PART ONE

Ancient Times

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PREHISTORIC AND PRIMITIVE CREDIT AND INTEREST

In historical times credit preceded the coining of money by over two thousand years. Coinage is dated from the first millennium B.C., but old Sumerian documents, circa 3000 B.C., reveal a systematic use of credit based on loans of grain by volume and loans of metal by weight. Often these loans carried interest.

In prehistoric times, even before the development of common measures of value or of mediums of exchange, credit probably existed. There are many ethnological instances of credit in kind in communities where no trace of any medium of exchange or even standard of value can be discovered. Credit existed from the very earliest phases of economic activity, even before the evolution of barter proper. (1)

When we consider credit in its broadest meaning we can infer something of its earliest forms. Primitive credit need only have consisted of a loan of seed to a son or brother or neighbor until harvest time or a loan of an animal or of a tool or of food. Such transfers are called gifts if no repayment is expected, loans if repayment is expected, and loans at interest if the repayment of a certain amount more than was loaned is expected. These transactions in kind required no money, no exchange, and no barter.

Today a transfer without immediate quid pro quo is usually classified in one of three ways: a gift, a loan, or a theft. Those of us who remember our dormitory years know that the distinction between gift, loan, and theft is not always clear. The conventional euphemism is “loan,” and it is understood that the aggrieved party, whose necktie is missing, may reciprocate at a convenient opportunity by “borrowing” something belonging to his roommate. Thus loans occur even when not formally negotiated; credit can exist without being clearly defined.

This ambiguity is not new. Thefts, of course, were common in primitive times as they are now. However, before the evolution of governments, the logical response to a theft was a countertheft; a cattle raid for a cattle raid. “Gifts” between chieftains were at times the principal form of peaceable international trade; gifts from one chieftain were expected to be met with a return of gifts, preferably of greater value, from the other. If time elapsed, this could be called credit.

Loans without interest undoubtedly were always common as they are today: friendly or charitable or interested help to a relative or neighbor. They may take the form of the loan of a lawn mower or a cup of sugar or a large or small sum of money or the use of an empty residence. We are here concerned with loans at interest and with the amount of interest expected. The earliest historical records show that interest was already a usual and accepted concomitant of credit. What can we say about its origin?

The loan of a tool to a neighbor suggests no payment of interest, even today: merely the return of the tool in equivalent condition, and the implied privilege of borrowing one of his when needed. Nor does the loan of food or shelter to needy friends or relatives suggest repayment with interest. In fact, such loans are customarily gifts with sometimes a vague hint of reciprocity. But other sorts of loans exist and existed at very early times, which do suggest repayment with interest: loans of seeds and of animals. These were loans for productive purposes. The seeds yielded an increase. At harvest time the seeds could conveniently be returned with interest. Some part or all of the animal’s progeny could be returned with the animal. We shall never know but we can surmise that the concept of interest in its modern sense arose from just such productive loans.

By earliest historical times productive loans of this sort, repayable in kind with an agreed rate of interest, had become common. Also common was the friendly charitable loan of nonproductive goods without interest. A confusion of these two types of credit, leading to nonproductive loans at interest, is also evident at an early date. Such loans were subject to amelioration and regulation in the earliest legal codes as they are in our modern legal codes.

Another early distinction that has endured was that between the loan of an identifiable object, say an animal, a tool, or a farm, which must itself be returned, and the loan of a commodity (seed, money, or food), which need not itself be returned but must be returned in kind; the original no longer existed or was indistinguishable from its like. The type of loan repayable in kind required standards of quality and measurement. Indeed such loans could have led to the development of primitive measurements and monetary standards. The use of grain as a medium of exchange was common in the ancient Orient, and it was so used until recent historical times. A later and sophisticated development was the establishment of a common denominator for all repayments; namely, money. Loans of grain or land or animals or money itself could all be repaid in money with or without interest.

