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# Faith and Financial Development

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## INTRODUCTION

The earliest commercial centers of activity were located in the ordinary gathering places of local communities and therefore operated under the guidance and supervision of the prevailing beliefs and values of the day. The laws that were codified in the Hebrew Scriptures reference nearly all the aspects of ordinary commercial activity and recorded the standards whereby various activities should be conducted. The foundation for all these principles and laws was deemed to be an expression of the divine will and was grounded in the justice of God whereby God's relationship with and design for His people was revealed, described, and defined.

Over the course of history numerous arrangements and systems would emerge to build out the working framework for commercial activity and to define the relationships between individuals, communities, institutions, and professional actors in the sector. These developments would take place within the context of a vibrant exchange and conversation with prevailing religious traditions and beliefs. The history of the development and organization of the temple-based bank, the city-state structure, the monastic enclosure, the bazaar culture around the mosque, and the mercantile and feudal systems are all reflective of this iterative process.

Since activities in the banking and financial services sector were neither a physical asset like a commodity or a herd of animals or specific skills that the guild system relied on, they would call for the development of a unique set of principles, arrangements, rules, and operational criteria. The formulation and definition of these principles, codes, laws, regulations, and prohibitions engaged many of the leading religious and secular leaders of the time and would draw on the insights of different theological, philosophical, and legal centers and schools. Later the emergence of independent financial centers and banking powers that were of an entirely secular origin, operating alongside or in tandem with the frameworks that were either based on a

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religious tradition or operated within an entirely religious culture, would introduce a powerful parallel and competing organizing set of principles and operating practices into the debate about acceptable financial and commercial activities.

In this paper I want to review the process whereby the foundational principles of economics and economic theory emerged and evolved within a culture and context that was rooted in faith traditions. Secondly, I will look at how basic teachings about ownership, wealth accumulation, interest, usury, and partnership were understood, organized, and refined in a process of interaction that included religious and secular leaders, philosophers, and practitioners. Finally I want to identify some of the elements of the faith traditions that may have been bypassed or ignored by the theory and practice of contemporary capitalism and explore which of them might be appropriately retrieved and make a contribution to the reform of the prevailing capitalist system.

## CUSTOMS, RULES, AND REGULATIONS IN ANCIENT COMMUNITIES

Ancient communities were organized and emerged around the experience and teaching of specific religious leaders and the scriptures and holy books that recorded the stories and captured the teaching, laws, and rules of each tradition (EX 22:25, DT 23:19–20, EZ 18:8). These books and stories focused on the relationship of human beings and the transcendent and human beings and the earth but also, especially in commercial and economic affairs, on the relationships between human beings. In broad strokes and concepts they articulated and defined all these relationships within a creator-creation-creature framework and set forth the appropriate boundaries, responsibilities, and hoped-for outcomes of each relationship.

The evolving practice of commercial transactions and financial activities would become common in local communities and would therefore necessitate the articulation and the establishment of sets of rules and regulations to govern these activities. They were generally grounded in the belief that “right” relationship was the cornerstone concept around which God intended his creative handiwork to be organized, governed, and operate and were understood to take place within a vision of life and activity that was both harmonious, sustainable, and destined to reflect the will of the divine.

The salvation-restoration-blessing oracles that are found in the Hebrew Scriptures, for example, are representative of this view and intended to serve as a guide for the leaders of the community when they consider what to do about the surplus of corn, oil, and wine that had been bestowed on them by God. The discovery, understanding, and articulation of both the framework and the rules for the disposition of such realities as a surplus at harvesttime is an example of one of the presenting circumstances in which faith communities worked out a set of operating principles and rules that were consistent with their respective beliefs.[1]

## CREDIT AND ITS EVOLUTION THROUGH THE MIDDLE AGES

### Judeo-Christian Teaching

Evidence establishes that credit preceded the coining of money by over two thousand years and it was based on "loans of grain by volume and loans of metal by weight."[2] Primitive credit may only have consisted of the loan of a seed until harvest or of an animal or of a tool for a while and could be classified as gifts, loans, or loans at interest depending on the arrangement accepted. The evolution of certain criteria or mediums for repayment was also in evidence until money became the common denominator for all repayment of loans. Cattle, grain, dates, olives, and figs were among the original items used for conducting commercial transactions and were followed by the use of inanimate commodities such as copper, gold, silver, and bronze.

In view of the foundational principles that guided the faith traditions in their teachings about the human-divine, human-human, and human-earth relationships, rules and commandments emerged both to approve and govern all financial and commercial transactions. These were frequently organized according to whether or not the party to the transaction was a member of the local faith community, of the same faith tradition, or a complete stranger. Different sets of rules were also developed and applied according to the type of transaction or activity that was anticipated or practiced.

