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*Usury, Calvinism and Credit in Protestant England: from the Sixteenth Century to the Industrial Revolution*

**THE USURY PROBLEM IN MEDIEVAL AND REFORMATION EUROPE**

One of the many enduring myths about the ecclesiastical usury doctrine is that it ceased to be observed in Protestant lands from the sixteenth century. In essence, the sin of usury was to exact any pre-determined payment beyond the principal in any loan of money or other like commodities (known as *fungibles*). Like so many myths, this one contains a kernel of truth; but we find in fact a mixture of both continuity and change in the reception of the usury doctrine in Reformation Europe, especially in Protestant England. Both the elements of continuity and change in the usury doctrine had profound if rather unexpected impacts on the economic development of early-modern England, up to and including the Industrial Revolution era.

Over the last century, at least three renowned historians have presented major challenges to that myth about the observance of the usury doctrine in Protestant England. The first, and certainly, the most famous was Richard Tawney, in two books published in the 1920s: his edition, with a long and learned preface, of the *Discourse Upon Usury* [1572] (1925), by the Elizabethan statesman Thomas Wilson; and his far better known *Religion and the Rise of Capitalism* (1926). The second is Norman Jones’s monograph on *God and the Moneylenders* (1989), in many respects the most valuable study of the three. The third and most recent is Eric Kerridge’s highly polemical monograph on *Usury, Interest, and the Reformation* (2002), which, despite some valuable insights, and a wealth of documentation, does scant justice to either Tawney or Jones.

All three authors stress the continuity of doctrinal opinion on the usury question from the late-medieval Scholastic era through the sixteenth and early seventeenth centuries, in both continental Europe and England. Indeed, Kerridge boldly states that “the Protestant reformers were all substantially orthodox concerning usury and interest,” and that “the Reformation made no real or substantial change to fundamental Christian teachings about usury, or to any of the Christian attitudes

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to it, remedies for it, or laws against it."\textsuperscript{4} That view needs to be seriously re-evaluated – and that is a major purpose of this current study.

\textit{The origins of the usury doctrine in medieval Europe: the heritage of the Old and New Testaments}

Such an evaluation of Kerridge’s strong verdict depends upon a proper understanding of how the usury doctrine had evolved in early Christian and then medieval Europe. One must begin with the treatment of the usury problem in both the Old (Hebrew) and New Testaments, if only to disprove another common myth: that the usury doctrine was a creation of early-medieval Christian Europe. For both the Protestant Reformers and the laity concerned with the usury question, the most familiar texts remained those found in the Bible. The most ancient strictures against usury are to be found in the ancient Jewish kingdoms of Israel and Judah, as recorded in three of the five books of the Pentateuch (Torah), and later in the book of the prophet Ezekiel. The following quotations are all taken from the King James version of the Bible (1611), texts very familiar to seventeenth-century English Protestants.

According to Biblical traditions, the Pentateuch books were composed by Moses, possibly sometime in the thirteenth century BCE; and these commandments were purportedly those that God had dictated directly to him. In the second book, Exodus 22: 25, we find this commandment:

\textit{“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”}

The third book, Leviticus 25: 35-37, provides a very similar passage:

\textit{“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.”}

A similar if more explicit passage, but one limiting the usury ban to Israelites (Jews), is found in Deuteronomy 23: 19-20, the fifth and final book of the Pentateuch:

\textit{“Thou shalt not lend upon usury to thy brothers; usury of money, usury of victuals, usury of any thing that is lent upon usury. Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the Lord thy God may bless thee.”}

The actual dating of the Pentateuch remains highly controversial; but some scholars contend that Deuteronomy may date from the seventh century BCE, and that Leviticus, at least in its final form, dates from a later era, from or shortly after the Babylonian Captivity of 586-538 BCE.\textsuperscript{5}

\textsuperscript{4} Ibid., p. 23.

\textsuperscript{5} Exodus 22: 25, Leviticus 25: 35-37, and Deuteronomy 23:19-20. For these texts, see H. SOLOVEITCHIK, Usury, Jewish Law, in Dictionary of the Middle Ages, J. STRAYER et al. eds., XII, New York
The final and by far the most hostile reference to usury in the Old Testament also comes from the time of the Babylonian Captivity. It is attributed to the great prophet Ezekiel (ranked third after Isaiah and Jeremiah), who was the spiritual leader of the Jews from the destruction of Jerusalem in 586 to about 571 BCE. In book 18.13, he condemns usury in the following fashion:

He who “hath given forth upon usury, and hath taken increase: shall he live? He shall not live ... he shall surely die.”

The only specific stricture against usury to be found in the New Testament is Jesus’ statement in Luke 6:35: a far milder one than Ezekiel’s, and much more in accordance with those found in the Pentateuch.

“But love ye your enemies, and do good, and lend, hoping for nothing again; and your reward shall be great.”

But a more apt reference is the story, recounted in both Matthew 21: 12-13 and Mark 11: 15, of how Jesus, on entering the Temple in Jerusalem, “overthrew the tables of the money-changers,” condemning those responsible for making the Temple “a den of robbers.” The significance of this passage is that, even in this era, virtually all money-changers were deposit-bankers who lent funds at interest (usury).

Subsequently, in a popular Hellenistic Christian text of the early second century CE, the Revelation or Apocalypse of Peter, we find a far more strident view of usury, much more akin to Ezekiel’s condemnation. In his vision, Peter records that he saw a “[squalid] place of punishment,” and then:


6 Book of Ezekiel 18.13.
7 The Holy Bible: King James Version (1611), p. 711. For the version in the New International Version (2011), for Luke 6:35: “But love your enemies, do good to them, and lend to them without expecting to get anything back. Then your reward will be great...”
8 But consider the far more ambiguous parable of the talents found in both Matthew 25:26-28 and Luke 19:22-26, in which Jesus condemns a servant who, having received a talent (or pound), hoarded rather than investing it, thus provoking this response: “Thou wicked and slothful servant ... Thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury” [“recovered what is mine with interest”: in New International Version (2011)]. See the next note.
9 Deposit-and-transfer banking, with fractional-reserve lending, had arisen everywhere in the ancient and medieval worlds from money-changing. For its Greek origins in the fourth century BCE, with professional trapezes and argyropatês (L. argentarius, goldsmiths), and its diffusion in the ancient world, see R. BOGAERT, Banking in the Ancient World, in A History of European Banking, 2nd edn., H. VAN DER WEE, G. KURGAN-VAN HENTENRIJK eds., Antwerp 2000, pp. 13-70. See Jesus’ parable of the talents in the previous note.
10 This tract now exists in two texts: in Greek (the Akhmin fragment, discovered in 1886, and found in Upper Egypt, now in the Cairo Gizeh MS), and Coptic (Ethiopia). The most modern translation is given in J. ELLIOTT, The Apocalypse of Peter, in The Apocryphal/New Testament: A Collection of Apocryphal Christian Literature in an English Translation, ed. IDEM Oxford 1993, pp. 591-615, with this quotation on p. 606. Other versions, with minor variations, are given in: The Ante-Nicene Fathers: Translations of the Writings of the Fathers Down to A.D. 325, X: Original Supplement to the American Edition,
In another great lake full of foul pus and blood and boiling mire stood men and women up to their knees. And these were the ones who lent money and demanded usury upon usury.

The evolution of the usury doctrine in western Christianity: from the Council of Nicea (325 CE) to the late-medieval scholastic doctrines

In essence, the Christian interpretation of the usury doctrine developed from being merely a sin against charity, as clearly indicated in passages cited from three of the Pentateuch books and from Luke in the New Testament, to become a sin against commutative justice, and finally, by the thirteenth century, to be considered as a truly mortal sin against Natural Law, and thus directly a sin against God’s will. The first official Christian pronouncements against usury were delivered in 325 CE by the Council of Nicea, which was Christianity’s first ecumenical council. Its prohibition applied, however, only to the clergy, and was viewed only as a sin against charity. Not until the late eighth century did a succession of Carolingian church councils (768-814) apply the usury ban to all the laity as well, and as a much more vile sin.

Previously, and not long after Nicea, we find a far harsher and far more general condemnation of usury, one directly influenced by Ezekiel, and not by the Pentateuch’s views as a sin against charity. Using almost identical words as those of Ezekiel, the bishop of Milan, St. Ambrose (339-397), unequivocally stated: “if someone takes usury, he commits violent robbery [rapina], and he shall not live.”12 That statement is included in Gratian’s famous codification of the Church’s canon law, known as the Decretum (Concordia discordantium canonum), compiled between 1130


12 Quoted in O. Langholm, Legacy of Scholasticism, cit., p. 59: “Si quis usuram accipit, rapinam facit; vita non vivit.” (From De bono mortis, 12:56, CSEL 321/1, p. 752).
and 1140, which became a fundamental bulwark of the anti-usury campaign that ensued from the church councils of Lateran III (1179) and Lateran IV (1215).\(^\text{13}\)

Throughout this long era, however, the true core of the usury doctrine lay in the provisions on loan contracts contained in the Justinian Code of Roman Law (Corpus juris civilis), in particular The Digest, compiled from 529 to 533 CE, under the Emperor Justinian (r 527-565).\(^\text{14}\) The particular loan contract that came to be regarded as usurious was the mutuum, which literally meant that “what was thine becomes mine,” in that the ownership of the money or fungible goods (wheat, wine, etc.) specified in the contract was transferred from the lender to the borrower, but only until the maturity of the loan. What became crucial for the thirteenth-century and subsequent interpretations of the usury doctrine were the glosses on The Digest’s entry on mutuum that several canonists incorporated into Gratian’s Decretum: those of Paucapalea in 1165, Simon of Bismiano in 1179, and Huguccio in 1187. In the glossators’ view, all the benefits or fruits from the use of the moneys or goods in the loan, up to its maturity, belonged entirely and solely to the borrower, so that any exaction of payment beyond the principal constituted theft, and thus usury, as in St. Ambrose’s famous dictum that usury was rapina. This definition of usury, it must be noted, applied only to mutuum contracts (including sales-credit contracts): those that contained a specific and pre-determined rate of return – i.e., interest, by the modern definition – payable on the contract’s maturity. It must also be observed that these canonical glossators and subsequent theologians rejected those provisions of the Justinian Code concerning the foenus loan contract with the added stipulatio that permitted a premium to be charged for the use of such moneys or fungible goods, payable on the loan’s maturity.\(^\text{15}\)

That basic principle of the mutuum fully explains how and why the medieval and early-modern Church distinguished between illicit and fully licit returns on investments: why the exaction of interest on a loan was a mortal sin, while the payment of rent from the use of land or any physical property, and any profits earned from investments in an enterprise – such as a commenda contract, a compagnia (partnership) contract or a joint-stock company – were fully acceptable. In these investment contracts, the investor retained the full ownership of his capital, and was therefore entitled to a valid return. This analysis makes clear that the usury

\(^{13}\) See M. Denzel, The Curial Payments System of the Late Middle Ages and the Sixteenth Century: Between Doctrine and Practice, in Religione e istituzioni religiose nell’economia europea, 1000-1800/Religion and Religious Institutions in the European Economy, 1000-1800, ed. F. Ammannati, Atti delle “Settimana di Studi” e altri convegni, no. 43, Istituto Internazionale di Storia Economica “Francesco Datini”, Florence 2011, pp. 000-00, contending that the anti-usury campaign had begun with the persecution of the heretical Cathars, who had accepted and defended usury; but the actual Albigensian Crusade, launched by Innocent III, did not begin until 1208.

