law, would be equally a threat to the survival of civilization. Both forms of legislation, if enforced, would **de-capitalize** society. The crackpot amateur physicist, however, cannot do what the crackpot amateur economist can do and has done in the past: present himself as a defender of "love" in social theory, a protector of society's "bank-oppressed" little people, and a person who has found a

long-neglected way to eliminate from this world a group of corrupt money middlemen and their extortionate ways, thereby making everyone else a little bit richer. Even worse, the anti-interest **destroyer** of nations who would ruin society by making illegal all interest payments can easily present his case in the name of the Bible. The nut (or outright occultist) who would prohibit by civil law all non-perpetual motion machines cannot easily appeal to any body of literature in the history of moral thought.

Nevertheless, both types of self-professed reformers – the perpetual motion "physicist" and the zero-interest "economist" – ultimately must appeal to the occult or to magic, but the anti-usurer's appeal is not recognized as such, even by many Christians. Usury laws are the destroyer of nations.

Let's Make a Deal

To make my point clear – that interest is inescapable – let us assume that you are a potential buyer of my piece of property, a gold mine. I persuade you that you can earn one ounce of gold per year **net profit** from this land, after all expenses are paid, simply by paying someone to dig the gold ore and selling it to a refiner. Furthermore, we both agree (and all other potential buyers agree) that the mine will probably be able to produce this profit for a thousand years, with the first ounce coming in one year. Then I ask you to pay me one thousand ounces of gold, cash, for the mine.

You, of course, protest. It is **not** worth a thousand ounces, cash. I counter by showing you that you have already agreed that the land will produce a thousand ounces of gold, so why shouldn't I be entitled to a thousand ounces? We all agree: equal for equal, right? Where is my argument incorrect?

The error has to do with the value to you **today** of those **future** ounces of gold. I am asking you to give me gold, ounce for ounce, in advance. But what is the gold mine's thousandth ounce, delivered a thousand and one years from now, really worth to you? Will you give up your thousandth ounce of gold today (and all that it will buy) for that thousandth ounce in the distant future for some unnamed heir of yours? I doubt it. Why won't you? **Because you apply a cash discount to that future stream of income.** An ounce of gold a thousand and one years down the road isn't worth as much to you today as your thousandth ounce is worth to you today. You will not be here to enjoy that future thousandth ounce; you can enjoy whatever your presently owned thousandth ounce will buy today.

Now, think about this process of discounting for cash. We call this process **capitalization**. Let us assume that you own an ounce of gold today. An ounce of gold fifty years from now, or twenty years from now, is not worth

your ounce of gold today. A future ounce of gold, whether scheduled to be received a year from now or a thousand and one years from now, is discounted in your mind. We have therefore discovered a law of human action (which applies in economics): **the present cash market value of expected future goods is always discounted compared with the present cash market value of the identical physical goods.**

What is this discount called? It is called the **rate of interest**. You discount the future value to you of any good compared to what that same good is worth to you immediately, whether it is that automobile or an ounce of gold from that piece of property. For me to get you to hand over the present good today (money), I have to promise to return it to you in the future, plus extra money or other benefit. In other words, I have to pay you **interest**.

Let us consider another example. You win a brand new Rolls Royce automobile. These cars do not change in styling very often. They actually look more like a 1953 Packard than like a new car. But they are a status symbol. Assume that all taxes are paid by the prize-granter. You are now offered a choice: delivery of the car today or in a year. The style probably will not change (low risk factor). Tastes of the very rich public for Rolls Royces probably will not change. The car will be taken care of, you are assured. Make your choice: the car now or the car in a year. The choice is obvious. Why is it obvious? Because of interest, meaning time-preference. "Better now than **later!**"

Why do some people seriously believe that your preference here is pathological, the product of your morally diseased mind? Because they are utopians.

Crackpots for Jesus

It would be nice if I did not have to discuss any of the following crackpot theories of economics. The reason why this task is unavoidable is that these ideas have spread far and wide in Christian circles. Christian economics has been an ignored topic for centuries. What has passed for Christian economics in the past has either been baptized **moralism** or baptized humanism. Numerous crackpot schemes have been promoted in the name of Christian economics, and still are being promoted. The closer we get to the question of monetary policy and interest, the more likely we are to discover pamphlets claiming to be Christian.

Anyone who seriously discusses the possibility of judicially compulsory zero-interest loans in a "**free**" or "**wise**" economy is a monetary crank, a person with no formal training in economics or social theory, and a person dangerously devoid of understanding regarding the human condition. You know for sure that you are listening to an economic amateur when you hear someone seriously propose the possibility of an economy without any legal debt, meaning an economy without legally enforceable contracts to deliver goods or services in the present in exchange for a greater quantity of goods or services in the future. This would be an economy run exclusively in terms of **zero-interest business loans**.

