

Usury and the Morality of Simple Interest

By Dorothea Ludwig-Wang, 12 August 2021

One of the most common arguments used by modernists attempting to defend their heretical thesis on the supposed “evolution” of doctrine is that in the early twentieth century, the Catholic Church changed her teaching on usury. Specifically, they posit that there has been a substantial change in moral theology, as the charging of simple interest on loans was generally forbidden in previous centuries but permitted with the promulgation of the 1917 Code of Canon Law. In reality, the Church has simply changed her *discipline* on this particular question, while her *doctrinal* condemnation of usury remains—and must remain—unchanged, as her teaching is simply the teaching of God Himself.¹

During the Age of Faith when the economic order was properly established to respect the Social Kingship of Christ, it would have been simple enough to say that usury consists of charging interest on a loan. Nowadays, however, we do not live under that system, and the charging of *simple* interest (though not *compounding* interest), within reason, can no longer be considered usurious under the present circumstances. To reflect this reality, the Church has simply relaxed her discipline, as demonstrated by canon 1543 of the 1917 Code: “...it is not in itself unlawful to make an arrangement for the recovery of interest at the rate allowed by the civil law, unless that rate is clearly excessive.”² (The 1983 Code says nothing on the issue, but the same moral principles apply.)

Let us review the history of how the Church has addressed usury in the past. The Council of Nicaea prohibited the clergy from lending money even at an interest rate of one percent, which was later extended to the laity as well. Lateran III excommunicated those who accepted interest and declared that they were to be denied the sacraments and an ecclesiastical funeral. Pope Benedict XIV’s encyclical *Vix perveni* explains that usury is sinful because it “rests on the fact that sometimes the creditor desires more than he has given. Therefore, he contends some gain is owed him beyond that which he loaned, but any gain which exceeds the amount he gave is illicit and usurious.” Simply put, the moral law dictates that one only recover the same value of what was originally lent, whether it be some other commodity or money, and acting contrary to this is sinful.³

When a person practices usury, he not only demands that the borrower pay back the loan itself but also charges for the *use* of that money. He pretends that money has productive value in and of itself, while in reality, it exists solely as a means of exchange. If I buy a sandwich from you for five dollars, which is really a case of “borrowing” (in colloquial terms) the sandwich on the condition that it becomes my property, I am expected to return to you some kind of equivalent, namely, money. The value of the sandwich is numerically represented by five dollars, and so I give you that amount in exchange; where usury would enter the picture is if you charged me *more* money to eat the sandwich.

Applied to loans, usury would be involved if the interest on the loan exists solely by virtue of the loan itself. I would be committing usury if you borrowed ten dollars from me, and I charged ten percent of that amount in interest, thus demanding eleven dollars back

1 cf. Deut. 23:19, Exo. 22:25, Lev 25:36-37.

2 More specifically, this canon applies to commodities that are consumed upon first use; there are further complications that arise now that the world has transitioned to a service-based economy, but that is beyond the scope of this article.

3 *Summa Theologiae II-II*, q. 78, art. 1.

simply because I loaned you that money. Loaning you money has no productive value in and of itself, because money is only a means of exchange and not a means of production, and so I increase my own wealth at your expense without producing at all. If currency had a fixed value, then quite clearly I would be committing theft by taking your money. But what if currency no longer had a fixed value, and so interest was no longer charged solely by virtue of the existence of that loan?

The *fiat* currency of today has no fixed value, as it is not backed by an actual physical commodity such as gold. A specific amount of gold has a specific *intrinsic* value, while currency with no backing only has *extrinsic* value based on the stability of the issuing government and the laws of supply and demand. Thus, there is no guarantee that, for example, five dollars today will be worth five dollars tomorrow, which is why the same house worth \$20,000 in 1950 may very well be worth several times that today⁴—in fact, the idea of buying a house in the American suburbs for \$20,000, even in the most affordable states, is utterly laughable today.

Under the fractional reserve banking system, it is inevitable that prices will continue to increase as the extrinsic value of currency decreases. When you deposit money into a bank account, the bank does not keep all of your cash on hand but freely lends it out to others, while later returning the money and interest. This is done, in theory, to free up capital for lending, and the problem is that money *is*, in fact, treated as something with productive value of its own, and one is selling what does not exist. When Pope Leo XIII stated that usury had come back in a new form,⁵ it does appear that he was speaking of the fractional reserve system, under which the creation of money no longer accurately reflects the true amount of wealth created. If the amount of money in your bank account doubles due to the accumulation of interest, it is not because your wealth has actually doubled.

This is even worse than the practices of Jewish moneylenders in the Middle Ages, who at least made money off of existing wealth. Today, banks make money not only off of existing wealth, but also on wealth that does not exist, creating a self-perpetuating cycle that benefits those who are already wealthy.⁶ The fractional reserve system is usurious in itself, as is the charging of compounding interest. But what about simple interest, which is only charged on the original amount? If I lend you \$500 today, and we form a contract that requires you to pay back that money in five years' time, we both already know in advance that due to the unbalanced economic system we live under, that \$500 will have a smaller extrinsic value in five years than it does today. After that period of time has elapsed, I would *not* be recovering the same amount as I originally lent to you if you simply gave me \$500, so I would be losing money that is rightfully mine.

Thus, the charging of interest in today's economy according to the amount fixed by civil law for this reason is simply a protection of the lender's money, rather than an attempt to

4 This is, of course, assuming that the house's intrinsic value did not change during those seventy-one years, as we know that one can very well increase that value (e.g. through renovation) or decrease it (e.g. by building a hazardous 5G tower within a quarter-mile of the house).

5 Leo XIII, *Rerum novarum*, 3.

6 However, contrary to the claims of the socialists and communists, the rich do not get richer while the poor get poorer; capitalism does live up to its promise of creating wealth (to a certain degree) and has certainly succeeded in bringing millions out of poverty. However, it is precisely because the average person lives comfortably under capitalism that he does not notice the true agenda of the elite moneylenders. When a person benefits materially from some system—and the end of capitalism is material gain—, he is not inclined to question that system.

gain more money without producing anything. This is why usury in today's world under *laissez-faire* capitalism is no longer defined simply as charging interest on a loan, but charging *excessive* interest on a loan. It is certainly unfortunate that we have to rely on a practice (charging simple interest) made systematic by the globalist bankers in order to protect our own wealth against the oppressive, usurious system of fractional reserve banking, but this is really no different than how we often have to appeal to religious liberty (a concept invented by the enemies of the Church), to protect the rights of the Church against those same enemies.

This is only possible because it is these enemies who control the entire system. In previous centuries, there was still some way of fighting that system through the refusal to charge any interest at all, but by 1917, it became clear that this was no longer possible, and that continued resistance would only lead to Christians losing their money. Thus, the change made when canon law was codified is not some kind of permission to practice usury, which remains a grave sin, but a prudential concession granted by the Church to prevent further evils in the short-term. In the long-term, we must pray for the restoration of the Social Kingship of Christ, which would render this relaxation unnecessary.