\(^{14}\) Compiled chiefly by the Roman lawyer Tribonian, the Corpus juris civilis consists of: the Code (12 books) of 528-529; the Digest or Pandects (50 books) and Institutes (4 books) of 529-33; and the Novellae post codicem constitutiones, compilations of later Imperial legislation, from 535 to 565. See H. F. Jolowicz and B. Nicholas, Historical Introduction to the Study of Roman Law, 3rd edn., Cambridge and New York 1972, pp. 478-515.

\(^{15}\) J. Noonan, Scholastic Analysis, cit., p. 40: citing the Justinian Codec, 4:32:3; the Digest, 40:16:121; and Institutions, 3.14.12; and F. Jolowicz, B. Nicholas, Roman Law, cit., pp. 284-286, also specifying that the mutuum allowed no payment beyond redemption of the principal. Roman law had permitted interest payments with an added stipulatio on commercial loans up to 12 percent. See p. 261 below.
prohibition had nothing to do with so-called consumption loans, but pertained to all *mutuum* loan contracts, without distinction. Indeed the full and final evolution of the Scholastic usury doctrine took place during the Commercial Revolution era, from the later twelfth to early fourteenth centuries, when the vast majority of loans (by number and value) were made for such profit-oriented commercial and industrial enterprises. Indeed, the widespread use and popularity of such commercial loans provoked canon lawyers and Scholastics into refining the justification for the usury ban.

Responsible for the final evolution of the usury doctrine during this era were the so-called Scholastics (theologians) of whom the most renowned were St. Albert the Great, or Albertus Magnus (1193 or 1206-1280), and St. Thomas Aquinas (1225-1274). One of their most important contributions was to utilize the philosophical texts of Aristotle (384-322 BCE), which had been only recently reintroduced into Europe, from the Islamic world: especially the *Nicomachean Ethics* in 1246-47 (revised in 1260) and his *Politics*, in the 1260s. The principal text, from the latter, is worth quoting in full, because of its great influence in later medieval and early modern Europe: 16

"The most hated sort [of money-making], and with the greatest reason, is usury [τόκος], which makes a gain out of money itself, and not from the natural use of it. For money was intended to be used in exchange, but not to increase at interest. And this term usury, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Whereof of all modes of making money this is the most unnatural."

Thus, the first principle that became central to all the Scholastic doctrines was the sterility of money, because money – incapable of “breeding” – has only one “natural” use: to serve as medium of exchange. The second important and related principle was that any failure to observe that sole natural purpose was a violation of Natural Law, which, according to the Scholastics, willfully contradicted the Will of God. As the foregoing analysis makes clear, however, no such assumption of “sterility” can be found in the definitions of the *mutuum* in either the Justinian Code or Gratian’s *Decretum*.

Yet, the Church’s reliance on Aristotle’s views and his concept of Natural Law was a far more effective tool in convincing the laity of the intrinsic evils of usury than citing arcane provisions of the Justinian Code and the *Decretum*. Another effective Scholastic argument was the very commonplace observation that usury was the “Theft of Time, which belongs only to God.” Not even the most renowned Scholastics or canon lawyers ever explained, however, why exacting a return based on time, in a loan, as interest is always reckoned, was a mortal sin, while demanding rent for the use of physical property, also reckoned by time, was perfectly legitimate.17 That the true difference between these two forms of


17 J. NOONAN, *Scholastic Analysis*, cit., pp. 19, and 43, citing in particular William of Auxerre (1160-1129), who found this argument useful for condemning usury in sales-credit contracts (with implicit
investment returns was the retained ownership of capital proved to be incomprehensible for most people.\textsuperscript{18}

In this respect, St. Thomas Aquinas’s major and singular contribution to the Scholastic usury doctrine lay in his distinction between fungibles in a loan of money (or foodstuffs) – as specified in the Justinian Code – and non-fungibles in the loan of real estate or physical property. In the former, the borrower’s use of the money (fungibles) necessarily involved the consumption of what was lent, so that his repayment must be no more than the like, identical quantity of the same undifferentiated commodity (coins, wheat, wine, etc); but in the latter, the specific, distinct, and non-fungible property lent was not consumed in its use and was itself returned to the lender, with a payment for that use and possible deterioration of that same property.\textsuperscript{19}

The medieval canonical extrinsic titles: were they “loopholes” to permit charging interest?

Finally, we must consider the so-called loopholes: in the form of what the Church and canon law called \textit{extrinsic titles}, which seemingly provided exemptions from the usury bans. Only two major titles were fully accepted by the medieval Church, in full accordance with the principles of commutative justice – equality in exchange – so that the lender was entitled to make a compensatory claim for actual damages that he had suffered, from having made the loan. But such compensation was legitimate only for damages that had occurred after the loan contract had been issued.\textsuperscript{20} The first such title was \textit{poena detentori or mora}: a penalty imposed for late payments: i.e., those made after the specified maturity date of the loan. Any tacit agreement between lender and borrower to make a late payment was usurious (\textit{in fraudem usurarum}). The second was \textit{damnum emergens}: compensation for any losses that the lender had incurred, again only after having made the loan: e.g., any costs arising from an unanticipated emergency, such as a fire or storm or acts of brigandage that destroyed the lender’s property, forcing him to borrow funds to restore that property.\textsuperscript{21} Such subsequent damages and their actual costs had to be proved in court, if necessary.

The third \textit{extrinsic title}, proposed by some by rejected by most theologians, was \textit{lucrum cessans}, which literally means “cessant gains.” This may be seen, in modern economics, as opportunity cost: in that a merchant who lent money to another had to forgo some potential gains that he might have otherwise derived from some interest), whose form and construction was not covered by the legal definition of \textit{mutuum}. Such interest-bearing sales contracts were first condemned as usurious by Pope Alexander III (1159-1181).

\textsuperscript{18} The same principle is still found in modern commercial law, in western Europe and North America: so that any profits or investment returns on capital derived from a loan are taxed in the hands of the borrower, not the lender.

\textsuperscript{19} See the sources cited in n. 11 above, and also p. 253 above.


\textsuperscript{21} See the publications of J. \textsc{Noonan} and O. \textsc{Langholm} cited in n. 11 above.
other, alternative, but fully licit form of investments, in property rents or profits.\footnote{The most widely cited text for the concept of \textit{lucrum cessans} is the following observation by Henry of Susa (Cardinal Hostiensis) sometime before 1271: “If some merchant, who is accustomed to pursue trade and the commerce of fairs, and there profit from, has, out of charity to me, who needs it badly, lent money with which he would have done business, I remain obliged to his \textit{interesse}, provided that nothing is done in fraud of usury... and provided that the said merchant will not have been accustomed to give his money in such a way to usury.” \textit{J. NOONAN, Scholastic Analysis of Usury}, cit. p. 118, citing Hostiensis [in modern form: \textit{In Decretalium libros commentaria}, ad X 5.19.16, n.4, V, fols. 58vb-59ra. (repr. in I-II Turin 1965)].}

The basic problem with this title, and the reason for its rejection by most theologians, was that such a claim for compensation could easily have been seen as pre-determined and fixed, so that it did not meet the required conditions of a \textit{post-lending loss}, under commutative justice. Furthermore, it embodied an almost explicit contention that money was fruitful (in alternative investments) and not “sterile.” For these reasons, most medieval theologians (including especially Thomas Aquinas), most popes, and canon lawyers refused to accept \textit{lucrum cessans} as a legitimate \textit{extrinsic title} to exact any return above the principal.\footnote{See \textit{J. NOONAN, Scholastic Analysis}, cit., pp. 118-21, 31-32, 249-68; and \textit{O. LANGHOLM, Economics in the Medieval Schools}, cit., p. 51, for Robert of Courçon’s rejection of \textit{lucrum cessans} in 1208; and p. 246, for St. Thomas Aquinas’ rejection (ca. 1266-73).} According to Odd Langholm, the Catholic Church first judged this doctrine to be fully acceptable only as late as 1642, but even then it is not clear that the title was valid if it applied from the beginning of the loan contract.\footnote{\textit{O. LANGHOLM, Aristotelian Analysis of Usury}, cit., pp. 25-26; 98-110; and \textit{IDEM, Legacy of Scholasticism}, cit., p. 75, citing Juan de Lugo (of Salamanca)’s 1642 treatise \textit{De justitia et iure}, as one finally accepted by canon lawyers. For a prominent sixteenth-century treatise favouring \textit{lucrum cessans}, by Leonarius Lessius of Leuven (1554-1623), see see \textit{R. DE ROOVER, Leonarius Lessius als economist: de economische leerstellingen en van de latere scholastiek in de Zuidelijke Nederlanden, Mededelingen van Koninklijke Academie voor Wetenschappen, Letteren en Schone Kunsten van België, Klasse der Letteren, XXXI, Brussels 1969, pp. 3-15, 23-27.}}

An increasingly common late-medieval term for all these extrinsic titles, designating any licit claim to payment beyond the principal (including also \textit{donum}, as a gratuitous gift from the borrower), was \textit{interesse}, from which the modern term interest is derived.\footnote{According to \textit{J. NOONAN, Scholastic Analysis}, cit., p. 118, a twelfth-century Bologna lawyer named Azo was the first to compress the Roman law term ‘quod interest’ — what remains, lies between, or differs from (from \textit{interim}) — into the substantive \textit{interesse}, to mean any licit payment beyond the principal; and this concept was further developed by his student Roland of Cremona. See also \textit{O. LANGHOLM, Economics in the Medieval Schools}, cit., p. 88.} All of these titles refer to payments demanded and agreed upon only after the loan contract had been negotiated, and often only after the redemption date. And thus none of these terms constitutes what modern economists consider to be interest: i.e., the pre-determined rate of return that is clearly specified, in a written contract, for a loan with a specific date of maturity and redemption. And that is also, of course, precisely what the Church meant by usury.

