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Covenant Code: Implication for Business Ethics in
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the Covenant Code: Implication for Business Ethics in the African Socio-Economic Space

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Abstract

Usury has been practised in various parts of the world including African countries for thousands of years and there have been substantial evidence of intense criticism of the practice from many quarters on moral, ethical, religious and legal grounds. In the Old Testament (OT), usury or the concept of taking interest on loans --t least to any member of the community of Israel is viewed as a morally questionable practice. Thus, the three legal codes of the OT, the Covenant Code, the Law of Holiness and the Deuteronomic Code contain a law prohibiting usury but the prohibition in the Covenant Code; that is, the book of Exodus is generally agreed to be the oldest. The Pentateuchal prohibition against lending for interest is often regarded as the result of a primitive economic standard and the specific “kinship morality of a tribal society.” Indeed, the anti-usury legislation was part of an ideal law for a new post-exilic Israel community. In other words, it was the utopian response to the ethical demands of the prophetic thematisation of justice after Israel economy had entered the stage of early capitalism. This paper, therefore, examines the anti-usury legislation in the Code of Covenant with a view to assessing its implication for business ethics in the African social-economic space, a predominantly interest-based economy. By capping interest rates, the paper discovered, that there will be fewer savings available for intermediation, leading to incentives by banks to engage in illegal activities to boost profitability. It is therefore recommended that interest rate should be moderated so as to guarantee resources returns for savers and the investment need of the borrower, while infrastructural deficits should be addressed in the continent.

Keywords: usury, interest, anti-usury, capitalism, growth, economy

Introduction

The practice of usury according to Jain (1929) can be traced back approximately to four thousand years, and during its subsequent history, it has been repeatedly condemned, prohibited, scorned and restricted, mainly on moral, ethical, religious and legal grounds (Visser and McIntosh, 1998). The criticism of usury appears quite strong in Judaism. Thus, in the Old Testament, charging interest is prohibited and scorned (Moser, 1997; Lister, 2006). Prophet Ezekiel includes usury in a list of “abominable things”, together with rape, adultery, murder, robbery and idolatry (Ezekiel 18:8, 13). In Exodus 22:25 and Leviticus 25:35-37, the prohibition of usury applies primarily to the poor and the destitute because, having to pay back the loan with “usury,” or interest, would only put them further into debt and was not beneficial to the economy. But later on, in Deuteronomy (23:19-20), the prohibition to lend at interest is extended towards all Jews, whereas it is specifically allowed towards foreigners. In other words, loans to foreigners were considered more of a business deals. Such loans were seen as international commerce and therefore allowed.

Moreover, the Psalmist also charged the godly to aid their neighbours, not lending to them at interest (Psalms 15: 5; 112: 5-6). This law served as a reminder to the Jews that helping those in need is something that should be done without expecting anything in return. But despite the prohibition on taking interest, there is evidence that this rule was not widely observed in biblical times (Sava, 2012). It is therefore the objective of this paper to examine the implication of anti-usury legislation in the Covenant Code with a view to assessing its implication for business

ethics in the African social - economic space, a predominantly interest-based economy.

Conceptual Definition of the Term “Usury”

Usury comes from the Latin word “usua” (Sava, 2014). The concept has been understood to refer to the practice of charging financial interest in excess of the principal amount on a loan, although in some instances and more especially in more recent times, it has been interpreted as interest above the legal or socially acceptable rate (Visser and McIntosh, 1998). In the Holy Qur'an, The original word used for usury is *riba*. The word “riba” extracted from the Arabic word “raba”, means addition or increase. So, literally *riba* means increase, addition, growth or augmentation (Visser and McIntosh, 1998). This was accepted to refer directly to interest on loans so that, according to Islamic economists Choudhury and Malik (1992), by the time of Caliph Umar, the prohibition of interest was a well-established working principle integrated into the Islamic economic system. It is not true that this interpretation of usury has been universally accepted or applied in the Islamic world. Indeed, a school of Islamic thought which emerged in the 19th Century, led by Sir Sayyid, still argues for an interpretative differentiation between usury, which it is claimed refers to consumptional lending, and interest which they say refers to lending for commercial investment (Ahmed, 1958).