Loans of land or loans secured by land are forms of credit which were developed before historical times. Here the source of interest is obvious—the first fruits. Those were payable first, no doubt, in kind and much later in money. The repayment of principal could be in a different form than the payment of interest. The land itself could be returned—a hardship to most farmers of all ages; or principal could be amortized out of the fruits; or, in fact, the principal might never be returnable but might remain the basis of a perpetual annual payment.

This is by no means a complete catalogue of the forms of primitive credit. Among others should be mentioned loans to provide ransom, to finance marriages (bride money, dowry), to finance the shipment of goods, to finance religious donations, and to finance wars. There are fundamental differences that distinguish four types of credit, which persist throughout this history: (a) long-term productive loans, (b) short-term working capital loans, (c) nonproductive consumption loans, and (d) loans to governments.

As early as the Paleolithic Age, probably before 10,000 B.C., a primitive exchange of goods had begun between European and Asiatic tribes which involved amber, shell jewelry, flint, and other commodities suitable for exchange. (2) In a wide area from the Red Sea to Switzerland, Paleolithic shell hoards of sufficient uniformity to suggest their use as a form of money have come down to us. This hypothesis is reinforced by the modern use of just such shells as money by certain South Sea tribes. It is very doubtful, however, that these exchanges and this shell money formed a suitable basis for credit. At the beginning, loans were more likely to have been within tribes or families and in kind.

It was only later, after 8000 B.C., during the Mesolithic Age, and especially after 5000 B.C., during the Neolithic Age (the dates, of course, are conjectural and differ widely for different locations), that capital and credit became important and provided a main impetus toward human progress. Paleolithic man went out to find his food. Neolithic man produced his own food through agriculture and animal culture. His capital took the form of seeds, improved tools, and especially herds of animals. Capital accumulation led to a great increase in population and the opening up of vast new areas in Asia and Europe. Such capital permitted the further accumulation of possessions, the support of chieftains, and the building of cities.

Cattle breeding has supplied us with many financial terms used in later money economies. For example, there is our own word *capital* and our term *pecuniary,* from *pecus,* meaning a "flock" in Latin. Sumerians used the word *mas* for calves and for interest. The Egyptian term *ms,* meaning interest, is derived from the verb *msj,* which means "to give birth." Early Greeks, in fact, valued their precious metals in terms of cattle. In the Odyssey one of the suitors promised to bring Ulysses a contribution "of bronze and gold to the value of twenty oxen."

Cattle probably comprised the first true productive assets or capital of tribes or individuals. Ownership of cattle determined the social position of individuals and families and still does in parts of Africa and, indeed, in parts of the United States. Surplus labor could be stored and retained in the form of cattle. Furthermore, servants and slaves could be profitably employed to speed the accumulation.

As cattle and grain became available and in demand in quantities above consumption requirements, they provided a form of primitive money; that is to say, they became commodities of sufficient value and uniformity that they could conveniently be used as a standard medium of exchange for other commodities. They could also be loaned out at interest. In addition, they provided a standard of valuation.

As early as 5000 B.C. in the Middle East, dates, olives, figs, nuts, or seeds of grain were probably lent to serfs, poor farmers, or dependents, and an increased portion of the harvest was expected to be returned in kind. (3) We shall find later abundant evidence of this type of transaction surviving in modern primitive tribes. Animal money could be, and was, loaned out and provided its own increment. Foods and animals were the most important forms of money used by the original Sumerian, Indo-Germanic, and Semito-Hamitic peoples and were so used in Egypt, Mesopotamia, America, India, and China before town civilizations developed. (4)

With the development of town culture in the ancient Orient, credit became very important. Mining had developed, and now inanimate objects, especially metals, such as gold, silver, lead, bronze, and copper, were loaned out at interest. This is as much as to say that they were treated as though they were living organisms with the means of reproduction. (5) Before coined money, metals were exchanged by weight. Capital thus became a powerful economic force. Loan transactions in metals are recorded in numerous early Sumerian and some Egyptian texts. Early Hindu law provided for the right to negotiate such loans.