There has never been such a phenomenon as a **zero-interest business loan**. There never will be. Why not? Because **time is not a zero-price resource**.

There have been a lot of these "anti-usury" amateur economists on the fringes of the American conservative movement ever since the days of the "greenback" movement and the politically radical Populist movement of the late nineteenth century. These views on debt were associated with calls for inflation and the free coinage of silver. Radical conservatives and radical leftists have cooperated for over a century in these Populist-type movements. The Technocracy movement and the Social Credit movement are contemporary examples. Both groups gained their promi-

nence during the economic confusion of the 1930's. Defenders of such views on interest-free debt are also to be found in certain Christian circles. Very traditional Roman Catholics have promoted such ideas, most notably the notorious anti-Semitic radio priest of the 1930's, Rev. Charles Coughlin. Today, the "British Israel" or "Identity" movement is filled with tract-writers who offer such monetary theories, all claiming that their views are Bible-based. Two of the monetary crank paperback books in my library are written by dentists and physicians. Another was written by a Nobel Prize-winning chemist, Frederick Soddy. Few, if any, of these books have been written by a trained economist. All of them display bad typography, and many of them reprint 1930's-style (or earlier) political cartoons. (Occasionally, they are printed from computer print-outs.)

The Crackpot Economics of J. M. Keynes

I have said that no trained economist has taught such doctrines. There is one glaring exception, which may not be an exception after all: John Maynard Keynes. Mr. Keynes actually earned only a bachelor's degree in mathematics. He never took a graduate degree in economics or any other subject. His father, Cambridge University economist John **Neville** Keynes, got him a job teaching economics at Cambridge. From that privileged pulpit, he began to make his international reputation.

Mr. Keynes taught that 'Interest to-day rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital' (John Maynard Keynes,

York: Macmillan, 1936], p. 376). His liberal followers do not want to admit that he believed such nonsense, and the right-wing monetary cranks who do believe it do not want to be associated with him or his ideas. Nevertheless, he is one of theirs, meaning both ideological groups.

Keynes promoted the theories of **Silvio Gesell**, a true monetary crank and socialist, whom he referred to as "the strange, unduly neglected prophet" (p. 353). He spent several pages of the preface of **Gesell's** praising **Gesell**. Referring to the preface of **Gesell's**

Keynes said that "The answer to Marxism is, I think, to be found along the lines of this preface" (p. 355). He went on: "He argues that the growth of real capital is held back by the money-rate of interest, and that if this brake were removed the growth of real capital would be, in the modern world, so rapid that a zero money-rate of interest would probably be justified, not indeed forthwith, but within a comparatively short period of time" (p. 357). But can the money rate of interest be reduced to zero? Of course, Keynes said.

Keynes praised **Gesell's** plan for the government to issue paper money with a date stamped on it; to keep the money legal, the users would have to get their money re-stamped each month. There would be a stamping tax on the money. Keynes highly recommended this scheme. "**According to my theory it [the stamping tax] should be roughly equal to the excess of the money-rate of interest (apart from the stamps) over the marginal efficiency of capital corresponding to a rate of new investment compatible with full employment**" (p. 357). But Keynes also taught that the marginal efficiency of capital could fall to zero "within a single generation. . ." (P. 220). In fact, he said that it would be "comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero. . ." (P. 221). Thus, when the marginal efficiency of capital falls to zero, then there will be no economic reason for the rate

of interest not to do the same. Just tax interest and rents out of existence! In short, under his system of economics, "the rentier would disappear. . ." (*idem.*).

This is so clearly an example of crackpot economic utopianism that his respectable academic disciples have spent two generations either ignoring it or explaining it away as really meaning something else. But he meant what he said. One reason why the is so incoherent, in sharp contrast to his earlier economic writings, is that it is an attempted defense of a program to produce the impossible: a world without scarcity, a world where capital is free for the asking, a world without interest.

It is not surprising, therefore, to find that Keynes was also a promoter of the basic monetary theory and policy of Social Credit. Social Credit economics teaches that the government should create fiat money to match the aggregate economic growth of the nation. This, we are told, will keep effective demand high enough to promote full employment. This is what Keynes taught, too: "There will be a determinate amount of increase in the quantity of effective demand which, after taking everything into account, will correspond to, and be in equilibrium with, the increase in the quantity of **money**." (p. 299). **Keynes** was **unquestionably** a monetary crank.