Much of the early data suggest that the legal codes that emerged and were established in the financial sector were primarily focused on prohibiting the use of credit or its abuse, especially if it was deemed harmful or onerous to the poor.[3] The Israelites did not permit lending at interest and the Iranians felt it dishonored a man. The Romans permitted it but limited the rate of interest and the Greeks seemed to encourage credit without limit. The earliest historical accounts of practices and customs present us with a collage of the challenges that were faced by those who sought to define and regulate the complex set of relationships that existed between debtors and creditors.[4]

Over time, when various institutions and associations were organized to serve the credit and saving needs of peoples and communities, the rules for each of these practices evolved. Some of these institutions would evolve into financial service houses that arranged credit and financing for activities like shipping and exploration as well as the transport of people and commodities. The prevailing tools that were being developed by these institutions and used to measure the amount of risk that was being assumed in any transaction would subsequently be examined and analyzed according to accepted religious principles and doctrines.

## The Roman Catholic Teaching

The Catholic Church entered this debate in a powerful fashion when in 325 C.E. the Council of Nicea passed a canon prohibiting usury by clerics by citing Psalm 15, which asks, “O Lord, who may lodge in thy tabernacle?” and responds “Who does not put his money out to usury.”[5] The fact that the Psalm admits no exceptions and is cited by the first ecumenical council made Psalm 15 a favorite reference text in the usury debate for centuries. Leading churchmen of the day, like St. Jerome, argued that the prohibition of usury among brothers in Deuteronomy had been universalized by the prophets and the New Testament.

Pope Leo the Great would extend the prohibition by declaring that laity who practiced it were guilty of seeking “shameful gain.” This was the most formal prohibition on usury enunciated by papal authority before 1179 C.E. It would also be cited in secular legislation. It would continue to be extended and enforced intermittently by church and state authorities until the eleventh century, when the revival of European learning and trade would present the occasion for a more detailed examination of the practice by scholars and a more nuanced articulation of the specific elements of its prohibition by the church.[6]

The related teaching of the church on the accumulation of wealth seems to be based squarely on the stories and the cautions that are elaborated in the Hebrew and Christian scriptures. There are, however, few direct prohibitions on the accumulation of wealth in the tradition, but numerous warnings about the blindness and dangers that wealth can bring. This is articulated, for instance, in the teachings about how difficult it is for the rich person to enter the kingdom of heaven or to be open and hospitable to the will and call of the divine.

## The Teaching of Islam

Islam, like the other Semitic systems (Christianity and Judaism), is both a religious and a political system. The rules that were therefore elaborated in the banking and commercial sector emerged from a context that saw the two as inseparable. Any notion that was predicated on a separation of the sacred and the secular, the religious and the profane, would be considered untenable.

Property ownership and the accumulation of wealth are seen within the Islamic tradition in a way that is very similar to what is found in the Hebrew and Christian traditions. God is the source and creator of all and the destiny of all and therefore the true owner of all. Thus any kind of human ownership is relative, whereby man is seen as “a trustee (i.e., a custodian) appointed by God, a Vice-Regent where god is the Regent, in respect of property.”[7] Their ownership then is to be exercised with the recognition that God is the original and true owner and their stewardship must be exercised according to the divine will as revealed in the Holy Qur'an.

Wealth is not seen as an end in itself but rather a means to assure that family and dependents are cared for and do not become dependent on the community. "Nothing in Islam as a religion or a legal system discourages the acquisition of wealth, nor places a restriction—a quantitative limit—on the amount of wealth that can be acquired through lawful means."[8] Hard work, self-assertion, and dedication without falling into illegal or immoral activity that is coupled with a profound appreciation that wealth is ultimately a gift from God is deemed essential.

There is general agreement in the tradition on the prohibition against *riba* and there are many shari'a sources cited in support of it (Qur'an, supra 2:275–79: 3:130; 4:160; 2:188; 4:29; 9:34). *Riba* or the dealing in interest-bearing transactions is distinguished from trade because in the latter activity people are deemed to work and earn a living whereas in the former earning money through interest does not involve any self-exertion by the lender. There is also present in the mind of some scholars a distinction to be made between interest and usury. Usury is deemed to involve an injustice, an unreasonable and unearned excess. Holy Qur'an chapter 2 speaks on 'interest' while chapter 3 uses the term 'usurious interest,' and chapter 4, verse 161 and chapter 30, verse 39 employ the word 'usury.'"[9]

The concept of partnership has a long history in Islamic law and is found integrated into a number of operating practices. "To do business in accordance with Islamic Law is to establish, or work with an existing, form of association that is a partnership . . . Islamic legal and religious scholars, coupled with merchant practice, have developed many specific kinds of partnership entities."[10] These different kinds of partnerships enabled members of the community to extend and receive credit, to engage in economic transactions, and to do so within a framework that was consistent with Islamic law.