Coined money is sometimes considered to have originated as pieces of metal stamped by the state as a guaranty of weight or fineness. Alternatively it may have originated as religious tokens. It probably first appeared very late, perhaps in the seventh century B.C. in Asia Minor. But uncoined metal was used for money for thousands of years before that time. Such pieces of metal have been excavated in Troy, Asia Minor, Minoan and Mycenean settlements, Babylonia, Assyria, Syria, Egypt, and Iran. We shall see in the next chapter how at the start of recorded history this uncoined metal money was adapted to trade and banking operations of a remarkably sophisticated nature.

Along with the early development of money and credit there also grew up abuses and prejudices. Some have continued to this day. Most of the earliest legal codes sought to prevent the abuse of credit or to prohibit the use of it. The Israelites did not permit lending at interest. As late as 450 B.C. the Iranians considered that the taking of interest on a loan dishonored a man. (6) Ancient Indian literature reviled usurers and set interest maxima. Nevertheless, loans based on real estate or pawns are mentioned in the Bible, the Zend Avesta, and the Veda. The Babylonians and Romans permitted credit but limited the rate of interest. The Greeks encouraged credit without limit as to rate of interest but forbade personal bondage for debt.

In attempting to judge rates of interest on loans in prehistoric times, we must be content with indirect evidence. Earliest historic rates were reported in the range of 20–50% per annum for loans of grain and metal. The necessity of setting legal maxima and the elaborate machinery of enforcement suggest that higher rates than these would otherwise often have been charged. We can guess that loan sharks existed then as now, willing to accommodate a friend in need at rates 10 or 20 times the legal limit. We can also guess that lower rates were common for credit transactions between solvent capitalists. Beyond such inferences and conjectures we have guidance only from the customs of modern primitive tribes. These rates, while highly suggestive and perhaps acceptable as a rough measure of the natural terms of similar transactions, are presented separately here lest they be mistaken for true ancient history.

A study of primitive money (7) catalogues some 173 objects and materials which in ancient and modern times have had monetary attributes in one or more places and at one or more times. Those most frequently mentioned include beads, cattle, cloth, copper, gold, grain, iron, rice, salt, shells, silver, skins, slaves, and tobacco. It has been suggested that currencies in some areas became standardized because of the difficulty that debtors often met in making exact repayments in kind. Law or custom eventually provided an alternative means of debt repayment in some commonly acceptable commodity of value. This “legal tender” then became even more valuable. Be that as it may, the ethnological records reveal abundant instances of loans, repayments, and interest in primitive economies using uncoined money. A few may be cited:

1. In backward parts of India, grain in modern times has been an important medium of exchange and a standard for deferred payments. Sowing seed and food were borrowed for repayment at the next harvest. The usual repayment was double the quantity borrowed. This in modern banking terms would be interest of $100\% \times 12/x$ per annum if x equals the

number of months until harvest time. Since interest charged for rupee loans in the same backward districts was reported as 24–36% per annum, the grain rate seems high. However, it is necessary to allow for the fact that grain was no doubt cheaper at harvest time than at seed time, and also that many borrowers of seed were not eligible for rupee loans. In rice districts of India, paddy seed loans were reported at 60% interest (term unstated). Among the Naga tribes cows and buffaloes have been loaned out; after one year the amount repayable was double, which equals 100%. (8) Loans of coin among the Naga brought less interest; for these 50% was quoted.

2. In Indo-China, in the early twentieth century loans were granted in rice at an interest rate of 50% repayable at the end of the next season. (9)

3. In the Philippines in this century credit among the remote Ifugao tribes took the form of loans in kind on which interest was regularly exacted. Rice loaned at any time had to be doubly repaid at the next harvest; this equals $100\% \times 12/x$. The loan of a pig required the return of two pigs of the same size. Loans of legal metallic money also commanded a 100% rate of return and compounding was rapid. A man who borrowed 3 pesos to meet a funeral expense owed 24 pesos three years later. The Ifugaos even had a form of discount called "patang," in terms of which interest on the loan of an animal was paid in advance. (10)

