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CHRISTIAN ECONOMICS IN ONE LESSON

Part 7: Interest and Rent

by Gary North

And another came, saying, Lord, behold, here is thy pound, which I have kept laid up in a napkin: For I feared thee, because thou art an austere man: thou takest up that thou layedst not down, and reapest that thou didst not sow. And he saith unto him, Out of thine own mouth will I judge thee, thou wicked servant. Thou knewest that I was an austere man, taking up that I laid not down, and reaping that I did not sow: Wherefore then gavest not thou my money into the bank, that at my coming I might have required mine own with usury? And he said unto them that stood by, Take from him the pound, and give it to him that hath ten pounds (Luke 19:20-24).

The King James Version translates the Greek word *tokos* as **usury** when it means **interest**. The term **usury** has negative connotations. The King James Version always translates the Greek and Hebrew words for interest as usury. *Tokos* comes from the root word, *tikto*. According to *Strong's Concordance*, it means "to produce (from seed, as a mother, a plant, the earth, etc.), lit. or fig.: -bear, be born, bring forth, be delivered, be in travail." The King James translators repeatedly translated *tikto* as **bear** (as in birth) or **bring forth**.

Jesus' "parable of the pounds" (the English unit of money) clearly states that the owner who had entrusted money to his stewards had the right to collect an increase from them when he returned. The most blessed steward invested the money and had made ten to one on his investments (Luke 19:16). The owner praised him (v. 21). The second steward had made five to one (v. 18). He, too, received praise (v. 19). The third steward had buried the money. This had cost the owner something: forfeited interest. He chastised the steward for not having at least entrusted the money to a banker. Had the steward done so, the owner would have received an increase: interest on his money.

The third steward had wanted to avoid all uncertainty. **Uncertainty** is defined by economists as the statistically incalculable possibility of future loss or gain. This is contrasted with **risk**: the probability of loss that can be estimated statistically in advance. Uncertainty is the source of profit, which in turn is defined as any rate of return above the prevailing market rates of interest.

The steward also wanted to avoid all risk: any threat of loss, which exists when we lend money at interest. But risk is unavoidable in life. There is always a possibility of loss. He earned the wrath of the owner for having been too timid with the owner's capital. His timidity had cost the owner something: forfeited interest. So, there was a possibility of loss, no matter

what the steward did: speculate in hope of an unpredictable profit, invest in hope of a predictable interest return, or bury the coin and receive the wrath of the owner.

A Positive Rate of Return on God's Investment

This parable was designed to teach us that God grants all men benefits in life: **capital**. Men are required by God to do something positive with their talents. In the parallel passage in Matthew 25, the Greek unit of money is called a *talenton*. We derive the word **talent** from it. This is a proper application of the general principle of capital accumulation: Jesus was really speaking of men's talents in the broadest sense, though He used a unit of money to illustrate this kingdom principle. He was speaking of men's productivity in history. Matthew 25 begins with the parable to the ten virgins and their lamps, moves to the parable of the talents, and ends with a description of the final judgment: sheep vs. goats, God's right hand (reward) vs. God's left hand (punishment).

This parable teaches that the least that God's people must do is take calculated risks in order to multiply their wealth in the broadest sense: their output for God's kingdom. It acknowledges the legitimacy of interest. What it condemns is a utopian quest for risk-free living. God demands a positive rate of return from all men. He provides us with capital; he expects us to increase it for the sake of His kingdom.

The parable of the pounds-talents does not forbid taking interest. On the contrary, it recommends this for risk-averse people who want a lower but predictable rate of increase on their capital. This positive attitude toward interest is even stronger in the Old Testament. Interest-taking was a means for Israel to extend the rule of God's people over foreigners who do not affirm God's covenant. "The LORD shall open unto thee his good treasure, the heaven to give the rain unto thy land in his season, and to bless all the work of thine hand: and thou shalt lend unto many nations, and thou shalt not borrow" (Deut. 28:12). God's people were assured that their position as interest-seeking lenders was valid. What they were to avoid was becoming indebted to foreigners.