The period of the Abbasid Caliphate saw great advancement in Islamic civilization and this was accompanied by the growth of an extensive network of prosperous cities and international trade. This was made possible not so much by military success but through trade, commerce, and agriculture in a single political empire that linked the two great sea basins of the civilized world, the Mediterranean and the Indian Ocean. This was accompanied by the development of "An internationally recognized monetary system . . . using the Abassid dinar as the primary instrument of exchange."[11]

The disintegration and ultimate decline of the Abbasid dynasty, however, came about through the disintegration of its most fundamental institutions. The empire "came to a political end because of the crisis of the caliphate, the military, the bureaucracy and the economy . . . The centrifugal forces in the provinces proved stronger and led finally to a multiplicity of regional rulers."[12] The sacking of Baghdad by Mongol forces in 1258 and the nomadic orientation of the Mongols dealt a terrible blow to the prosperity that had emerged in both rural and urban life. By that time, however, the foundational teachings of Islam in the finance and commercial sector were well established and while no longer defined by geographic boundaries and political power, it was grounded "by a common set of religious beliefs, a uniquely Islamic culture, and an elaborate system of law and practice."[13]

## THE SCHOLASTICS AND A THEORY OF ECONOMICS

When we look at how the scholastics engaged the concept and practice of usury it "reveals much about the relation of religion, reason and economic facts in the West."[14] It likewise reveals aspects of the concept that are at once theological, legal, and economic. Most importantly, however, it shows that their theory of usury is the beginning of the development of a theory of economics.

There is no evidence of a coherent body of thought that could be considered a theory of economics, neither in the ancient philosophers nor in any other writers of antiquity. At the most there is a theory of money. "To classify economic activities, to determine the nature of money and the factors affecting its price, to essay a theory of economic value, and to develop a theory of interest, are original scholastic achievements. In this way, the scholastic analysis of usury is the midwife of modern economics."[15]

The scholastics were intent on grounding their case against usury "on the nature of man and on the nature of things in themselves."[16] They are in this way consistent with the practice of Catholic theology, which in most instances sought to demonstrate the rational basis for a duty that was commanded by God. Though their work had its origins in the effort to explain and apply what was the positive teaching of the Church about usury, their theory evolves predominantly from a natural law analysis.

Their discussion of usury would lead to a much-nuanced consideration of the conditions under which the charging of interest might be acceptable. They readily accepted the Roman law sense of "interesse," which was based on damages due because of default on a contract, and recognized the right to an increment on a loan in a number of exceptional cases. While eventually they accepted a number of different extenuating circumstances wherein interest was acceptable, "the risk inherent in lending was not recognized as a title to interest."[17]

The scholastic consideration of "societas" or partnership, which enters largely in the form that was given it by Roman law, is essential to complete the account of their contribution to economic theory. Societas is the union of the money and or skill of two or more persons for the common purpose of profit. They become joint owners of the goods contributed and the loss of the property of the partnership will normally be borne equally by both parties. The scholastic analysis and acceptance of this practice was grounded in their analysis of the same basic principles that lead to their prohibition on the practice of usury; the limited notion of ownership, various categories of risk, and the sterility of money.[18]

## EVOLVING TEACHING IN THE WEST POST–MIDDLE AGES

The religious, historical, and political developments of the 16th, 17th and 18th centuries would lead to greater degrees of acceptance of various principles and practices in different jurisdictions. These emerged from the interaction of theological and philosophical insights and the demands that certain commercial activities and financial transactions made on prevailing practices. In the Christian tradition these practices were also influenced by the political and theological developments that emerged during the Reformation debates and the subsequent religious and political reorganization and operation. John Calvin, for example, marked a new approach in the following ways: "First in denying an absolute divine prohibition of all usury; secondly, in suggesting that money be identified with the goods it buys."[19] In addition, a variety of practices in the sector would emerge as a result of different political and commercial relationships and conflicts.

A series of decrees from the Holy Office in Rome between 1822 and 1836 effectively ended all doubts and major questions "by publicly declaring that the interest allowed by law may be taken by everyone."[20] Earlier prohibitions were explained as pertaining only to excessive usury and the insights of the reformers and more contemporary thinkers pushed forward new interpretations that were able to accommodate the quickening pace of economic life. The pressure of the Industrial Revolution on economic life in England would soon make its way to the continent and continue the demand for more innovative and flexible commercial and financial tools and mechanisms.