\textit{A summary of the usury myths and their refutation, for medieval and early-modern Europe}
We may now summarize the refutation of the standard myths about usury in the society of medieval and early-modern Christian Europe. The widespread prevalence of the following myths, into current-day literature, had led the renowned economist Charles Kindleberger to state sardonically that usury “belongs less to economic history than to the history of ideas.”

First, the abhorrence of usury, and severe strictures against usury, long-predated Christianity and have remained in force in much of the non-European world, especially Islamic, to the present day. Second, the usury prohibition applied not just to charitable consumption loans, but to all loans, and specifically concerned investment loans, especially from the twelfth century. Third, the usury doctrine applied to any and all interest – any payment whatsoever beyond the principal lent – and not to so-called extortionate interest. Fourth, the so-called extrinsic titles were by no means loopholes to evade the usury doctrine, but were fully in accordance with its intrinsic concept of commutative justice (equality in exchange); and, above all, no such titles permitted a pre-determined rate of interest to be imbedded, from the outset, in any loan contract.

Fifth, the commonplace view that usury transgressions were rarely prosecuted in the courts, civil or ecclesiastical, is really irrelevant. To be sure, possibly only so-called “flagrant” usurers (merchants and bankers), had to fear legal prosecutions, though they were more frequent than is commonly thought. Furthermore, many merchants often found it simple to disguise interest in loan contracts, especially by specifying the amount of repayment to be a sum in excess of that actually lent. But even if usury could be hidden from secular authorities, it could never be hidden from God – or so most of the very devout Christian society then believed. Certainly most Christians in medieval and early-modern Europe firmly believed in and truly feared God’s punishment for usury: i.e., eternal damnation in Hell (or later, at least temporarily, in Purgatory), with unbearable, unremitting agony.

One of the most eloquent verdicts on the real costs of the public belief in the usury doctrine may be found in Lawrence Stone’s monograph on Elizabethan and

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27 The usury doctrine was not enforced in the realms of the Greek and Russian Orthodox Churches, perhaps because of the supremacy of the secular state over the Church, in contrast to the worlds of western Christianity and Islam. The Prophet Muhammad (c. 570-632 CE) was himself deeply influenced by both the Old and New Testaments, and was thus familiar with these commandments against usury. We find a very similar prohibition against usury in Islam’s holy scriptures, the Qur’an (Koran), strictly maintained to the present day. The Arabic term for usury is *ribá*, literally ‘excess’. *The Qur’an Online*: http://quran.com/1. *Sura 2-Al-Baqara* Verse 275: ‘Those who eat Ribá [usury] will not stand [on the Day of Resurrection] except like the standing of a person beaten by Shaitân (Satan), leading him to insanity. That is because they say: ‘Trading is only like Ribá [usury]’, whereas Allâh has permitted trading and forbidden Ribá [usury]. So whosoever receives an admonition from his Lord and stops eating Ribá (usury) shall not be punished for the past; his case is for Allâh [to judge]; but whoever returns to Ribá [usury], such are the dwellers of the Fire -- they will abide therein’. *Sura 2-Al-Baqara* Verse 276. ‘Allâh will destroy Ribá [usury] and will give increase for Sadaqât [deeds of charity, alms, etc.] And Allâh likes not the disbelievers, sinners’. See S. WARD, *Usury, Islamic Law*, in *Dictionary of the Middle Ages*, J. STRAYER et al. eds., XII, New York 1989, pp. 340-341; A. L. UDOVITCH, *Bankers without Banks: Commerce, Banking, and Society in the Islamic World of the Middle Ages*, in *The Dawn of Modern Banking*, Fredi Chiappellli, Center for Medieval and Renaissance Studies, UCLA, New Haven and London 1979, pp. 256-258.
thus Protestant England:29

“Money will never become freely or cheaply available in a society which nourishes a strong moral prejudice against the taking of any interest at all — as distinct from the objection to the taking of extortionate interest. If usury on any terms, however reasonable, is thought to be a discreditable business, men will tend to shun it, and the few who practise it will demand a high return for being generally regarded as moral lepers.”

The Protestant Reformation: the sixteenth-century Reformers’ views on usury

The aforementioned thesis of Eric Kerridge concerning the views on usury held by the sixteenth-century Protestant Reformers must now be re-examined. In his admirable review of Kerridge’s monograph, Prof. Lawrin Armstrong states that: “The virtue of Kerridge’s book is to show on the basis of the sources how thoroughly the reformers reproduced and perpetuated the vocabulary, categories and arguments of the scholastic anti-usury analysis.”30

Certainly very traditional are the views of the founder of the Reformation, Martin Luther (1483-1560), or at least those views expounded in the documents that Kerridge has supplied.31 In one such document, Luther categorically stated that:32

“Where one lends money and demands or takes therefore more or better, that is usury, condemned by all the laws. Therefore, all those who take five, six or more in the hundred from the loan of money, they are usurers.”


31 Historians are far from unanimous on Luther’s views concerning usury. See R. BAINTON, The Reformation of the Sixteenth Century, Boston 1952 (revised edn, 1985), pp. 247-250, contending that Luther’s views did not differ substantially from those of Calvin, whose innovations are discussed below (pp. 260-62). But elsewhere he stresses Luther’s innate conservatism on the usury doctrine, in supporting canon law, with “one exception”: permitting elderly investors to engage “in loans not in excess of 5 percent”, but only in commercial ventures in which the lender-investor risked loss. Such investments were thus not mutuum-loans, and thus not in contravention of Scholastic doctrines. See also IDEM, Here I Stand: a Life of Martin Luther, New York 1950 (reissued New York 1995), pp. 236-238; and G. BRENDELER, Martin Luther: Theology and Revolution, trans. C. FOSTER, Jr., New York 1991, pp. 369-371, suggesting that Luther’s anti-Semitism, and not just adherence to canon law, influenced his hostility to usury. The contention in N. JONES, God and the Moneylender, cit., pp. 14-15, that Luther supported interest-bearing loans for support of the church and the poor is not substantiated by Bainton; but, according to Jones and others cited here, Luther did not accept Old Testament dictums on usury as binding. Jones also contends (p. 15), without documentary evidence, that Luther endorsed the right of secular magistrates to “regulate interest for the good of the community.”

Similar are the views of the contemporary German Swiss reformer Huldreich Zwingli (1484-1531):33

“God bids us give our worldly goods to the poor and needy without return ... and then he bids us lend without usury.... For this reason, everyone who as much tolerates a licensed Jew or other usurer, so art thou a thief or robber.”

To be sure, many of the reformers’ statements (German and otherwise) concerning the usury doctrine seem to be ambiguous, but not when they are shown to be the long accepted extrinsic titles that were fully in accordance with Scholastic doctrines (as interesse).34 Both Tawney and Jones are usually also clear in distinguishing between the reformers’ opposition to usury in a loan contract (mutuum) and their acceptance of other fully licit returns on capital invested: in land (rent); in commercial enterprises, as equity (profits), and in rentes (annuities). They are, however, generally less clear on the exact nature of the traditional extrinsic titles for licit payments beyond the principal, especially concerning lucrum cessans.

The worst offender is Kerridge himself, especially in contending that both the medieval Catholic and early modern Protestants churches condemned only “usury,” while accepting “interest,” which he defines as those covered by the so-called extrinsic titles. But he fails to explain that the only accepted and licit extrinsic titles were those concerning losses that occurred only after the loan had been transacted and that were thus not predetermined, as in the modern definition of interest. Kerridge also errs in asserting that lucrum cessans – which certainly does not meet that test – was accepted by both the medieval Scholastics and the sixteenth-century reformers.35

The only reformer’s text on this issue that appears in Kerridge’s documentary appendix is one by Luther’s less well known German compatriot Philipp Melanchthon (1497-1560):

“But of emergent loss and cessant gain [de damno emergente et lucro cessante] before delay on the loan, the laws in fact give no action, unless it be stipulated in the contract what is to be paid by way of interest.... My answer is: It is licit to make stipulations about interest payable before delay [quantì interest dannì emergentì etiam ante moram].”


34 Not discussed in this study is the famous triple contract or “five-percent contract.” As explained and defended in Johannes Eck’s Tractatus de contractu quinque de centum (1515), it consisted of a profit-sharing partnership or societas contract – always perfectly licit; an insurance contract (also licit), insuring the principal investment in the societas; and a sales contract by which the future uncertain gain from the partnership is sold and converted into a certain five-percent return (disputed). Though it became widely accepted in the sixteenth-century, many Catholic theologians still opposed it as usurious, because the gain was certain. Furthermore, there is no evidence that English theologians had ever discussed this continental contract. See J. Noonan, Scholastic Analysis, cit., pp 205-217, and p. 367; and N. Jones, God and the Moneylenders, pp. 11-15, which discusses the views of only continental theologians on the triple-contract.