Zero-Interest Loans

The Mosaic law specified that an Israelite was not allowed to take interest on loans from poor brethren. "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). Notice that the debtor had to be poor. The loan here was a charity loan. This law also applied to a particular kind of stranger in the land. "And if thy brother be waxen poor, and fallen in decay with thee; then thou shalt relieve him: yea,

though he be a stranger, or a sojourner; 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). Here again, the issue was the debtor's poverty. This was not a commercial loan. It was an emergency loan.

For charitable loans, there was a time limit in Mosaic Israel. In the seventh year, all charitable debts were cancelled simultaneously. This year is sometimes called the sabbatical year, though this term is not found in the Bible.

At the end of every seven years thou shalt make a release. And this is the manner of the release: Every creditor that lendeth ought unto his neighbour shall release it; he shall not exact it of his neighbour, or of his brother; because it is called the LORD'S release. Of a foreigner thou mayest exact it again: but that which is thine with thy brother thine hand shall release; Save when there shall be no poor among you; for the LORD shall greatly bless thee in the land which the LORD thy God giveth thee for an inheritance to possess it (Deut. 15:1-4).

In this case, it was lawful to demand payment from a foreigner. But the Hebrew word for **stranger** here is *nokree*. In the Leviticus passage, which prohibited taking usury from a stranger, it was *gehr*. The *nokree* could be treated more severely than a *gehr*. "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury: Unto a stranger [*nokree*] 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).

What was the difference? The *gehr* had decided to live in Israel under Israel's laws. The *nokree* was a foreign businessman or temporary resident who had not participated in Israel's covenantal life, including Passover. "And when a stranger [*gehr*] shall sojourn with thee, and will keep the passover to the LORD, let all his males be circumcised, and then let him come near and keep it; and he shall be as one that is born in the land: for no uncircumcised person shall eat thereof" (Ex. 12:48). The *nokree* remained uncircumcised.

The Jubilee

We know there was a distinction between charitable loans and commercial loans because of the jubilee. The jubilee law required that every fiftieth year every family that was an heir of the conquest generation would receive back its share of the original land distribution made under Joshua (Lev. 25:10). The jubilee year followed the seventh sabbatical year. This means that the heir had not received back his land in any of the preceding seven sabbatical years. But the law of the sabbatical year required the creditor to release his indentured servant and supply him with food and animals (Deut. 15:12-14). The creditor had no such obligation in a jubilee year.

How could someone get so far in debt that he lost his land for up to 49 years? By using his land as collateral for a business loan. No Israelite had any moral pressure to make a business loan to him. This was not true of a zero-interest charitable loan:

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. 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. 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. 15:7-10).

The loan that could bring a man to ruin was an interest-bearing loan that was legally secured by his land. He entered into such a debt position with his eyes open. In contrast, the person seeking a zero-interest charitable loan was poor. He was a victim of circumstances beyond his control. His term of servitude, should he fail to repay the loan, was no longer than the time remaining until the national sabbatical year.

Where interest-taking was prohibited, so was the term of the obligation. It was a charitable loan. The person asking for such help put himself in danger of indentured servitude. He could lose his liberty until the sabbatical year. If he had not already lost his land by defaulting on a commercial loan, his master would probably have leased out the poor man's land to help repay the loan. In the case of a man who had already lost his land, he might choose to become a permanent bondservant in the creditor's household until the next jubilee year. The law provided for this (Deut. 15:16-17).

In contrast, where interest-taking was legitimate, the size of the loan was dependent on what the two bargainers agreed to. But the present value of any land used as collateral for the loan was limited by the time remaining until the jubilee year.

Thus, it is a misinterpretation of the Mosaic law to imagine that Israelites were not allowed by God to loan money or goods at interest to other Israelites. They were allowed to do this, but not to poor Israelites or circumcised resident aliens who were willing to risk indentured servitude until the national year of release should they default on the loan. The charity component of such loans was the interest income on the money or goods which the creditor might otherwise have obtained.