I agree with Sir Eric Roll, at least on this one point: the growth of such utopian ideas represented a reaction to the Great Depression of the 1930's, and it also represented a decline in the influence of rational economic reasoning. "In particular, the social and political roots of the monetary doctrines of Major Douglas, of the mystical views on wealth and debt of Professor **Sceddy**, of the 'free land' and 'free money' agitation of **Silvio Gesell**, would form an interesting subject of analysis. What needs, however, to be pointed out is that the keen discussion which those views evoked and the many adherents which they could claim, particularly in the years immediately after the Great Depression, were both a symptom and an aggravating cause of the decline of relevance and of authority of economic theory" (Eric Roll, [3rd ed.; **Englewood Cliffs**, New Jersey: Prentice-Hall, 1956], p. 457). I regret only that Professor Roll did not have the academic courage to list Keynes in this menagerie of cranks.

Capitalization: Human vs. Non-Human

I fully acknowledge that men, in their quest for autonomy from God, are willing to become slaves of sin, and therefore in principle to become slaves of other men. I recognize the accuracy of the New Testament principle that ~~it is best to owe no man anything (Rom. 13:8a).~~ I also recognize that modern economics **has** promoted the ideal of perpetual debt for perpetual prosperity, and that a world so constructed will eventually collapse if, as happens when governments control the issue of money, political pressures from debtors create steady monetary inflation. Long-term debt tends to lure debtors into the illusion that monetary inflation benefits them more than it harms society. In the **short** run, they may be correct; not in the long run.

Nevertheless, the long-term capitalization of inanimate equipment, agricultural land, and work animals is biblically legitimate. (So, in the Old Testament economy, was the capitalization of foreign heathen slaves, although not for resale to foreign nations.) The borrower owns an economically valuable asset. The lender may be willing to lend money if this asset serves as collateral for the loan. The borrower owes the lender something, but it is something that he already owns. He can "buy his way out" of the loan contract by turning over to the lender the **agreed-upon** collateral. He does not place himself in bondage with this type of loan. He can pay off the loan at any time, either by turning over cash or the collateral to the lender.

Thus, the capitalization of long-term **rents** is legitimate today. In a biblical society, governments would not be allowed to issue money. Neither would fractional reserve banks. This would eliminate the primary biblical objection against collateralized debt: the subsidy that monetary inflation offers to debtors. They could not pay off their debts with depreciated money.

What about unsecured debt? That has to be the decision of the lender. Are the risks worth it? He decides. He should have the legal right to extend credit. The creditor believes that debt is to his advantage. The Bible says that such personal debt is best avoided (Rem. 13:8), but it does not forbid debt. In some cases, debt may actually be to the benefit of the debtor. Debt to finance a higher education is one example. But the debtor must always understand that by taking an unsecured debt, he is risking disgrace. He has in principle become a bondswoman (**Prov. 22:7**).

In a biblical social order, a defaulting debtor would be required to sell everything he owns to pay his creditors. "The wicked borroweth, and payeth not again: but the righteous sheweth mercy, and **giveth**" (Ps. 37:21). There must be sanctions against such public wickedness as defaulting on **a** loan. When **a** person declares bankruptcy, he is **publicly** announcing that the total value of his possessions is insufficient to repay **his** creditor or creditors. He violates the terms of the loan's contract if he retains any personal assets after declaring bankruptcy. He must turn over everything he owes to his creditor up to the amount specified in the contract. (Some societies may allow him to retain some of his possessions, but this exception was known to lenders beforehand, and the added risk to the creditor was already built into the loan's risk premium.) He cannot legitimately be sold into indentured servitude unless this was specified in the loan contract, and if it was, then the loan had to be a zero-interest charity loan (**Deut. 15**). There should be little doubt that the abolition of debtors prison in the West during the late-nineteenth **century** was an act in conformity with biblical law's standards of debt and repayment.

If such laws were on the statute books, there would be a lot less consumer debt.

Collateral

The lender is permitted to take a poor man's cloak as collateral, but the cloak must be returned at night (Ex. 22:26). This is a strange form of collateral, since the lender cannot use it when it is most needed. Its purpose is two-fold. **First, to restrict loans** of charity to **local regions whenever possible**. ~~Lenders are supposed to be in close contact with borrowers.~~ Lenders are very likely employers. They can distinguish a true emergency from a disguised consumer loan. **Second, to reduce multiple indebtedness**. While the lender cannot use the cloak during the night, the debtor cannot use it during the day. He cannot use the same cloak as collateral for several loans at the same time. He is limited in his ability to indent himself and his future.

Character: A lender is not required to take any form of collateral. This indicates that a major form of collateral for a loan is the lender's perception of the borrower's character and his ability to repay the loan. Character, in fact, is a better form of collateral, since the lender does not have to go to the trouble of returning the cloak each evening. This reduces transaction costs. The less trustworthy the borrower's character, the more likely that a lender would require the cloak, fearing multiple indebtedness.

Multiple Indebtedness

There is a very important application of the law of collateral, one that is seldom discussed. Consider the case

of a poor man who comes in search of an emergency loan from his neighbor. The neighbor assesses the man's character, and concludes that the man is likely to repay the loan. The lender has made a mistake. The man may visit several people to ask for an emergency loan. If he collects from all of them, he may waste the money. Even if he repays these loans, he has dealt fraudulently with lenders by accepting numerous interest-bearing loans. They have unknowingly borne added risk.