35 E. Kerridge, Usury, cit., pp. 7-11, 40-43. For the same error, see N. Jones, God and the Moneylender, cit., p. 14.
A careful reading of this text – on which Kerridge does not comment – provides a reference only to *damnum emergens* and only before “delay” [mora], i.e., before the required late payments, and certainly not from the inception of the contract. Even worse, Kerridge fails to distinguish between *mutuum* loans and other licitly profit-bearing financial instruments – certainly not as clearly as do Jones and Tawney. He also fails in not clearly distinguishing between the transfer of the capital’s ownership in a *mutuum* and its retention as equity in other financial contracts; but Tawney and Jones also fail to make this crucial distinction. The only reformer to have done so is once again Melanchthon, who otherwise issues a traditional condemnation of usury, citing also the sterility of money:36

“In making loans, such gain demanded over and above the principal, merely on account of the lending itself, is really and truly usury.... But to claim usury is expressly forbidden. ...Taking usuries is gaining at another’s expense, because the loan has transferred outright ownership, and in fact the thing is not by nature productive. Therefore the gain is not fair.”

*Calvin and Calvinists: new views on usury in sixteenth and seventeenth centuries*

Kerridge’s bold statement on the unity of traditional Catholic and Protestant views on usury is also incorrect in not fully taking account of writings by that other major Reformation leader, the French lawyer Jean Calvin (1509-1564), whose publication of the *Institutes of the Christian Religion* in 1536 had such a powerful impact in spreading the Reformation, especially in France, the Low Countries, and England.37 Kerridge dismisses him by saying that “Calvin had little to say that was both new and significant,” which is certainly untrue.38 In a letter to Sachinus in 1545, Calvin stated: “I do not consider that usury is wholly forbidden among us, except it be repugnant to justice and charity.”39 His most explicit if conditional acceptance of usury or interest payments, by the modern definition, can be found in his *Praelectiones in Libris Prophetiarum Jeremiae, Epistolae et Responsa* (1575), and in his collected *Opera*, vol. X. In the former, he posed this question, in making a loan to a rich man: “Why should the lender be cheated of his just due, if the money profits the other man and he be the richer of the two”?40 In summary, Calvin did permit interest payments, but only on commercial loans; and he required the

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38 E. KERRIDGE, *Usury*, cit., p. 23.


following restrictions on lending at interest: (1) “that usury never be demanded of poor and needy men”; (2) “that he who lends be not addicted to his gain and profit,” while maintaining proper regard for his poorer brethren; (3) “that no condition inserted or put into the covenant of the loan [be] other than is agreeable to Christ’s commandment”; (4) “that he who borrows ... may gain as much or more by the money than he who lends”; (5) that we must not “measure equity by the iniquity of the race of mankind, but by God’s word alone”; (6) that “covenants drawn up [involving loans] stand rather to the good than to the harm of the commonwealth”; and, finally, (7) “that we exceed not the maximum rate or limit laid down in any country or commonwealth.”

Calvin’s views were influenced by the contemporary Catholic French jurist Charles du Moulin (1500-1566), who, in his Tractatus contractum et usurarum (published in 1547), similarly denied that all loans were to be condemned as usurious and who similarly contended that, in lending to a rich merchant, the lender was entitled to a share of the borrower’s gain, even more clearly implying than did Calvin that money as capital is in itself fruitful and productive. In accepting the validity of lucrum cessans, he rejected the Aristotelian concept of the sterility of money. Indeed, he contended that lending at interest benefited society, since merchants and tradesmen could not engage in their enterprises without borrowed capital.

Some of Calvin’s followers, especially Peter Baro (1534-1599) and Heinrich Bullinger (1504-1575), Zwingli’s successor, repeated his more liberal views, when preaching in sixteenth-century western Europe. So did the German reformer Martin Bucer (1491-1551), though more of a Lutheran, while a refugee in England, holding a chair at Cambridge University. Noting that ancient Roman Law had permitted 12 percent interest on business loans, and that currently some countries permitted interest rates, though restricted, on such loans, he also argued that lending was vital for the prosperity of the current economy and society. While one must obey Christ’s dictum in lending freely to the poor, there was no such necessity in lending to the rich, for which the lender then had a perfect right to a just return.

Ibid., pp. 94-95, doc. no. 7: from Epistolae et Responsa (Geneva, 1575); and Sermon XXVIII, in Opera, X, part 1; N.L. Jones, God and the Moneylenders, cit., pp. 18-120; R. Tawney, Historical Introduction, cit., p. 118, citing the same sources.

Du Moulin was a devout French Catholic, whose works were still prohibited by the papal Index. See J-L. Thirouard, Charles du Moulin (1500-1586): Etude sur les sources, la méthode, les idées politiques et économique d’un juriste de la Renaissance, Travaux d’Humanisme et Renaissance no. CLXXVI, Geneva 1980, pp. 348-400; N. Jones, cit., God and the Moneylender, pp. 15-17; and J. Noonan, Scholastic Analysis, cit., pp. 367-370.

According to R. Tawney, Historical Introduction, cit., pp. 119-120. For Bullinger, see also E. Kerridge, Usury, cit., p. 129, doc. no. 22: from H. Bullinger, Sermonum Decades quiunque de potissimis Christianae Religionis captibus, Zurich 1577: “If anyone put money out to another, wherewith he buys himself a farm, a manor, lands or vineyards for his own husbandry and gain, I see no reason why a good and honest man may not reap some lawful commodity of the advance of his money, just as the letting and setting of a farm.”

N.L. Jones, God and the Moneylenders, cit., pp. 20-24. See also E. Kerridge, Usury, cit., pp. 69-70; and especially pp. 91-92, doc. no. 6, from Enarrationum in Evangelia Matthaei, Marci et Lucae (1527):
defender of usury was the French Calvinist Claude Saumaise (1588-1653), but he published his tracts in a later era.\textsuperscript{45} Nevertheless, Calvin’s statements are often ambiguous, and he frequently expressed a more general hostility to lending, as usury. In his \textit{Institutes}, he stated that “it is a very rare thing for a man to be honest and at the same time a usurer.”\textsuperscript{46} Subsequently, he also advocated the expulsion of all habitual usurers from the Church.\textsuperscript{47} Indeed, in Holland, the Calvinist synod of 1581 had decreed that no banker should ever be admitted to communion service.\textsuperscript{48} In early seventeenth-century England, a Protestant divine (Calvinist) named Roger Fenton (1565-1615), in his \textit{A Treatise of Usurie}, commented that “Calvin dealt with usury as the apothecarie doth with poison”. As a strong opponent of usury, Fenton was evidently biased in that view.\textsuperscript{49}

Clearly, in the sixteenth and early seventeenth centuries, most followers of Luther and Calvin were more hostile to usury than were contemporary Catholics in continental Europe, and generally more hostile than Calvin himself had been.\textsuperscript{50} For example, as late as the 1620s, the eminent English jurist Edward Coke (1552-1634), made Elizabeth I’s Solicitor General in 1592, unequivocally stated, in pure Scholastic fashion, that by former parliamentary statutes “all usury is damned and prohibited,” and that “usury is not only against the law of God and the laws of the realm, but against the laws of Nature.”\textsuperscript{51} According to Tawney, Protestant preachers of this era were unceasing in their condemnation of the “soul-corrupting” taint of usury, up to the Civil War and Commonwealth-Protectorate era (1642-1660).\textsuperscript{52}

Thus, despite the concessions, some explicit, but some grudging to be sure, that Calvin had offered, many or even most early Protestants, especially in England, had both inherited and fully maintained, indeed with some considerable ferocity, the long-traditional Scholastic view that usury was a vile, mortal sin, one “against Nature.”

\textsuperscript{45} J. NOONAN, \textit{Scholastic Analysis}, cit., pp. 370-373. Saumaise (Salmasius), after being forced to flee France, subsequently taught in two Protestant lands: Holland and Sweden.
\textsuperscript{46} G. HARKNESS, \textit{Calvin}, cit., pp. 201-210.
\textsuperscript{47} J. NOONAN, \textit{Scholastic Analysis of Usury}, cit., pp. 365-367.
\textsuperscript{48} G. PARKER, \textit{The Emergence of Modern Finance in Europe}, cit., p. 538.
\textsuperscript{49} Roger Fenton, \textit{A Treatise of Usurie, Divided Into Three Books: the first defineth what is usurie, the second determinth that to be unlawful, the third removeth such motives as persuade men in this age that it may be lawfull} (London, 1612): electronic resource in the University of Toronto library. Cited in R. TAWNEY, \textit{Introduction}, cit., p. 118; IDEM, \textit{Religion and the Rise of Capitalism}, cit., p. 94; and in Kerridge, \textit{Usury}, cit., p. 32 and n. 40 (but with the incorrect date of 1611).
\textsuperscript{50} See n. 31 above.
\textsuperscript{51} E. COKE, \textit{The Institutes of the Lawes of England}, I-IV (London, 1628-44), III, cap. no. 70, pp. 151-52: and further, that “ the suppression of usury tendeth to the honour of God”, cited also in E. KERRIDGE, \textit{Usury}, cit., p. 56.
As the eloquent quotation from Lawrence Stone should indicate, the major cost of a continued prohibition against usury in Protestant Europe had been higher interest rates – higher than in any regimes that permitted legal payments of interest, even if regulated. A very major institutional factor that contributed to such a reduction in interest rates was such secular legislation in mid-sixteenth century Europe, laws that marked the most significant breach yet with the usury doctrine. Whether or not that breach had been influenced by the new Calvinist views on interest has yet to be determined; but it is noteworthy that the first such breach took place shortly after the publication of Calvin’s Institutes.

That first breach was an ordinance that Emperor Charles V (r1519-1556) issued on 4 October 1540, evidently with the support of the Staten Generaal of the Habsburg Netherlands, to make interest payments legal up to a limit of 12 percent throughout the Low Countries, but only on commercial loans. As noted earlier, that was the permissible rate for commercial loans under ancient Roman Law. All “contracts and obligations” stipulating any higher rates were considered to be usurious (voor woekerie). That led to the modern view that usury is excessive interest. To be sure, the Low Countries were then still loyal to Rome and thus nominally Catholic; but no one can deny the serious inroads that Protestantism, especially Calvinism, was then making and the role that it subsequently played in the Revolt of the Netherlands (1568-1609) against Spanish Catholic rule.