Personal Responsibility in the Present

The prohibition on interest taken from poor brethren specified food as well as money. "Thou shalt not give him thy money upon usury, nor lend him thy victuals [food] for increase" (Lev. 25:37). He who loaned a poor man a loaf of bread was entitled only to the return of a comparable loaf. This indicates that interest is not a strictly monetary phenomenon. Yet one of the most common errors in the history of economic thought has been the belief that a money economy is the source of interest.

The truth is that money conforms to the law of interest in the same way that every other economic asset conforms. The law of interest has its origin in the fact that **men act in the present**. They are responsible before man and God for what they are doing right now. The past is forever gone. Decisions made in the past are irretrievable. They have consequences in the present, but they cannot be changed. Similarly, the future has not yet arrived. We cannot act in the future. We are time-bound creatures. **We are prisoners of the present**. The most important decisions we make are present decisions because these are the only decisions we can make.

We make decisions regarding the uses of resources presently under our control. The immediate value to us of a present good is greater than the immediate value of the same good in the future. The future good is valuable today only

because in making decisions, we are also future-oriented. We make decisions now in order to obtain a future situation. We place (impute) a value to the future situation which we choose as our goal. Our present decision takes into effect its future consequences. But the present value of present goods is greater to us than those same goods in the future because **our present goods allow us a wider range of choices right now** compared to our range of choices if we did not have these present goods.

One of the best ways to define wealth is this: the value of the choices available to us. As we grow more wealthy, we gain access to a wider range of options. We usually estimate our wealth by counting our physical resources, but this is a crude method of measuring our true wealth, i.e., the value to us of the options we possess. Our wealth may be in the form of money, but it may also be in the form of information. If I discover ways of achieving more of my goals with the same amount of capital, I become wealthier. We usually call this process **cost-cutting**. On the other hand, if I discover ways to obtain more money with the skills and information I possess, I also become wealthier. We usually call this **income-producing**. But they are really the same thing. If I find a way to get more options, I have found a way to cut the costs of deploying my present skills and information. I get more income from the skills or information that I now possess. In other words, **I cut my costs of gaining more income**. "A penny saved is a penny earned," Ben Franklin said. (He was wrong: "A penny saved is a lot more than a penny earned; it depends on your income tax bracket.")

"Please Lend Me Some Money"

If I own an ounce of gold, I can buy all the items that an ounce of gold will purchase. Someone comes to me and asks me to lend him that ounce of gold so that he can buy whatever he can purchase with an ounce of gold. He asks me to transfer my wealth to him temporarily: the ability to buy whatever an ounce of gold will buy. He asks me to reduce the number of options available to me right now and over a period of time in order for him to be able to increase the number of options available to him right now and over that same period of time.

Why should I voluntarily give up my options in the present in order to gain the same number of options in the future? I reduce my ability to make decisions from now until he repays me. By transferring the use of my wealth to him, I reduce my range of options in the present. I reduce my ability to please God and men, including myself. I may do this to please God: a zero-interest charity loan. But unless I can see that I can please God by forfeiting my legal control over an ounce of gold in exchange for a promise to repay an ounce of gold later, it would not be rational to lend my ounce of gold.

This principle of valuation applies to everything we own, not just to gold, silver, and paper money. The economic issue is not the form of wealth; it is the very existence of wealth and the associated responsibilities. I am responsible for what I own. If I reduce my wealth by reducing my options – my range of choices – I have moved in the direction of servitude. The ultimate model of servitude is hell: no decision-making ability, no ability to affect the course of history. We are to move rather in the direction of liberty, of greater wealth and greater options. We can be good bondswomen to men, but it is far better to be good freemen. Paul wrote: "Art thou called being a servant? care not for it: but if thou mayest be made free, use it rather" (I Cor. 7:21). By lending any good in exchange for the promise to receive back a similar good in the future, I have reduced my wealth. The only economic justification for this is eschatological: to lay up treasure in heaven (Matt. 19:21). Charity is another way to gain a positive rate of return on our capital.