The Hebrew word for interest is *neshekh*, literally meaning "a bite" and is believed to refer to the exaction of interest from the point of view of the debtor. In the associated Exodus and Leviticus texts, the word almost certainly applies only to lending to the poor and destitute,

while in Deuteronomy, the prohibition is extended to include all money lending, excluding only business dealings with foreigners. In the Levitical text, the words *tarbit* or *marbit* are also used to refer to the recovery of interest by the creditor. (Sava, 2014)

In addition to these biblical roots are various talmudic extensions of the prohibitions of interest, known as *avak ribbit*, literally "the dust of interest" which apply, for example, to certain types of sales, rent and work contracts. This is distinguished from *rubbit kezuzah*, interest proper in an amount or at a rate agreed upon between lender and borrower. The difference in law is that the latter, if it has been paid by the borrower to the lender, is recoverable from the lender, while the former, once paid, is not recoverable, although a contract tainted by the dust of interest will not be enforced. (The Jewish Encyclopedia, 1912).

In the ancient and the medieval worlds, any payment on account of a sum of money lent for a fixed term was considered usury (Antonio, 2001). Usury is, by modern definition, the illegal practice of lending money at unreasonably high rates of interest. Usury is usually carried out with the intention of the lender, or usurer, gaining an unfair profit from the loan. A modern slang term for a usurer is a loan shark. Somewhat complicating the matter is the fact that, before the creation of usury laws, usury could refer to interest in general but after interest charging became accepted, usury was used primarily as equivalent to interest above the rate allowed by law. In common usage today, the word means the charging of unreasonable or relatively high rates of interest. The King James Version uses the word usury in its now obsolete sense. For example, in [Exodus 22:25](#), the basic rule regarding interest is "If thou

lend money to any of my people that is poor by thee, thou shalt not be to him as a usurer, neither shalt thou lay upon him usury” (KJV). However, in the English Standard Version, the same verse reads, “If you lend money to any of my people with you who are poor, you shall not be like a moneylender to him, and you shall not exact interest from him.” It is the opinion of many biblical scholars today is the usury wasn't charging interest for business loans; it was charging interest from those who could not pay it, those who were destitutes, as a way of taking advantage of them and basically destroying their ability to take care of themselves. Hence, “usury” and “interest” are used interchangeably in this paper, except where interpretative difference occurred historically, in which instance the relevant distinction will be made explicit.

Statement of the Problem

For a long time, there has been controversy about the issue of interest being charged on borrowings. Most of these controversies have been based on moral and biblical considerations and injunctions. With biblical stand, much of the debates against interest (referred to as usury) are often based on what is written in [Exodus 22:25](#);–[Leviticus 25:3636](#) and Deuteronomy 23:19. In these passages, apart from the fact that it is an injunction against fellow Israelites', it was never envisaged that lending will turn out to be a trade to be pursued as a business or profession.

The banks as financial intermediaries have no fund of their own which they can disburse as loans and advances. Financial intermediation is, thus, the process by which indirect finance through the services of an institutional middleman channelled fund from savers (surplus

economic units) to those who ultimately make capital investment (deficit economic units). It is the mechanism whereby surplus funds from ultimate savers are matched to ultimate borrowers.

Prior to the advent of financial intermediation, borrowers sought out funds from the lenders, through what could be referred to as direct finance. This arrangement has its own limitations. Financial intermediaries exist to save the lender or borrower from incurring additional costs which direct finance would entail in the presence of asymmetric information. Asymmetric information is the possession of information by one party in a financial transaction but not available to the other party. This could be in form of adverse selection or moral hazard. Adverse selection is the tendency for those who desire funds for unworthy projects to be most likely to want to borrow. Moral Hazard is the possibility that a borrower might engage in behaviour that increases risk after a loan has been made

Banks' financial intermediaries' ability to give funds as loans and advances therefore rests on the fact that they are able to raise enough funds through savings made by people. Interest is often paid on such deposit as a means of encouraging further savings. Such interest, the opportunity cost of money, serves as payment or compensation for consumption foregone. The critical question, therefore, is whether real interest rates have any positive effect on economic growth in Nigeria. And that, if prohibited or regulated, will it be able to achieve such growth?

Theoretical and Empirical Review

In the arena of economics, which is primarily

concerned with efficient production of wealth in the society, the interest rate and interest income are key concepts in economic development. Interest encourages savings and capital accumulation which in turn leads to higher labour productivity, wages and standard of living.

According to Wood Jnr, (2015) interest is a natural phenomenon deriving from the concept of time preference. In other words, it is the basic principle of human action according to which a man prefers the enjoyment of a good now rather than the enjoyment of the same good later. By inferring from the above assertion, the practice of charging interest compensates primarily the natural discomfort of postponing consumption.