Five years later, in 1545, the English Parliament of Henry VIII followed suit in a statute that, for the first time in English history, also made interest payments

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55 In England, the first statute concerning usury, while leaving prosecution to ecclesiastical courts, was the Statute or Provisons of Merton, in 1235-36 (20 Hen. III, c. 5): published in: Statutes of the Realm, Great Britain, Record Commission (T.E. TOMLINS, J. RAITHBY, et al., eds.), I-VI, London 1810-22, I, p 5. In 1275, Edward I, by the (undated) Statutum de Judeismo forbade Jews from engaging in any form of usury. Ibid., p. 221. When Edward I expelled all Jews from England in 1290, the king cited this ban and the contention that the Jews were now “contriving a worse sort of usury” as the justification. See English Economic History: Select Documents, A.E. BLAND, P.A. BROWN, R.H. TAWNEY eds., London 1914, doc. no. 8, pp. 50-51. In the early Tudor era, previous statutes upheld the civil enforcement of the traditional ecclesiastical bans against usury: 3 Hen. VII, c. 6 (1487): An Acte Agaynst Usury and Unlawfull Bargaynes, including “drye exchaunge”; and its amended version in 11 Hen. VII, c. 8 (1495), An Acte agaynst Usyrye, which also forbade selling goods and rebuying them later at a lower price. Statutes of the Realm, cit., II, pp. 514 and 574.
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legal, but only up to the lower limit of 10 percent. His statute made no distinctions, however, between commercial and other loans.\(^{56}\) This English statute was enacted nine years after Henry VIII’s break with Rome (1536), so that we may consider this to be an act of “Protestant” England, though its Protestantism in this era is still highly disputed, especially with considerable persecution of Calvinists, Lutherans, and Anabaptists. Furthermore, Henry’s daring usury statute proved to be very short lived, and did not long survive his death. In 1552, the far more radical Protestant government of John Dudley, Duke of Northumberland (r1551-53), ruling for Henry’s successor Edward VI (r1547-1553), had Parliament repeal Henry’s statute, contending that: “Forasmuch as Usurie is by the worde of God utterly prohibited, as a vyce moste odious and detestable.”\(^{57}\) According to Tawney, that repeal was undertaken at the urging of such radical reformers as Latimer, Ponet, Lever, and Crowley.\(^{58}\)

Not until 1571 did Parliament and Henry’s daughter Elizabeth (r 1558-1603) dare to restore her father’s statute – or rather, the major features of that statute – with the same name.\(^{59}\) Contending that the statute of Edward VI (5 & Ed. VI c.20) “for repressing of Usurie .. hathe not done so muche good as was hoped it shoulde” – evidently because it was unenforceable, the new statute repeated the key provisions of the 1545 statute: that any contracts undertaken for “the payment of any Principall or Money to be lent... for any Usurye in lendynge ... above the Rate of Tenne Poundes for the Hundred for one yere shall be utterly voyde.” Nevertheless, those who framed this statute were determined to prove their religious \textit{bona fides} in opposing usury in principle by stating (Part IV) that:

\begin{quote}
Forasmuch as all Usurie being forbidden by the Lawe of God is synne and detestable, bee it enacted That all Usurie, Loane, and forbearing of Money by way of Loane, Cheysaunce, Shyfte Sale of Wares Contracte or other Doynges whatsoever for Gayne ... above the Summe of Tenne Poundes for the Loane or Forbearinge of a Hundred Pounds for one yere ... shall be forfeitye so much as shall be reserved by way of Usurie above the Principall of any Money so to be lent.
\end{quote}

We should remember that Dr. Thomas Wilson’s famous \textit{Discourse on Usury}, an eloquent diatribe against the “Damnable Sin of Usury,” in all its forms, was written shortly before and published just after this Parliament; and that Wilson was no

\(^{56}\) Statute 37 Hen. VIII, c. 9 (1545), in \textit{Statutes of the Realm}, cit., III, p. 996: with the title \textit{An Acte against Usurie} specifying that “no person or persons... by way or meane of any corrupte bargayne, loone, or eschaunge chevisaunce ... shall have receyve accepte or take, in lucre or gaynes, for the forbearinge or givinge daye of paymment of one hole yere of and for his money ... above the some of tenne poundes in the hundred, and so after that rate...”

\(^{57}\) 5 & 6. Edw. VI, c. 20 (1552): \textit{A Byll against Usurie} in \textit{Statutes of the Realm}, cit., IV, p. 155: also specifying that no one “shall lende, give, sett owte, delyver or forbeare anny somme or sommes of moneye... for anny manner of Usuries, encreace, lucre, gayne or interest to be had receyved or hoped for, over and above the somme or sommes so lent... uppon payne of forfaiture the valewe aswell of the somme or sommes so lent... as allso of the Usurie, encreace, gayne or interest thereof, and allso uppon payne of emprysonement...” Henry VIII’s statute had prescribed triple forfeiture of the combined value of principal and interest for loans made above 10 per cent.


\(^{59}\) Statute 13 Elizabeth I, c. 8 (1571), in \textit{Statutes of the Realm}, IV, cit., pp. 542-543.
dogmatic cleric but a very secular person, as a Member of Parliament (for Lincoln), Master of the Court of Requests, Secretary of State, and also, for a brief period, Ambassador to the Netherlands. Furthermore, the immensely influential Lord Burghley (William Cecil: 1520-1598), Lord Treasurer and Elizabeth’s chief advisor, remaining hostile to usury, had initially opposed this legislation; but he finally relented on the grounds that, if usury was inescapable, then it had to be regulated.

Some of the crown’s concern about the validity of this act is reflected in its conclusion, which stipulated that it was to endure for only five years, unless ratified by following Parliaments. Some other admittedly obscure passages in this act have led to some modern confusion, in particular (or evidently) the words in the usury ban: “after [above] the Rate of Tenne Poundes in the Hundred or under for a yeare.” Richard Tawney interpreted that to mean that rates under ten percent were also declared to be usurious, so that the statute had stipulated this was to be both a minimum and maximum rate. But such a reading is not only untenable but incredible. For why would the crown, in an Acte agaynst Usurie, specify a minimum rate of interest? Somewhat more astutely, Norman Jones, also thought that loan transactions for interest rates under ten percent were also deemed to be usurious, unless transacted through the Court of Orphans.

More recently (2008), Judith Spicksley has contended that Elizabeth’s statute retained the usury prohibition, at any rate of interest, but modified the penalties so that loan contracts of “10 percent or less were punished only by forfeit of the interest” (rather than principal plus interest). A closer reading of the statute does not, however, justify either of these interpretations. Even less justifiable, indeed ludicrous, is Eric Kerridge’s assertion that the usury laws of Henry VIII and Elizabeth were designed only to regulate interesse, i.e., the extrinsic titles for payment, as defined by medieval Scholastics. If so, then why would Edward VI’s government have asked Parliament, in 1552, to abolish Henry VIII’s usury statute?

60 R. TAWNEY, Introduction, cit., pp. 2, 105-117, citing Wilson’s comment that “there be some such laws made by the Pope as be right godly” (p. 113). See also N. JONES, God and the Moneylenders, cit., pp. 24-42.

61 N. JONES, God and the Moneylenders, cit., pp. 34-42, 55-77. Burghley also agreed with the Calvinist principle that lending to the rich, if they gained from such loans, was permissible (see p. 40).


63 R. TAWNEY, Introduction, cit., pp. 160-166. The words “or under” should be taken to mean under one hundred pounds, not the rate itself (in this author’s opinion).

64 For a detailed discussion of this statute, see N. JONES, God and the Moneylenders, cit., pp. 55-77; and for this particular point, p. 63. That interpretation evidently stems from this passage in the act: “Provided alway, That this Statute doth not extend nor shalbe expounded to extend unto any Allowances or Paymentes for the finding of Orphanes according to the ancient Rates of Customs of the Citie of London...”, in Statutes of the Realm, cit., IV, p. 542, clause VII.

65 J. SPICKSLEY, Usury Legislation, Cash, and Credit: the Development of the Female Investor in the Late Tudor and Stuart Periods, in “Economic History Review,” 2nd ser., 61, 2008, pp. 277-301, esp. pp. 284-285. That penalty she contrasts with the one in Henry VIII’s statute, stipulating forfeiture of “triple the principal for contracts of more than 10 percent” (quotation from the author’s text). These two provisions are obviously not comparable.

66 E. KERRIDGE, Usury, cit., pp. 73-74.
Nevertheless, despite the other criticisms, we may well agree that both Tawney and Jones were not far off the mark in asserting that, in the following years, the ten percent rate stipulated in the statute did indeed become both a minimum and a maximum rate of interest.67 Jones further asserts that a deeper underlying motive for the statute was to lower interest rates. In contending that “the usury statute of 1571 did lower rates,” he offers evidence that the average rate of interest had been about 30 percent in the 1560s, that such rates then fell to an average fall of 20 percent during the 1570s, and to ten per cent, by the eve of Elizabeth I’s death and James I’s succession in 1603.68

Furthermore, for Europe more generally, a now classic study by Homer and Bordo has demonstrated that interest rates experienced a slow but steady decline, in real terms, from the sixteenth to eighteenth centuries.69 More detailed evidence for the sixteenth-century Low Countries, but limited to the period up to the Revolt of the Netherlands (1568-1609), shows an even more dramatic decline in nominal interest rates.70

Jones’s major contribution to this ongoing debate has been to document changes in both the attitudes towards usury and in the subsequent legislation on usury, which progressively lowered the maximum interest rates, paralleling if not necessarily promoting the historic downward shift in real interest rates.71 To be sure, he fully admits the validity of Tawney’s comments on the continuing fulminations of conservative clerics against usury, in principle, and in all forms, “attacks that reached a crescendo in the early seventeenth century, a conservative response to hard economic times.” But he also adduces considerable evidence to show that, by the early seventeenth century, the prevailing views had become those more in accordance with a grudging acceptance of interest on genuine investment loans, in particular those that benefited both parties, as expounded in the writings of Calvin, du Moulin, and Bucer, and more currently, of Gerard de Malynes (fl. 1586-1626), an English trade commissioner in the Spanish Netherlands. More and more of English society now viewed usury as extortionate interest, rather than interest per se; and they were also now determined to lower the maximum market and legal rates of interest.