4. On the Banks Islands in the Southwest Pacific a very highly developed credit and currency system in terms of strings of shells was closely connected with a system of men's clubs or secret societies. This was more ceremonial than economic. Admission to the clubs cost a large quantity of shell money, and promotion in rank cost even more. Shell money was little needed and little used for everyday life, but a poor man required shells to make a start in life by joining a society. The standard rate of interest for borrowing shells was 100% for any period. If a man had insufficient shells to join a society, he could loan what he had to others and in time the interest would provide him with his initiation fee. The unusual feature of this system was that a man was entitled to impose a loan on an unwilling borrower who had to repay with interest under threat of severe penalties. Nor is this the only case we find of coerced debtors. The situation was not unlike the gift economies of Homeric and medieval times, when a gift had to be requited by a larger gift. Kings gave abundantly to other kings and to their own nobles, but such gifts were often costly to the recipients. Even today social customs at times have encouraged retributive giving: for example, at Christmas time, birthdays, and weddings. The giver sometimes may contemplate a return with an agio. (11)

5. On Vancouver Island, in Canada, not long ago, blankets had taken the place of furs and wampum as the monetary unit of the Kwakiutl. These cheap white blankets, then valued at about 50 cents, formed the medium of exchange and valuation and were above all the standard of

deferred payments. An elaborate credit system was developed which was also more ceremonial than economic. Five blankets borrowed for six months became seven; for a year they became ten. In modern banking terminology these returns equate to annual interest rates of 80% for a six-month loan and 100% for a one-year loan. A young man got his start in life by borrowing blankets to be repaid double in a year, and then he distributed them to his relatives as forced loans repayable within a few months at 300%. (12) This system of forced loans, called "potlatch" (gifts with a string attached), became so widespread that it had to be prohibited by the Canadian government. Wealthy Indians vied with each other to see who could give away the most blankets, all with the understanding that even more would be given back—usually double. This became a reductio ad absurdum of the old gift custom more generally described as "Indian giving." (13)

6. In Namaland, in Southwest Africa, cattle and beads were the original currencies. Debts were incurred in cattle (no rates quoted), and the difficulty of repayment often led to cattle raids into neighboring states. (14) In the Belgian Congo, brass rods were used extensively as a standard of deferred payment. Credit was frequently granted by native traders, and tribal law gave creditors extensive power to collect. In the French Sudan cattle were used until recently as currency for large transactions. Cattle loans were granted *free of interest,* but if a cow which was lent had a calf, the calf and the cow was claimed by the creditor. (15) Similarly, in Uganda and French Equatorial Africa cattle and sheep were the bases of credit. In the former the creditor expected every third new birth as interest.

7. In Northern Siberia, at least until recently, domesticated reindeer served as money. Loans were granted in reindeer. Among the Kirghiz of Siberia, horses and sheep served as money and were loaned out. The usual interest for such loans was 100%. (16)

These scraps of primitive interest rates are in fact all a part of modern history, not of ancient history or of the prehistory of credit. Inferences from them should be made with caution. They do, however, serve to illustrate the actual operation of primitive credit in kind and in very general terms show the type and magnitude of return the creditor often expected. In most cases per annum rates were not conventional and our translation into modern credit terms is forced. The term was the natural term of the transaction: from seed time to harvest, for example. But since such a seed loan can often be made only once a year, it might have been a matter of indifference to both debtor and creditor whether the term was six months or twelve months.

The earliest historical customs relating to credit and interest, which will now be examined, should not be considered the direct successors of the primitive customs and rates which have just been cited. Most, and probably all, civilizations that were able to record their own histories were already highly advanced, complex, and mature when their recorded history began. Long ages of development must have intervened between the first primitive cattle economies and the first historical societies of Mesopotamia, Egypt, Greece, and Rome. In fact, some of the characteristics and customs of the cattle economies of modern times were never known by the prehistoric ancestors of these peoples. Productive loans in kind, however, were certainly a survival. We shall now find history beginning with an elaborate effort to regulate the complex relationship between debtor and creditor.