Mises (1949) postulated that only an increase amount of the good in the future; that is, the amount lent plus interest, would persuade the lender, who does not want to make an act of charity, to forego consumption in the present and lend his savings. Legislating against the charging of interest would leave the lender worse off, as his time preference has been obstructed, with negative consequence for the savings behaviour and capital accumulation in the economy.

Rothbard (2001) described interest rate as “social rate of time preference, which is determined by the time preference of all the people that make up the economy.” Artificial tampering with interest, in a free market, might trigger business cycle and a loss of economic wealth and saved capital. Interest rate plays a crucial role in the coordination of production structure across different time periods.

The association between interest rates and economic growth as recognised in the literature on growth can be

found in the neoclassical growth framework and the McKinnon-Shaw hypothesis. For instance, McKinnon (1973) and Shaw (1973) argue that financial repression – indiscriminate distortions of financial prices including interest rates – reduces real rate of growth. One of the basic arguments of McKinnon-Shaw model is an investment function that responds negatively to the effective real loan rate of interest and positively to the growth rate.

Obamuyi (2009) investigates interest rate policy in Nigeria. The interest rates policy is discussed along the dividing period of pre-reform (1970 - 1986) and post-reform (1987 - 2006) periods. In order to compare the structure of interest rates between the sub-periods, the study combines deposit rate, lending rate and minimum rediscount rate to see how the correlations among these three variables change as the interest rates reform process sets in.

The pre-reform period (1970-1986) is considered as a period of financial repression and was characterised by a highly regulated monetary policy environment in which policies of directed credits, interest rate ceiling and restrictive monetary expansion were the rule rather than the exception. Although, the interest rate policy instruments remained fixed, there were marginal increases. For instance, the deposit rate was increased from 3% in 1975 to 9.5% in 1986, while the lending rate rose from 9 to 12% within the same period. (CBN Reports 2000, 2006, 2010 & 2012)

For the reform period, deposit and lending rates were allowed to be determined by market forces and the interest rates actually increased as envisaged. For instance, the nominal deposit and lending rates rose from 9.5 and 12% in 1986 to 14 and 19.2% respectively in 1987, as a

result of the interest rates reform in Nigeria. By 1990, the deposit and lending rates have risen to 18.8 and 27.7% respectively. The government intervened in 1991 and pegged the deposit and lending rates at 14 and 21% respectively. Unfortunately, between 1997 and 2006, the lending rate did not show a significant trend in reduction, with an average of 22%, despite the declining deposit rate, averaging 5%. The implications of the “tunnel-like” structure of interest rates and the low deposit rates are that savings will likely be discouraged and this will negatively affect funds mobilisation by the banks. This will, in turn, affect the amount of funds available for investment with retarded influence on economic growth. On the other hand, the high lending rate is detrimental to productive investment and hence economic growth(Ojo, 1976).

The real GDP growth rate which was 5.7% in 1970 increased to 11% in 1974, but became mostly negative during the pre-reform period, until 1985, when a positive real GDP growth rate of 9.4% was achieved. Interestingly, the introduction of interest rate reform in 1987 brought a positive change in real GDP growth rate to a peak of 10 % in 1988. With real GDP growth rate of 4.9% in 2006, the country requires an average annual GDP growth rate of 7% in order to meet the United Nations Millennium Development Goals (MDGs) of halving poverty by 2015 (Babalola, et al, 2005).

Although, the GDP growth rate has been very low thereafter, it has maintained a positive stand since the introduction of interest rate reform. Thus, it is clear that implementing interest rates reform has contributed to economic growth in Nigeria.

As Soyibo and Olayiwola (2000) observe, borrowers with

worthwhile investments may be discouraged from seeking loans and the quality of the mix of applicants could change adversely. Again, high lending interest rates could create moral hazard where loan seekers borrow to escape bankruptcy rather than invest or finance working capital. Generally, the behaviour of the interest rate structure is such that there is a widespread margin between deposit and lending rates which may encourage speculative financial transactions.

Empirical evidence by Guseh and Oritsejafor (2007) shows that investment has a negative impact on economic growth in Nigeria, indicating that investment has not promoted economic growth. Further, Guseh and Oritsejafor (2007) support their findings with the following arguments:

- I. Most public sector infrastructure investments are not worthwhile.
- II. Political and military elites implemented public projects that proved to be money-draining projects.
- III. Government contracts were awarded at inflated prices by as much as three or four times their worth and development projects were shoddily executed or completely abandoned after mobilisation fees had been paid.
- IV. There was looting of public funds necessary for savings and investment.
- V. Low per capita income in Nigeria making the household component of private domestic saving to be low and thus may not be a major source of investment.
- VI. Declining government savings.
- VII. Frequent regime changes, concomitant with policy uncertainties, leading to lower long-run investment.