Another very influential set of views were those expounded by Sir Francis Bacon (1561-1626), who served both Elizabeth but especially James I: as Solicitor

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67 R. TAWNEY, Introduction, cit., pp. 155-72; N. JONES, God and the Moneylenders, cit., pp. 91-115. Both note that there is no record of any royal or ecclesiastical prosecutions for usury concerning loans with rates under ten percent.

68 Ibid., pp. 76-90, 116-17; he also cites (p. 79), the interest rates for 1600, as recorded in L. STONE, Crisis of the Aristocracy, cit., p. 530.

69 S. HOMER and R. SYLLA, A History of Interest Rates, 3rd rev. edn., New Brunswick 1991, pp. 89-143, especially 137-138 (Table 11), and 140 (Chart 2). At the same time, we should note that real rates, as well as nominal rates, declined with the Price Revolution era, from ca. 1520 to ca. 1650, but, in the following century, to ca. 1750, any decline in nominal rates may have been offset by the deflationary trends of this era.

70 In the Low Countries, nominal rates of interest, for short term public loans, were falling during the sixteenth century: in Flanders, from 20.5 percent in 1511-15 to 11.0 percent in 1566-70; and on the Antwerp market, again from 20 percent in 1511 to 10 percent in 1550 (but 14 percent in 1555). H. VAN DER WEE, Growth of the Antwerp Market, cit., I. Statistics, Appendix 45/2, pp. 525-527.

71 For much of the following, see N. JONES, God and the Moneylenders, cit., pp. 143-157, 175-178.
General (1607), Attorney General (1613), and Lord Chancellor (from 1618). To be sure, he is often quoted as saying that “Usury is the certainest Meanes of Gaine, though one of the worst.”72 Yet he also fully recognized that the nation’s economic well being depended upon legal lending at interest. Reconciling those views, he contended, as did Burghley and so many others, that if interest (usury) must be permitted it must also be regulated, with the objective of lowering rates. He and others were now arguing that high interest rates were injurious to both agriculture and commerce, that such rates discouraged lending for less profitable enterprises, while concentrating wealth in fewer hands, and thus breeding “public poverty.” In reply to those who feared that lower legal rates would lead to a flight of capital to the Netherlands, they argued that, on the contrary, the very prosperity of the Netherlands at this time was largely due to its lower interest rates. It is noteworthy that all such arguments were presented on purely economic grounds, with scant attention paid to religious considerations (except some who cited Biblical injunctions on charity, but no longer the detailed Scholastic doctrines).73

Many times, in the course of the early seventeenth century, several members of Parliament presented petitions and then conducted fierce debates in both the Lords and the Commons – in 1604, 1606, 1608, 1614, 1620-21 – with the goal of lowering the maximum interest rates.74 Finally, they achieved their long-sought victory, in the Parliament of 1624, in statute 21 James I, c. 17 (also called An Acte agaynst Usury), which reduced the maximum rate of interest from ten to eight percent.75 Significantly, the act began by citing the “very great abatement in the value of Land and other the Marchandises Wares and Commodities of this Kingdome,” which abatement was blamed on high interest rates, specifically ten percent, to the detriment of those “Men unable to pay their Debtes and contynue the maintenance of Trade,” so that, with “their Debt dailie increasing they are inforced to sell their Landes and Stockes at very lowe rates, to forsake the use of Merchandize and Trade… and some become unprofitable Members of the Commonwealth.” No mention is made – for the first time in such a parliamentary statute – of any...


73 N. Jones, God and the Moneylenders, cit., pp. 183-86. Another prominent voice of this era was Thomas Culpepper, author of A Tract Against Usurie Presented to the High Court of Parliament, using the same arguments.

74 See N. Jones, God and the Moneylenders, cit., pp. 145-57, 175-98. For the debates, see Journal of the House of Commons, I: 1547 – 1629 (Great Britain, History of Parliament Trust), London 1802, for the years from 1604 to 1624; and Journal of the House of Lords, I: 1509-1577; II: 1578-1614; III: 1620-1628 (Great Britain, History of Parliament Trust), London 1767-1830. See in particular, in III, An Act against Usury [returned to the Commons], in the Lords’ debates for 3-24 April 1624. These documents are all available from British History Online, at: http://www.british-history.ac.uk/subject.aspx?subject=6&gid=44

75 Statutes of the Realm, cit., IV, pp. 1223-24. The act specified a triple forfeiture of both principal and interest for those convicted of demanding and accepting interest payment above eight percent.
relational arguments against usury. Subsequently, the post-Civil War Commonwealth Parliament of 1651 (Cromwell) reduced the maximum rate to 6 percent, a rate confirmed in the new Restoration Parliaments of 1660 and 1661 (Charles II); and finally, in 1713, Parliament reduced the maximum rate once more: to 5 percent. That rate was maintained until 1854, when Parliament finally abolished the usury laws, i.e., the legal maximum interest rates.

The English usury laws and credit in early modern England

Collectively, this parliamentary legislation from 1571 to 1713 did have a profound and positive influence in fostering economic growth in early-modern and Industrial-Revolution England, especially by expanding the supply of credit, both private and public. For, one may readily contend that any measures that led, directly or indirectly, to a general reduction in market rates of interest would have promoted commerce and economic growth in general; but many historians would rightly object to bestowing such credit on mere parliamentary legislation.

For the particular purposes of this study, the significance of this parliamentary legislation lies rather in its importance for the use of two specific financial instruments: discounted bills of exchange (acceptance bills) and the subsequent adoption of continental rentes (annuities) in English government finance. For the first of these instruments, the importance of the legislation was in the legal endorsement of interest rates, albeit limited rates. For the second instrument, the contrary importance lay in the legal limits imposed on those rates.

THE BILL OF EXCHANGE: THE EVOLUTION OF THE MODERN ACCEPTANCE BILLS

The development of the bill-of-exchange, the creation of Italian merchants engaged in long-distance trade, during the later thirteenth and fourteenth centuries, was one of their greatest achievements and most important contributions, not just to commerce and finance, but to the expansion of the European economy: indeed, the beginnings of the Great Divergence between East and West. In essence, the bill of exchange (which came to known as acceptance bills from the seventeenth

76 Ibid., p. 1224: the act concluded by stating, however, “That no Wordes in this Lawe contayned shalbe construed or expounded to allow the practise of Usurie in point of Religion or Conscience.” See Jones, God and the Moneylenders, cit., pp. 193-194, contending that a committee struck out the proposed and long traditional words that “All usury is forbidden by the law of God”, contending that such issues should be left to the Divines (Protestant ministers). See N. Jones, God and the Moneylenders, cit., p. 197, stating that this act, “marks the official end of the medieval usury law in England.” See also the debates in The House of Commons Journal, cit., I, pp. 610-612 (May 1621), 679-691 (March-April 1624: esp. p. 691, for 27 April: “An Act against Usury”: passed).

77 Commonwealth Act (1651: all the Commonwealth acts were declared null with the Restoration in 1660); confirmed by 12 Charles II, c. 13 (1660) and 13 Charles II, Stat. 1, c. 14 (1661); 12 Anne, Stat. 2, c. 16 (1713); and the repeal of the usury laws, in 17 & 18 Victoria c. 90 (1854). For the later statutes, see R. D. Richards, The Early History of Banking in England, London 1929 (reprinted New York 1965), pp. 19-20.
For such international financial transactions, the bill of exchange (cambium) required two principals in one city and their two agents in a distant, foreign city. One principal (A: the datore or rimettente) furnished or lent funds to the other principal (B: the prenditore or traente), in the local currency of their city – e.g., Florentine florins. Principal A did so by “buying” from Principal B a bill of exchange that B “drew” for payment on his agent C, the payor (pagatore) in some foreign city, for payment in the local currency of that city: e.g., pounds groot Flemish, in Bruges. The bill was drawn to be payable to Principal A’s agent there, in Bruges, agent D, the payee (beneficiario), who, on receiving the bill in the mail presented it for acceptance to agent C; and once C had accepted the bill, he was legally bound, by the Law Merchant, to make full payment on the specified maturity date. Agent D, on receiving payment, then purchased a return bill (recambium) from another merchant, who drew the bill for payment on his agent (or his own principal) in Florence, to be made payable, in florins, to merchant Principal A. Note that both of these transactions were conducted in the local currency of the two cities concerned, thus obviating the costly and dangerous necessity of physically transporting precious metals between the two cities.

Since the bill of exchange served dual functions, we can readily discern the two principal factors that explain its origins. The first was the spreading stain of destructive international warfare across western Europe and the entire Mediterranean basin, from the 1290s, through the subsequent Hundred Years’ War era (1337-1453), with the growing risks of piracy, brigandage, confiscation, and theft. A related problem was the economic nationalism and protectionism that such conflicts promoted, especially in the form of “bullionist” polices designed to prevent the export of precious metals and to direct bullion into the rulers’ mints, all the more so since coining metals provided them with an important source of profit, known as seigniorage, that proved important in financing warfare.

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The medieval bill of exchange and the constraints of the usury doctrine.

An equally important factor was the impact of the usury prohibition on its use and diffusion, at least according to Raymond de Roover.80 He contended that merchants used this contract to evade the usury prohibition by including and “disguising” interest payments in elevated exchange rates. But the Church was never deceived in this respect. Theologians did not, in fact, consider the cambium to be a mutuum, but rather a licit purchase of funds in a foreign bank or foreign merchant’s account.81 In any event, merchants could profit from a bill of exchange only by purchasing a recambium, or return bill, for which the exchange rate and thus the profit was uncertain. Yet the European bill of exchange did offer advantages that the comparable Arabic contract, known as the sultaja (or sultadja) never did. Though long predating the Italian bill of exchange, the latter never involved the exchange of currencies and hence this opportunity for profit.82 Of much greater importance was the very important role that European bills of exchange played in financing international trade, from the later thirteenth century, and also in increasing the income velocity of money, by obviating the international transport of precious metals, during which those metals would have lain idle.