Imputing a Discount for Time

We impute a discount to the value of future goods compared to the value of those same present goods. That is, we acknowledge that the value of our present options is greater to us than the value of the same number of options in the future. We acknowledge that as present-bound creatures, we are responsible now, and we value highly our ability to make decisions now.

In order to persuade us to give up some degree of our present decision-making ability, a person asking us to do this by lending money to him must agree to increase the number of our options in the future. He must **make up for the discount** which we apply to the value of future goods. This discount we call the rate of interest.

Money loans are no different from any other kind of loan. We value present money, **as with any other scarce economic resource**, for what it can do for us immediately. The present value of an ounce of gold is greater than the present value of an ounce of gold delivered a hundred years from now. Why would anyone in his right mind give up ownership of an ounce of gold today in exchange for a promise to repay that ounce of gold a century from now? One ounce of gold invested at 5% interest per annum, with interest accruing monthly, would yield a repayment of almost 147 ounces of gold a century later. To receive back one ounce of gold would be to forfeit 146 ounces – not a rational decision unless this loan is part of some wealth-transfer scheme that avoids estate taxes. Most taxing authorities penalize such schemes.

What is analytically true regarding gold due a century from now is equally true regarding gold due in a year or tomorrow. The governing principle is this: **we discount future value**. The present value of something in the future is worth less than the present value of that same item today. We mentally apply – impute – a discount to the value of future income. This discount is called the rate of interest.

The owner of the three coins in Jesus' parable temporarily gave up control over them. It would have made no sense for him to give up immediate access to his money if he did not expect a positive return on his investment. He owned three coins. Why turn them over to three stewards in order to receive back the same three coins in the future? Why give up control over what you own today merely to receive back what you already own? You might do this if you expected a military invasion or some other disaster, but who would perform this storage service free of charge, except as a favor – charity? The person storing the coins would not store them; he would lend them out or invest them in order to make a positive rate of return for himself. He would then keep the earnings and return the coins to you.

Rent Stems from the Same Imputed Discount

Let us say that I own a house. I can sell that house to a buyer for cash. A person comes to me and asks me to rent the house to him. For me to rent it means that I cannot sell it for cash. The cash would surely provide me with a large number of options: wealth. The man who wants to rent my house is asking me to give up the options I could obtain for myself if I sold it for cash. If he is to persuade me that it is a rational decision for me to allow him to occupy the house without paying me its full present market value in cash, he must offer me something in return. He probably will offer me a series of money payments. Traditionally, these are monthly payments. These payments will compensate me for having given him control over my house. I will not be allowed to sell it while he makes the payments until our rental agreement expires.

I am seeking a stream of income from my capital. The house is a form of capital. The house can generate income for

me. It can do this in three ways. First, I can live in it. We call this **rent-free living**. This is a mistake. I still pay rent. I cannot get something for nothing in this world of scarcity. I pay rent in a particular way: I forfeit the income that the house could generate for me. This leads us to consider the other two things I can do with the house. I can sell it for cash and lend the money in exchange for an agreed-upon stream of income. We call this income stream **interest**. Or I can allow someone to occupy the house and pay me a specified amount of money each month. We call this income stream **rent**.

What is the difference between interest and rent? In terms of economic analysis, there is no difference. In both cases, I give up control over capital, either in the form of money or the house. In both cases, I will seek to be compensated for giving up this control. After all, I could spend the money to buy all sorts of goodies. Or I could move into the house. If I did not own another house, I might be highly tempted to move in. To persuade me that I should reduce the number of my present options – either all those goodies or a house to live in – someone must offer me a greater number of options in the future than I now possess. Remember: **the present value of my future options is worth less to me than the present value of my present options**. Unless I am irrational, misinformed about the arrangement, or charitable, I will not voluntarily give up present options in exchange for the same number of options in the future.

Let us say that I want a stream of money income from my cash. I offer to lend a man money for a period of time if he will provide me with collateral: something of value that I will receive if he quits paying me. The collateral I ask for is legal title to a piece of real estate that he owns. If he quits paying me interest on the loan, I become the owner of that piece of real estate. He will continue to own that real estate for as long as he continues to pay off the loan.