VIII. Public and private corrupt practices, which divert scarce resources from productive activities and reduce economic growth.

The analysis also indicates that a real deposit rate has a statistically significant impact on economic growth in Nigeria. Thus, a high deposit rate of interest encourages savings and economic growth in view of the link between savings, investment and economic growth. This result is consistent with the prediction of economic theory and existing studies that higher deposit interest rate from liberalisation will increase household savings in the banking system thereby enhancing economic growth.

D'Adda and Scorcu (2001) studied the relationship between economic growth and actual interest rate in 1941-1960 with use of panel database. Research results indicate that there is negative correlation between growth and actual interest rate and decrease of economic growth in recent decades results from execution of limiting monetary policies.

Oosterbaan, Der Windt, and Strevenick (2000) show a positive and significant cross-section relationship between average growth and real interest rates. They suggest that the relationship between real interest rates and economic growth might resemble an inverted U-curve: Very low (and negative) real interest rates tend to cause financial disintermediation and hence to reduce growth.

Critiques of Usury: A Historical Overview

Usury or interest is primarily an economic issue in all religions. All religions and mythologies have condemned the practice of usury in one way or the other since the beginning of human civilization. Therefore, all major religions in the world including Judaism, Islam, Hinduism,

Christianity and Buddhism have strongly criticized usury in its very nature (Wan shahzlinda shah bt shahar, 2014)

Usury (*riba*) in Islam: Since the time of Prophet Mohammed, the criticism of usury in Islam was well established and reinforced by several of his teachings in the *Holy Quran* dating back to around 600 AD. The Quranic evidence and condemnation on the concept and practice of *riba* is clear and completely final. However, some Muslims today who are satisfied in their ignorance and unconcern are probably still and continue to live their lives in and around the system, which is abhorred by God (Wan shahzlinda shah bt shahar, 2014). *“O you who believe, beware of God, and refrain from all outstanding gains from usury, if you are truly believers. If you do not, then know that you are at WAR with God and His messenger...” (2:278-279)*

The original word used for usury in this text was *riba* which literally means “excess or addition” which is accepted to refer directly to interest on loans. According to Islamic economists Choudhury and Malik (1992), by the time of Caliph Umar, the exclusion of interest was a well-established and integrated into the Islamic economic system (Choudhury and Malik, 1992)

Usury in Hinduism and Buddhism: According to Wayne, et al, (1998), the oldest known references to usury or interest can be found in ancient Indian religious manuscripts. Jain (1929) provides an outstanding summary of these in his work on *Indigenous Banking in India*. From the *Vedic* texts of Ancient India (2,000-1,400 BC), the earliest record has been derived which the “usurer” (*kusidin*) is mentioned several times and interpreted as any lending at interest. More frequent and detailed references to interest payment are to be found in the later *Sutra* texts (700-100

BC), as well as the Buddhist *Jatakas* (600-400 BC). It was during this latter period that the first sentiments of contempt for usury are spoken. For example, Vasishtha, a well-known Hindu law-maker of that time, made a special law which forbade the higher castes of *Brahmanas* (priests) and *Kshatriyas* (warriors) from being usurers or lenders at interest. Besides, usury is referred to in a shameful manner: "hypocritical ascetics are accused of practicing it" in *Jatakas*.

However, by the second century AD, usury had become a more relative term, as is implied in the *Laws of Manu* of that time: "Stipulated interest beyond the legal rate being against (the law), cannot be recovered: they call that a usurious way (of lending)" (Jain, 1929: 3-10). This concept of usury seems to have continued in Indian society until today. While it is still condemned in principle, usury refers only to interest charged above the prevailing socially accepted range and is no longer prohibited or controlled in any significant way (Wan shahzinda shah bt shahar 2014).

Usury in Christianity: The critique of usury has been with a great intensity by the institutions of the Christian Church for well over a thousand years now. The Old Testament decrees were resurrected and a New Testament reference to usury makes it even controversial. In building on the authority of these texts, the Roman Catholic Church had by the fourth century AD prohibited the taking of interest by the clergy; a rule which they extended in the fifth century to the laity (Wayne, et al, 1998).