Nevertheless, as de Roover fully admitted, the usury ban still posed one serious impediment: in preventing commercial bills of all kinds from becoming fully negotiable credit instruments, for reasons explained in the following analysis. The usury ban dictated, in essence, that such bills had to be held for redemption on the specified date of maturity.

The origins of discounting in the sixteenth century: the importance of the usury legislation

From the sixteenth century, however, bills of exchange and similar commercial bills were no longer held to maturity, but came to be more and more commonly sold in advance of maturity, and thus necessarily at discount. In that form, they were then transferred as fully negotiable credit instruments – either in bearer form or as endorsed bills – to various other and many other merchants before being finally redeemed (for cash, goods, or services) on the stipulated maturity date. Anyone who sold bills before the date of maturity was necessarily required to do so at some negotiated rate of discount, simply because no rational merchant would have bought such a bill for its full face value, only to collect the same amount on maturity, thus forgoing the implicit interest involved in this credit transaction. Obviously, during the medieval era, discounting bills, by this procedure, by so openly revealing the interest involved in these exchange transactions, would have

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80 See R. DE ROOVER’s publications cited in note 11, above.
81 See the arguments cited in J. MUNRO’s publications in nn. 20, 78 above.
82 Such transactions were undertaken by all parties in dinars and dirhams, the almost universal gold and silver coinages of the medieval Arabic world in which the sultaja contract was used – from Granada to Baghdad. See E. ASHTOR, Banking Instruments Between the Muslim East and the Christian West, in “Journal of European Economic History”, 1:3, 1972, pp. 553-73, esp. pp. 553-558, 567-573; A. UDOWITCH, Partnership and Profit in Medieval Islam, Princeton 1970; IDEM, Bankers without Banks, cit., pp. 265-273.
been seen as a direct violation of the usury ban.

As Herman Van der Wee has demonstrated, the innovation and then the spread of discounting for commercial bills of all kinds, did not really take place until after the Habsburg government had, in 1540, made interest payments fully legal (up to 12 percent, as noted). The same may be said for Protestant England, though the real spread of discounting evidently took place considerably later, in the seventeenth century. Without any doubt, the legalization of interest, despite the legal limits on rates imposed in Protestant countries, was a major and vital factor in making commercial bills fully negotiable (and not just transferable), and thus capable of expanding the supplies of mercantile credit and money itself. But it was not the only factor.

The Coming of Negotiability of Commercial Bills

The other related legal condition concerned the full negotiability of commercial bills (bills of exchange and letters obligatory, or promissory notes): legislation to provide recognition of the right of third parties, those who had bought the bills from previous holders, to collect the full stipulated amount on maturity, without any legal disputes. As contended in earlier publications, the first important step towards establishing legal negotiability had taken place in the London Mayor’s law-merchant court in October 1437. This important legal decision concerned a formal bill of exchange transaction between English merchants: two agents in Bruges, and two principals in London. The Bruges agent was John Audley, who, as the taker or drawer, drew the bill for payment upon his master Elias Davy in London, instructing Davy as the drawee/acceptor/payer of the bill, to pay the designated payee, “John Burton or the bearer of this letter of payment” the sum of £30 sterling in London, on the following 14 March 1436. When the bearer of the bill, John Walden, presented it for payment, Davy refused to accept it – he dishonoured the bill. Citing the precedents of the international Law Merchant, the


86 For the origins and development of Law Merchant in England (from 1275), see J. Munro, The International Law Merchant and the Evolution of Negotiable Credit in Late-Medieval England and the Low
Mayor ruled that the bearer who presented the bill had the same rights and legal standing as the stipulated payee (Burton), and thus ordered to Davy to pay Walden the full amount owing, plus all legal costs.87

That law-merchant court verdict served as a precedent not only for subsequent English legal cases, but also – in all likelihood – for similar law-merchant cases concerning redemption of bearer bills, and involving English merchants, at Lübeck in 1499 (reconfirmed in 1502);88 in Antwerp, in 1507;89 and in Bruges, in 1527.90 Herman Van der Wee has rightly emphasized that, despite earlier civic-court precedents, Europe’s first national legislation to recognize the full legal rights of bearers or other such third parties in commercial bills took place in the Habsburg Low Countries, in a series of Imperial ordinances enacted in March and May 1537 and October 1541. They permitted the bearer to sue any and all prior assignors of the note for the full payment, and established these principles of financial assignment, with full legal guarantees and protection for the bearer, on a fully national basis.91 In England, the rulings of law courts – first law-merchant courts and then common-law courts – had as much validity, in establishing commercial law, as did Parliamentary statutes. In fact, Parliament did not enact similar formal legislation until as late as 1702-03: in the Promissory Notes Act, which made all promissory notes fully transferable, whether to order by endorsement or to bearer, “according to the custom of merchants ... as is now used upon Bills of Exchange.”92


89 See the publications of H. VAN DER WEE cited in n. 83 above.


91 H. VAN DER WEE, Monetary, Credit, and Banking Systems, cit., p. 326. See also IDEM, Growth of the Antwerp Market, cit., II, p. 344; A. USHER, Deposit Banking, cit., pp. 98-99; and R. DE ROOVER, Gresham, cit., pp. 1171-52. For the texts (in Flemish) of the 1537 and 1541 Imperial decrees, see Recueil des ordonnances des Pays Bas, M. LAMEERE, H. SIMONT eds., cit., IV, pp. 15-17 (7 Mar 1537), 34-35 (25 May 1537), and pp. 329-31 (31 Oct. 1541).

For early modern England, the vital economic importance of discounting commercial bills, formally transferred from one party to another by endorsement, which became both a formal and customary procedure by the early seventeenth century, cannot be underestimated. In Great Britain, the primary role that both English and Scottish banks played in financing the Industrial Revolution was in discounting a wide variety of commercial bills: acceptance bills, inland bills, promissory notes. That was especially true in supplying industry, commerce, and agriculture with their requirements for short term working capital, which was then relatively more important than fixed capital formation. 93

In financing international trade, upon which global economic growth so vitally depended, international acceptance banking -- i.e., discounting – remained a vitally important function of most European banks, large and small. On the eve of World War I, the three leaders by annual volume of acceptances were now German banks or banks of German origin: the Dresdner Bank, with £14.4 million sterling, Kleinwort & Sons (a German bank in England), £13.6 million; the Discontogesellschaft of Berlin, £12.5 million, and H. Henry Schröder & Co. (another German bank in England), £11.6 million.94

RENTES (ANNUITIES) AND THE ENGLISH FINANCIAL REVOLUTION

If England’s acceptance of some legal rate of interest, from the time of Elizabeth I (i.e., from 1571) proved to be so important for its subsequent development of its financial and commercial institutions, the imposition of maximum interest rates was also important for the development another so-called Financial Revolution: a system of national government finance based not on interest-bearing loans but on the sale of annuities, known as rentes on the continent. In England, it began with the Glorious Revolution of 1688. The initial importance of the Glorious Revolution was the overthrow of the Catholic king James II (r 1685-1688) and his replacement by and with the joint rule of his Protestant daughter Mary II (r 1689-1694) and her husband William III (1689-1702), a Dutch Calvinist prince and the stadhouder of five of the seven United Provinces, also known as the Dutch Republic. Since he had many Dutch financial advisors, one may well conjecture that they imported into England the legal and institutional foundations of what became its permanent, funded, national debt: beginning with the Million Pound Loan of 1693 (in fact, a life-time annuity) and the creation of the Bank of England in 1694 (providing a permanent loan of £1.2 million, later increased to a total of £11.689 million), and completed by “Pelham’s Conversion” and consolidation of the entire national debt, from 1749-1757, into the Consolidated Stock of the Nation (known as Consols), in the form of perpetual annuities. The role of William’s early government in this financial revolution is quite clear, because his ascension also engaged England in his ongoing and extremely expensive war with France, under the reign of Louis XIV (r. 1643-1715),

94 S. CHAP\textsc{man}, The Rise of Merchant Banking, London 1984, Table 7.2, p. 121.
and his successors.95

That debt was national, because it was the responsibility of the nation itself, but especially of its Parliament, and not that of the king personally. It was funded, because Parliament voted specific taxes to finance the annual payment costs of the national debt. And it was permanent because it was in the form, as just noted, of perpetual though state-redeemable annuities, with no interest-bearing loans or bonds (having specific maturity dates).

England was indeed a very late-comer in adopting this form of public finance, which had begun in the early thirteenth century, in the northern French counties, including Flanders. From there it spread into the subsequent Burgundian and Habsburg Low Counties, and was adopted by the young Dutch Republic, from the 1580s. Indeed, it became the prevalent form of public finance in the kingdom of France itself, in Habsburg Spain (from the 1492 unification), and in many of the German principalities of the Habsburg Holy Roman Empire, certainly by the sixteenth century.96

The thirteenth-century anti-usury campaign and the origins of the European rentes

As contended in a previous publication,97 the thirteenth-century origins of this “financial revolution” can be found in the reaction to the vigorous intensification of the anti-usury campaign, especially following Lateran IV, held in 1215. Along with a full endorsement of the anti-usury provisions of Lateran III (1179), prescribing the onerous punishment of excommunication for all unrepentant usurers, Lateran IV provided two additional important features. First, it launched a vicious attack on Jewish money-lenders, for their supposed “treachery” and “cruel oppression” in extorting “oppressive and excessive interest,” i.e., beyond variously imposed legal limits, chiefly enacted for pawn-broking, whose practice by non-Christians had long been accepted, in many European countries, though barely tolerated.98 This attack made the sin of usury appear all the more heinous, to a largely anti-Semitic public. Second, this council now required all Christians to make annual confessions to priests, including confessions of usury.