On the other hand, let us say that I own a house. I allow a person to occupy the house for as long as he continues to pay me rent. If he quits paying me rent, I will force him to leave the premises of my house. I will evict him.

In both cases, someone else wants to retain legal control over a piece of real estate. In both cases, he must make regular payments to me in order to retain this control. In both cases, I am the legal owner of the real estate if he quits paying me. The only difference is legal: I **become** the owner in the first case, while I **remain** the owner in the second case. In both cases, the threat of the loss of legal access to the real estate – eviction – is the major economic motivation for the person to continue to pay me. There are differences in the legal title to the two types of real estate, but economically, the two transactions are the same. I forfeit control over capital – money in the first case, a house in the second case – for as long as the written agreement specifies and for as long as the present user of the property continues to pay me. He can go on a picnic on the land in the first case; he can live in the house in the second case. If he quits paying me according to our contract, I get to keep him off the land or out of the house for as long as I choose.

The Bible Allows Rent

The jubilee law specified terms of occupancy for rural land in Israel. "And if thou sell ought unto thy neighbour, or buyest ought of thy neighbour's hand, ye shall not oppress one another: According to the number of years after the jubilee

thou shalt buy of thy neighbour, and according unto the number of years of the fruits he shall sell unto thee: According to the multitude of years thou shalt increase the price thereof, and according to the fewness of years thou shalt diminish the price of it: for according to the number of the years of the fruits doth he sell unto thee" (Lev. 25:14-16).

If a man sold his family's inheritance, the Mosaic law placed a national legal limit on the period of the transfer of title. In the fiftieth year, all rural land was simultaneously to be returned to the heirs of the original owners: the conquest generation under Joshua. This meant that there could be no permanent land sales in Israel. (Actually, there was one minor exception involving unfulfilled vows to a priest, which would have been extremely rare.) But the language of Leviticus is clear: there could be leases, i.e., long-term rental agreements.

The jubilee law applied to the sale of men as well as to land. If an Israelite or his next of kin (the kinsman redeemer) wanted to re-purchase him out of servitude, he had to pay for the years remaining – the income stream – until the jubilee year (Lev. 25:47-52). The same method of evaluation applied to the services of land and the services of men. A man could sell his land for cash; a man could also sell himself for cash to pay off a third party. In both cases, the buyer was buying a future stream of income for a cash payment in the present. The Mosaic law allowed the seller of the income stream or his nearest of kin to redeem (buy back) this stream of income for cash.

The point here is that the Mosaic law allowed rental contracts: a buyer gave up cash in exchange for a future stream of income. Because the Mosaic law allowed rental contracts, it also allowed interest income, for economically they are the same thing. Thus, anyone who denies that the Mosaic law forbade interest has a conceptual problem: Why did it allow leases?

Conclusion

Interest and rent both stem from the discount that rational men place on the value of future goods compared to present goods. This time-discounting process is universal. It is basic to human action because men must make decisions in the present with the wealth at their disposal. They seek to avoid losing wealth, so they seek a rate of interest on loans to others. An interest-free loan of something with stable market value over time necessarily produces a personal loss of wealth to the lender in history, though not necessarily in eternity.

The Bible allows both interest and rent. It promotes the idea that covenant-keepers are to extend credit to covenant-breakers. It does not say that covenant-keepers must never accept loans from covenant-breakers, nor does it say that covenant-keepers are not allowed to lend at interest to other covenant-keepers in commercial loans. If a person can earn 20% on his money, there is no moral reason why he should not borrow the money at 10% from someone else – even a brother in the faith. If a person can find a way to make 20%, and another person does not know about this opportunity, or prefers not to get involved, or fears the risk involved, there is no moral reason why the person who does know about the 20% opportunity, does want to get involved, and is willing to take the risk should not borrow at 10% from the person who will settle for 10%. Businessmen do this all the time. It is the basis of commercial banking.

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