In the eighth century under Charlemagne, they pressed further and declared usury to be a general criminal offence. This anti-usury movement continued to gain momentum during the early middle ages and perhaps reached its

zenith in 1311 when Pope Clement V made the ban on usury absolute and declared all secular legislation in its favour, null and void (Birnie, 1952).

Increasingly thereafter, and despite numerous subsequent prohibitions by Popes and civil legislators, weakness in the law and contradictions in the Church's arguments were found and along with the growing tide of commercialisation, the pro-usury counter-movement began to grow. Besides the rise of Protestantism and its pro-capitalism influence contributed to this change (McGrath, 1990). It should be noted that Church reformers like Luther and Calvin expressed some reservations about the practice of usury despite their belief that it could not be universally condemned. Calvin, for instance, recapitulated seven crucial instances in which interest remained "sinful", but these have been generally ignored and his stance taken as a wholesale sanctioning of interest (Birnie, 1952). As a result of all these influences, sometime around 1620, according to Ruston (1993), "usury passed from being an offence against public morality which a Christian government was expected to forbid to being a matter of private conscience and a new generation of Christian moralists redefined usury as excessive interest."

This position has remained pervasive through to present-day thinking in the Church, as the indicative views of the Church of Scotland (1988) suggest when it declares in its study report on the ethics of investment and banking: "We accept that the practice of charging interest for business and personal loans is not, in itself, incompatible with Christian ethics. What is more difficult to determine is whether the interest rate charged is fair or excessive."

Usury in Judaism: Criticism of usury in Judaism has its roots in several Old Testament biblical passages and taking of interest is discouraged, outlawed, or scorned (Visser and McIntosh, 1998). Literally, the Hebrew word for interest is *neshekh* which means "a bite" and refers to the exaction of interest from the point of view of the debtor. In the associated texts of Leviticus and Exodus, the word almost certainly applies only to lending to the poor and the needy, while in Deuteronomy, the prohibition absolutely includes all forms of money lending, excluding only to business dealings with foreigners. In the text, the words *tarbit* or *marbit* are also used to refer to the recovery of interest by the creditor.³⁸

In addition to these biblical roots are various Talmudic extensions of the prohibitions of interest, known as *avakribbit*. Literally, "the dust of interest" applies to certain types of sales, rent and work contracts. This is distinguished from *rubbitkezuzah*, interest proper in an amount or at a rate agreed upon between lender and borrower. The distinction in law is that the latter, if it has been paid by the borrower to the lender, it is recoverable from the lender, while the former, once it is paid, it is not recoverable, although a contract contaminated by the dust of interest will not be enforced (*The Jewish Encyclopedia*, 1912).

Usury in Modern Reformist Thinking: Adam Smith, despite his image as the "Father of the Free-market Capitalism" and his general advocacy of laissez-fair economics, came out strongly in support of controlling usury (Levy, 1987). While he opposed a complete prohibition of interest, he was in favour of the imposition of

an interest rate ceiling. This, according to Visser and McIntosh (1998), would ensure that low-risk borrowers who were likely to undertake socially beneficial investments were not deprived of funds as a result of “the greater part of the money which was to be lent to prodigals and projectors [investors in risky, speculative ventures], who alone would be willing to give [an unregulated] high interest rate.”

Keynes (2016), the great twentieth century economist held a similar position believing that “the disquisitions of the schoolmen [on usury] were directed towards elucidation of a formula which should allow the schedule of the marginal efficiency to be high, whilst using rule and custom and the moral law to keep down the rate of interest, so that a wise Government is concerned to curb it by statute and custom and even by invoking the sanctions of the Moral Law.”

Gesell (1904) was another less well popular anti-usury economic reformist whom Keynes affirmed that the world could learn more from him than from Marx. Gesell, a successful nineteenth century merchant in Germany and Argentina, condemned interest on the basis that his sales were more often related to the 'price' of money (i.e. interest) than people's needs or the quality of his products. His proposal of making money a public service subject to a use fee led to a widespread experimentation in Austria, France, Germany, Spain Switzerland, and the United States of America under the banner of the so-called “stamp script movement”. However, these initiatives, according to Kennedy (1995), were all squashed when their success began to threaten the national banking monopolies. Kennedy is one of the most vocal contemporary critics of interest who builds on Gesell's ideas, believing that “interest

... acts like cancer in our social structure". She takes up the cause for "interest and inflation-free money" by suggesting a modification of banking practice to incorporate a circulation fee on money, acting somewhat like a negative interest rate mechanism.