But what if the lender suspects that the borrower is somewhat unreliable. The lender wants to honor God, so he intends to make the loan. But he wants collateral. He wants to give the borrower an economic incentive to repay the loan as soon as possible. The man is poor. He has no collateral of value. But the lender can still demand the man's cloak. He is not allowed to take the widow's cloak (Deut. 24:17).

What good is this cloak to the lender? He must return it in the evening, when the man needs it. It cannot be sold. It cannot be used by anyone in the lender's household. It is a nuisance, for it must be returned each evening. But it has two important economic functions. First, the borrower has to come back every evening to get it back. This is an inconvenience. He will have an added incentive to repay the loan early. Second, since the garment is in the possession of the lender during the day, it cannot be used as collateral with another lender. One piece of collateral can be used for only one loan at a time, if the lender demands collateral. If the borrower kept it, and simply signed a note saying that it stands as collateral for the loan, he may sign several such notes for several lenders. If he defaults, they cannot all collect their collateral. Therefore, by permitting the lender to demand half a day's collateral, biblical law reduces the temptation on the part of borrowers to commit fraud.

Fractional Reserve Banking

Modern banking is based on the flagrant flouting of the prohibition against multiple indebtedness. For every asset a bank owns, there are many claims – legal claims – against that asset. The bank keeps fewer **reserves** on hand to meet demands of lenders to the bank – depositors – than the bank has promised to deliver on demand. This is called **fractional reserve banking**. It is the universal form of banking and has been since the early modern period. It was an invention of the Renaissance.

Depositors believe that their money is available on demand. The banks have promised them that it is available on demand. But it isn't. If every depositor came to the bank one day and began to withdraw his money, the bank would go bankrupt. The bank loaned out the depositors' money in order to earn interest on the loans. Part of this return is paid to depositors as interest on their accounts. The depositors know this, but they all assume (as do the bank's managers) that not all depositors will try to get their money out on the same day. They assume that withdrawals will tend to equal deposits on any given day. Usually, this assumption is correct. The day men lose faith in the solvency of the bank – in the bank's ability to repay those few depositors who demand their money – a bank run ensues.

Everyone wants his money at **once**. The bank defaults. It has run out of "**raiment**."

Without the protection of state and federal government agencies, fractional reserve banking would face the prospect of bank runs, as lenders (depositors) would lose faith in overextended (**multipally** indebted) banks. The most important form of collateral a bank should have is its reputation for honesty and conservative (minimal fractional **re-**serves) investing policies. In a truly biblical society, banks would be required to have 100 percent reserves. In the twentieth century, however, a commercial banks most important form of collateral in the United States is the legal backing of the federal government, which stands ready to bail out bankrupt banks – a guarantee which is ultimately backed up by the printing press money of the Federal Reserve System, the nation's central bank. **We** have guaranteed inflation by ignoring the warning against multiple indebtedness.

Fractional reserve banking is inflationary, for it creates credit money – money which is backed only by faith. When a person deposits his money on the condition that he can write a check and spend it, the inflation is about to begin. The banker loans, say, 90 percent of this **money** to a borrower. The borrower then spends the money. Whoever gets the borrower's money then either spends it or deposits it in **his** bank, and the process continues. As a theoretical limit (though not in practice), for every dollar deposited in a banking system with 10 percent reserves, nine additional dollars will eventually come into circulation. Thus, fractional reserve banking is inherently inflationary. It also creates inflationary booms and their inevitable consequences, depressions.

Crackpot opponents of both interest and fractional reserve banking have a tendency to label all opponents of usury laws and/or government-issued fiat money as defenders of "the international bankers." The two issues – both intellectual and fiduciary – are different. A person can **consistently** affirm the existence of time-preference (interest) and also oppose fractional reserve banking.

Conclusion

One of the reasons why the development of a specifically Christian economics is so time-consuming – and time must always be paid for – is that the serious Christian economist needs to spend so much time refuting obvious nonsense that has been presented in the name of the Bible. It is difficult enough to get practical people to take the Bible seriously; to burden the message of the Bible with a mountain of nonsense is to slow the spread of the gospel.

Yet the time spent in refuting such nonsense is generally wasted. When you mix crackpot **economist** – a **cult**-like attraction – with the word of God, the resulting **intellectual** package becomes as compelling to those **already** taken in by it as a modern cult. It is almost impossible for those once bitten by the serpent of economic utopianism to consider their need of an antidote. Thus, while I write on these topics, I have little hope of seeing existing devotees converted. The best I can hope for is to immunize those who might otherwise fall victim to the lure of timeless economics.