Those two provisions were crucial in allowing two new priestly preaching

98 One major exception was medieval England: see n. 55 above.
orders to conduct so successfully the ensuing anti-usury campaign. The first was
the Franciscans, or the Order of Friars Minor, founded c.1206-10 (by St. Francis of
Assisi); and the second was the Dominicans, or Order of Friars Preacher, founded
in 1216 (by St. Dominic). These mendicant friars supplemented the Lateran decrees
with their own lurid, utterly diabolic exempla: horrifying stories about the ghastly,
agonizing fates awaiting all usurers in the eternal fires of Hell. Endorsing these dire
preachings was the most famous literary tract of this era: the Divine Comedy of the
Florentine Dante Alighieri (1265-1321), which placed usurers in the lower depths
of Hell, as “the last class of sinners that are punished in the burning sands.”

The impact of the Franciscan and Dominican preaching orders also served to
convince most secular governments of their sworn duty to enforce the anti-usury
bans, with harsh, pitiless vigour. Further strengthening the anti-usury campaign
were the papal Decretales that Pope Gregory (r1227-1241) issued in 1234. They
commanded all Christian rulers to expel all usurers and to nullify all wills and
testaments of unrepentant usurers. Furthermore, any priests who permitted
Christian burials of usurers were themselves to be punished as usurers.

Even earlier, from the 1220s, many northern French towns had resorted to a
novel form of public finance that attracted funds from investors who now feared
the consequences of engaging in interest-bearing loan contracts. According to
Pierre Desportes’ history of late-medieval Rheims, local clerics threatened the local
bourgeoisie with a veritable “reign of terror,” and the irredeemable loss of their
immortal souls if they were to engage in usury. In his study of thirteenth-century
Flanders, Georges Bigwood asserted that “the struggle against usury was
energetically and remorselessly conducted” by the Church, town governments, and
the counts of both Flanders and Artois.

The alternative investment contract that these merchants and financiers chose
to pursue, with the active encouragement of the town governments, was the rente:
the purchase, with a fixed capital sum, of a life-time or perpetual stream of income.
Once the capital had been furnished to the government in buying such rentes, the
buyer could never request the return of his capital. A direct link between the
thirteenth-century anti-usury campaign and the resort to rentes or annuities in urban
(and subsequently in territorial) public finances can be seen in various ecclesiastical
diatribes against such rente contracts that soon followed. In 1250-51, however, Pope
Innocent IV (r 1243-1254) responded to these critics by declaring the new rente

99 Canto XVII of Inferno, in DANTE ALIGHIERI, The Divine Comedy (Carlyle-Okey-Wicksteed
100 The first recorded town to do was Troyes, the major town of the Champagne Fairs, just
before 1228, and again in 1232. Subsequently, similar sales of rentes are recorded in the treasurer’s
accounts of many neighboring towns, in Artois, Picardy, and Flanders, from the following indicated
dates: Rheims (1234), Auxerre (1235), Arras (1241), Douai (ca. 1250), Roye (1260), Calais (1263),
Saint-Riquier (1268), Saint-Omer (1271), and Ghent (before 1275). See J. MUNRO, Origins of the
101 P. DESPORTES, Reims et les Rémois au XIIIe et XIVe siècles, Paris 1979, pp. 126, 131.
102 G. BIGWOOD, Le régime juridique et économique du commerce de l’argent dans la Belgique du moyen âge, ,
I-II, Brussels 1921-22 (Academie Royale de Belgique, Classe des Lettres vol. XIV), I, p. 567; and also
pp. 568-603. See also Carlos Wyffels, L’usure en Flandre au XIIIe siècle, in Revue belge de philologie et
contracts to be fully licit (as were any real-estate rent contracts) on the grounds that they were not loans, because they never had to be repaid, but instead legitimate contracts of sale, in purchasing a future stream of income. Nevertheless, his views were not universally accepted; and not until the fifteenth-century were they finally and fully ratified by three papal bulls: those of Martin V (Regimini, 1425), Nicholas V (Sollicitudo pastoralis, 1452), and finally, Calixtus III (Regimini, 1455).103

Government financing of rentes: the imposition of excise taxes

One particularly contentious issue was the fiscal source to be used for financing the annuity payments and any redemptions. Since these three fifteenth-century papal bulls had clearly stipulated that the rente contract had to have the characteristics of a standard real estate contract, they also stipulated that such payments had to be based on the incomes derived from such real properties. The Church and canon lawyers accepted the contention that excise taxes on the consumption of such standard staples as bread, meat, fish, textiles, beer and wine all met this test, because they were all products, directly or indirectly, of the land or real property. The town accounts of the Low Countries, in the late-medieval and early-modern eras, prove that such excise taxes were the sole source of revenues used to finance life-rents (lijfrenten), while real-estate rental incomes were more commonly used to finance perpetual rents (erfelijk renten), reserving property taxes and other direct taxes to finance other expenditures. Certainly, excise taxes – which everyone, or all urban inhabitants, rich and poor alike, had to pay – were the much more regressive, and effectively transferred income from the lower to the upper strata of society (i.e., those owning rentes). Indeed, excise taxes became the major source of municipal income throughout the Low Countries from the later thirteenth and fourteenth centuries, to the French Revolution.104

England, however, was again tardy in introducing this form of continental taxation – and the reasons for such tardiness and the tardy introduction of its own financial revolution have yet to be fully explained.105 Not until July 1643, shortly after the outbreak of the Civil War between Parliament and the Crown (1642-1651), did the Long Parliament, under the leadership of John Pym, accept this form of

105 One may contend that until the early seventeenth century customs revenues, first from wool and then from cloth export taxes, had generally proved sufficient to prevent institutional reforms in both national taxation and public borrowing. For the most recent investigation of these complicated issues, see P. O’BRIEN, The Nature and Historical Evolution of an Exceptional Fiscal State and Its Possible Significance for the Preocious Commercialization and Industrialization of the British Economy from Cromwell to Nelson, in “Economic History Review”, 64, 2011, n. 2, pp. 408-446.
taxation, in order to finance its military engagements. Such taxation of course became permanent. Furthermore, from the 1660s, with the restoration of the monarchy under Charles II (in 1660), but also with the onset of the era of so-called New Colonialism, the English government was receiving growing revenues from import duties on such colonial products as tobacco, tea, sugar, rum, Indian cotton textiles, timber, and iron, in addition to the long traditional duties on wine imports. The combination of excise taxes and the new customs duties soon became the principal mechanism for financing the government, and thus provided the necessary means for financing England’s subsequent Financial Revolution, from the 1690s, and its numerous wars. In the later eighteenth-century, the sum of excise and import-customs duties on such consumables accounted for 78.8 percent of the Major Taxes (accounting for over 90 percent of total taxes), while direct taxation (chiefly the land tax) accounted for only 21.2 percent.

State redemption of rentes (annuities) and their negotiability

The other major issue considered by the three fifteenth-century papal bulls was the redemption of civic and state rentes. In accordance with the papal edict of Innocent IV in 1250-51, these bulls stipulated that the issuers (sellers) had the sole right to redeem all their rentes, at their own discretion; for if the buyer could demand redemption then rentes would become usurious loans. Otherwise, rentes were totally free from the taint of usury. The papal bulls nevertheless obligated the issuer-sellers to redeem their rentes for the full principal or par value – but obviously in nominal and not real terms. The problem for the buyers remained an obvious one: if they wanted to regain some or all of the capital invested in rentes, they would have to seek some third party to buy that claim from them. Since perpetual rentes were by their nature heritable, they also came to be considered transferable to such third parties.

The final resolution of this problem was found with the full, complete establishment of the legal principles of negotiability, first, as indicated earlier, in the Habsburg Netherlands in the years 1537 to 1541. By that time, the Antwerp beurs (bourse), established in 1531, was becoming an international market for European rentes, especially for the Spanish Habsburg version known as juros. Subsequently, the Amsterdam beurs, founded in 1608, came to serve this very same function. So did

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107 P. O’Brien, Political Economy of British Taxation, cit., pp. 8-17, esp. Table 5, p. 11.


the London Stock Exchange, which began, in the mid 1690s, as an informal association of stock jobbers in the coffee houses of Exchange Alley. In 1760, a group of 150 brokers founded their own club to sell stocks; and in March 1801 this group reconstituted themselves more formally as the London Stock Exchange.110

The Importance of the English Financial Revolution for the Industrial Revolution

These financial developments and their link to the usury laws had a very considerable importance for Great Britain’s future economic development, especially during the Industrial Revolution era. In the first place, this Financial Revolution was successfully established without any conflicts with the current usury legislation, for the very simple reason that the annuities composing the national debt – all in the form of perpetual annuities from 1721 – were not loans, within the meaning of the usury statutes. As noted earlier, Parliament had lowered the legal maximum limit on interest rates to just five percent in 1713, a limit that remained in force until the abolition of the usury laws in 1854. Second, the legal status of these government annuities (Consols), as fully negotiable credit instruments, fully marketable on the London and Amsterdam exchanges, made them far more attractive investment instruments than were any comparable state bonds, which lacked such conditions of negotiability, and thus lacked ready liquidity. Third, because of these features, the government was able to reduce the costs of state borrowing from the 14.0 percent paid on the 1693 Million Pound Loan (annuity) to just 3.0 percent, with the successful completion of Pelham’s Conversion (into the Consolidated Stock of the Nation) in 1749-57. Since the state always has the first call on any available investment funds – in order to finance the defence of the nation -- that reduction greatly benefitted investments in the private sectors by eliminating the well known “crowding out” effects of government borrowing. Fourth, the great success of these fully negotiable Consols made them the most popular form of bank collateral for businessmen, merchants, and industrialists who constantly needed to borrow funds, especially for their working capital needs. Without the Financial Revolution there would not have been an Industrial Revolution – or so some might contend.111

cit., pp. 52-55. By 1639, the Beurs was trading 360 commodities; but specific evidence for trading in government renten is unavailable until the financial crisis of 1672-73.


111 See J. MUNRO, Origins of the Financial Revolution, cit., pp. 505-562. The “financial revolution” was not, of course, a fully sufficient cause of but rather a necessary condition for the ensuing Industrial Revolution.