Besides, another school of modern interest critics that have their roots in the complementary work of several socio-economic reformists of the early twentieth century are Douglas (1924), Fisher (1935), Simons (1948) and Soddy (1926). Their chief common premise was that it is completely wrong and unacceptable for commercial banks to hold a monopoly on the money or credit creation process. For banks to then charge interest (including to government) on money which they had, in the first place, created out of nothing, having suffered no opportunity cost or sacrifice, amounted to nothing less than immoral and fraudulent practice. Various alternative systems such as the Social Credit Secretariat and the Committee on Monetary and Economic Reform are proposed by the original authors and carried forward by their modern-day torch-bearers.

Rationale for the Critique of Usury

Throughout the history of the criticism of usury, various reasons and rationale have been forwarded in support of this position. While some are unique to particular traditions or individuals, many tread on common ground which this section will briefly attempt to synthesise.

Usury as Unearned Income: The Church's simplest and perhaps earliest objection to usury was on the basis that it constituted unearned income, an idea which stemmed from its general doctrine of Just Price. The Lateran Council of 1515 clearly expressed such a view of the

Church: “This is the proper interpretation of usury when gain is sought to be acquired from the use of a thing, not in itself fruitful (such as a flock or a field) without labour expense or risk on the part of the lender.” Birnie (1952), reinforces this point by noting that “to live without labour was denounced as unnatural and so put usurers in the same circle of hell as the inhabitants of Sodom and other perpetrators of unnatural vice.”

Usury as Double Billing: The Church later in the Middle Ages employed a more slightly obscure rationale in order to strengthen its anti-usury doctrine. Drawing on some of the concepts of Civil Law, it argued that money was a consumable good (*fungible*), for which the ownership passed from lender to borrower in the course of the loan transaction (*mutuum*), with the fair price of 'sale' therefore being the exact amount of the money advanced. Hence to ask for more in the form of interest was illegal and immoral, “like selling a loaf of bread and then charging in addition for the use of it” (Birnie, 1952) or, as Aquinas intimated in his *Summa Theologiae*, it would be to sell the same thing twice (Ruston, 1993).

Usury as Exploitation of the Needy: The condemnation of usury in the form of charging for loans to the poor and the destitute is a recurring theme in several traditions. This is clearly the contextual meaning of the Judaic biblical passage in the Covenant Code Exodus (*Encyclopedia Judaica*, 1971) Ruston (1993) suggests that “the original target of the medieval usury laws was the medieval equivalent of the 'loan shark' [but that] the medieval theory was unsatisfactory because it could not distinguish the helpful loan from the oppressive.” Sir Sayyed's school in Islam similarly interprets *riba* as “the

primitive form of money-lending when money was advanced for consumption purposes” (Ahmed, 1958). In the Indian tradition, this understanding of usury can be also found, as is evident from this twentieth century quote: “It is Usury -- the rankest, most extortionate, most merciless Usury -- which eats the marrow out of the bones of the *raiya* [cultivators] and condemns him to a life of penury and slavery” (Jain, 1929).

Usury as a Mechanism of Inequitable Redistribution of Wealth: The observation that usury acts as a mechanism by which 'the rich get richer and the poor get poorer' is common to several traditions. Islam rejects financial interest on the basis that it contradicts the Principle of Distributive Equity which its political economy strives to enshrine: “Interest in any amount acts in transferring wealth from the asset less section of the population” (Choudhury and Malik, 1992). Coming from a totally different perspective as a self-declared 'individualist', Birnie reaches a similar conclusion: “Interest, by making capital a quasi-monopoly, effectually prevents the establishment of a true competitive system” (Birnie, 1958).

Usury as an Agent of Economic Instability: The main objection to usury, according to Gesell, is that it is an endemic factor in the instability of interest-based economy, i.e. the cycles of boom and bust, recession and recovery (Gesell, 1904). Similarly, Ahmad, arguing from an Islamic perspective, claims “the greatest problem in the capitalist economy is that of the crises and interest plays a peculiar part in bringing about the crises” (Ahmed, 1958). In the same vein, Keynes, the campaigner for interest-based monetary policy, accepts the fact that “the rate of interest is not self-adjusting at the level best suited to the social

advantage but constantly tends to rise too high” (Keynes, 2016). Emphatically, Kennedy (1995) suggests that the compounded growth of interest may in fact cause inflation. She shows, for instance, how in Germany, while government income, Gross National Product and the salaries and wages of the average income earner rose by about 400% between 1968 and 1989, the interest payments of the government rose by 1,360% which she claims implies an inflationary effect.

Usury as Discounting the Future: The concept and practice of discounting future values is the last reason cited for condemning usury. Because compound interest results in an appreciation in invested monetary capital, it is presumed rational for people to prefer having a specified amount of currency now than the same amount sometime in the future. This simple and rarely questioned logic has several disastrous implications. According to Pearce and Turner (1990), discounting affects the rate at which we use up natural resources - the higher the discount rate (derived partly from the interest rate), the faster the resources are likely to be depleted. Buttressing this view, Daly and Cobb (1990) opine that discounting can lead to the “economically rational” extinction of a species, simply if the prevailing interest rate happens to be greater than the reproduction rate of the exploited species. Another consequence of the discounting principle, proved by Kula, is that “in evaluating long term investment projects, particularly those in which the benefits and costs are separated from each other with a long time interval, the net present value rules guide the decision maker to maximize the utility of present generations at the expense of future ones” (Kula, 1981).

Reasons for High Rate of Interest in Most African Countries

The first reason often mentioned by the financial intermediaries is the need to cover all costs related to financial intermediation. Apart from the cost of fund that needed to be taken care of, other costs such as personal cost, running cost and other accidental costs are usually embedded in the lending rate (Okpe, 1998).

Secondly, in most of the African countries (Nigeria to be specific), there are poor economic infrastructures. Energy is epileptic, good roads is absent, water supply is erratic, telecommunication cost is out of reach. But all of these are needed for the efficient performance of financial intermediation services. Banks have no option than to generate their own power through the use of generators with the consumption of fuel attached, as their activities rely largely on electricity. The cost of telecommunication services is on the high side compared to other countries outside the continent (Babalola, et al, 2005).

Thirdly, the high inflationary rate trend is quite unhealthy. For instance, in Nigeria, the inflation rate is as high as 17%. Nominal rates of lending incorporate this in its determination (Fisher, 1993). Banks have to charge higher interest so as to cover the inflation embedded in the economy. Interest rate that does not take care of inflation will not encourage savings, as money will worth less their original sum (Babalola, et al, 2005).

Again, the minimum rediscount rate (referred to as Monetary Policy rates in Nigeria) is usually high. This is the benchmark for every other rate in the country. It is the minimum rate that Commercial banks borrow from their Central Banks as the lender of last resort. The higher this

rate, the higher the lending rate will be. Such rates most times take cognizance of the inflation rate in its determination. For instance, in Nigeria, the rate is high as 14% in first quarter of 2017.

Evidences in economies of countries such as Germany and Japan showed that low interest rate accompanies high economic growth (depicting the inverse relationship between interest rate and economic growth). However, most of the funds needed for such economic growth enhancing projects do not come from commercial banks. They are usually from banks funded by the government for the purpose of giving out of such funds. This is possible as the banks do not incur additional cost apart from the cost of the fund which most times are minimal

Anti-usury Legislation and Business Ethics in African Socio-economic Space

In contrast to religion, the science of economics analyses the process of wealth creation in a society. Although the question of ethics permeates less and less into mainstream economics, its importance for the harmonious social cooperation in a society that strives to advance its standard of living cannot be ignored. However, the ethics of business in Africa and Nigeria in particular do not condemn interest charging. On the contrary, the interest income is considered a necessary incentive to promote saving and investment in an economy. Only an increased amount of the good in the future, i.e. the amount lent plus the interest, would persuade the lender – who doesn't want to make an act of charity – to forego consumption in the present and lend his savings. Prohibiting the charging of

interest would leave the lender worse off, as his time preference has been obstructed, with negative consequences for the savings behaviour and capital accumulation in the economy. Not only the outright prohibition of interest would be detrimental to one party of the transaction, but also the capping of the interest rate would bear negative consequences for business ethics in the African socio-economics space.

The improvement in material wealth and civilisation enjoyed by mankind at present is the direct result of the gradual increase in labour productivity. This would not have been possible without a steady accumulation of capital allocated to satisfy the most urgent needs of consumers according to market signals. Various theories emphasize different factors that facilitated the industrial revolution that spurred the European economic miracle initiated in the middle Ages, but the catalyst of these contributing factors appears to have been the development of a legal system protecting private property and economic freedom. Moreover, the development of a financial environment that encouraged saving and investment also played an important role.

The Direct and Indirect Consequences of Anti-usury Legislation

As regards the emergence of a sound financial system to intermediate savings in the economy, the anti-usury legislation which condemns the charging of interest has most likely hampered and delayed this process and implicitly discouraged saving and capital accumulation. It does not only diminish the quantity of savings in the economy by artificially depressing their remuneration, but

also influence the way in which savings are channelled into productive investment. Both intuition and historical evidence point to the fact that anti-usury laws contributed to the emergence of the fractional-reserve banking system which in turn was conducive to the set-up of central banks and the introduction of fiat money. As we show below, the modern monetary-financial system is not only unethical by violating private property rights, but also economically inefficient (Hulsmann, 2008; Woods Jr., 2005).

Money represents a medium of exchange which removed the inconvenience of barter, thus facilitating trade and the division of labour (Mises, 1998). In times past, gold proved itself as the most suitable commodity to fulfil this function. Banks emerged for two main purposes. First, as money warehouses, they kept safely the gold savings in so called “demand deposits” and issued in exchange titles to the gold deposits, i.e. banknotes. Banknotes were as good as gold, and as time went by, they started circulating as money, due to their more convenient handling. Second, banks ensured financial intermediation by lending out the saving or “time deposits”, i.e. either gold or titles to the gold entrusted to them not for safe-keeping, but for investment purposes. In the first case, depositors pay the bank a fee for the warehousing service, while in the second case the bank pays an interest to depositors for providing the savings that will be on-lent to borrowers; Hence, the emergence of the “*depositum confessatum*” technique, in order to hide the true economic and juridical function of interest bearing deposits (Visser and McIntosh, 1998).

Fractional-reserve banking appeared when bankers noticed that under normal business conditions, not all depositors were likely to redeem their gold demand

deposits simultaneously. Thus, demand deposits started to be treated as time deposits and their proceeds lent out at interest despite the obligation of ensuring immediate availability of the gold deposited for safe-keeping. Consequently, when banks started to issue banknotes, they engaged in issuing banknotes as money in excess of the gold deposited for safe-keeping, realizing that it gave them the opportunity to earn bigger, but actually illicit profits. The deposited gold covered now only a fraction of the bank's liabilities and they were subject to bank-runs becoming inherently insolvent the moment all its depositors required the redemption of their gold, regardless of how sound its asset management was (Visser and McIntosh, 1998).

Under a free and competitive banking system, the practice of inflating demand deposits would be limited by the fact that the banks issuing excess banknotes are likely to see their gold reserves dwindle in the process of banknote clearing with sound banks. But, if competition is hampered and banks collude in inflating their gold deposits at a relatively similar pace, this check and balance is largely removed (Mises, 1998). It remains only one risk that this generalized fraudulent practice would entail a bank run on gold in the entire banking system. Such risk was equally removed with the creation of central banks, which enjoy a monopoly on the issue of banknotes and are empowered to act as lender of last resort in order to provide liquidity to troubled banks. As it was physically impossible for central banks to come up with all the gold necessary to cover bank runs, in particular after the inflating process of banknotes gained speed once it became a state-monopoly, the link between banknotes and gold was eventually severed (Mises,

1998). Today, the banking system operates by multiplying the fiat money issued by central banks, which can create money “out of thin air” by simply writing a check on itself and spending it.

Conclusion

Charging interest, and in particular an excessive rate from poor people is not compatible with the Covenant Code and the Christian teachings regarding salvation. It is true that the case of charging interest for business purposes rather than survival needs is hardly considered, but even in this case, the need to stay free from excessive enrichment and addiction to earthly possessions remains the guiding light. At the same time, the call for an outright legal prohibition of usury does not appear to be strong enough. In particular, as singling out usury from all the other teachings advocating non-attachment to material wealth does not seem justified.

The behaviour of the interest structure is such that there is a wide spread margin between deposit and lending rates which may encourage speculative financial transaction. Lower and stable interest rates create a lot of economic certainties that encourages investors to borrow and invest in productivity-improving projects.

Recommendations

The financial system in most African countries is weak and can best be described as an inhibitor and most banks are only in business to reap “windfall” profit. Most of their lending is not to real sector of the economy that directly contributes to economic growth. Interest rates should be moderated so as to guarantee resources returns

for savers and the investment needs of the borrowers in order to contribute to economic growth. Interest rates are not solely left for the market forces for determination, but could be guided and not totally regulated

The government should take care of other factors that negatively affect investment in the continent in order to maintain sustainable economic growth. Issues such as infrastructural deficits that banks most often have to be fixed by themselves. Inflation should be tamed so as not to move beyond single digit as a way of stimulating growth and moderating monetary distortions in the economy. A strong economy will attract foreign investors to collaborate with the government to grow and develop the economy.

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