The path of this transition in church teaching is in evidence when we look at the teaching of Pope Leo XIII on usury in 1891 and an address given by Pope Pius XII in 1950 on banking. In the encyclical letter Rerum Novarum, when commenting on the exploitation of workers, Pope Leo XIII declared, "A devouring usury, although often condemned by the Church, but practiced nevertheless under another form by avaricious and grasping men, has increased the evil."[21] In 1950, Pope Pius XII, in an address to the employees and directors of the Bank of Rome, thought it necessary to "define clearly" his view on an oppressive opinion which held that "the banking system was by its nature stained with guilt" and that the profession exposed one to the loss of eternal salvation and to excessive attachment to material things. The Holy Father went on to state that he found no inherent inequity in the system and that "bankers earn their livelihood honestly." He emphasized that he approved of the banking system and that it is necessary to society and has power, utility, and responsibility.[22]

## EMERGING CONCEPTS OF CAPITALISM

Among the core concepts of the economic system of capitalism are free markets, competition, private property, credit, interest, collateral, motivation for productivity and creativity, legal protection of property, contracts, and profit. The system is grounded on the unique features that transparency, price discovery, capital allocation, and the laws of supply and demand bring to the marketplace while delivering stability and accountability to the greatest number of regions, countries, and communities.

This system has evolved and been adapted to accommodate many different constitutional agreements and political frameworks over the last three hundred years and in some instances has been rejected as inadequate or significantly modified to accommodate specific visions and values adopted by societies. The faith traditions have wrestled with various aspects and elements of the system and over time judged particular practices and operations to be inconsistent with their traditions and doctrines. This conversation continues today. The teaching of the traditions on the issues of ownership, wealth accumulation, interest, usury, or risk continue to be priorities for large numbers of believers and the system is still judged through the teachings of the faith traditions and the moral compass of their values and rules.

## FAITH TRADITIONS/PRACTITIONERS AND CONTEMPORARY CAPITALISM

Each of the different waves of development in social organization and in societies—whether the temple banking system, the agrarian economy, the feudal system, the mercantile system and the epoch-making changes in economic life and social conditions that came to be the Industrial Revolution—presented their own set of challenges to the teachings of the faith traditions about basic financial activities and commercial transactions. The traditions were consistently seeking to understand new proposals and developments in light of their teaching while at the same time committed to the development of a more humane economic system that was consistent with the broader vision of their beliefs.

An economic and financial system, like the one that exists today, that operates at regional and global levels on a 24/7 cycle can immediately serve to undermine the personal and relational foundations, communities, and associations that espouse and practice the teachings of their respective faiths. The continuous development of innovative tools and mechanisms like derivatives, short selling, securities lending, hedge funds, and private equity are further examples of instruments that present challenges to the teaching and culture of faith traditions. Faith communities that in the past provided the space for the incubation and testing of new types of commercial and financial relationships and transactions are further threatened by the speed and complexity of a globally integrated financial system.

## TOPICS FOR A CONVERSATION

Given the foundational principles of the Abrahamic faith traditions about the origin and the ultimate destination of all of creation and therefore the goods of the earth, one immediately realizes the challenges that this vision faces when confronted with the concepts and principles of capitalism and its prevailing operational practices. In this final section I want to look at the opportunities that the faith traditions have to participate in the debate about the limits of the prevailing financial system and shape the framework for the establishment of a more sustainable system.

1) The foundational and social purpose of any financial system is immediately raised by the Abrahamic faith traditions. It flows directly from their understanding of God as the creator and source of all and therefore the ultimate owner of all. A reintroduction of this foundational belief and value into an evaluation of the prevailing system that prizes short-term profit over sustainability while privatizing profits and socializing all the risk is urgently needed. A system that has as a priority serving the needs of all communities before enriching executives, traders, and shareowners will also be judged as consistent with the vision of the faith traditions.
2) At the macro level the faith traditions must engage a system that is founded on a continuous expansion and growth model that is perpetually looking for comparative advantage in resources and labor at a global level. This model is also inherently dependent on advances in transportation and technology and politically guaranteed trade agreements. The integration of a religious perspective of one world created by God and destined for God without distinction by geography, ethnicity, or religion immediately presents a number of challenges. Living wages, environmental security and safety, and natural resource exploitation that respects human rights and is equitable and safe are among those that come immediately to mind.
3) The issue of climate change and global warming, for instance, crystallizes the debate about the extent of the costs of the prevailing system on the environment. It immediately opens up the question of development, growth, and investment that is primarily focused on short-term gain without measuring the long-term impact. The faith traditions must be, along with others in the investment community, like pension funds, proponents of a long-term view that incorporates their beliefs about the destination of the goods of the earth.

4) Governments or secular authorities have usually been placed in the position of authorizing the framework and approving the rules and regulations whereby a financial system is organized and adapted to varying political and cultural environments. In Western societies especially, religious leaders and authorities have often been sidelined or absent from this debate or allowed themselves to be ever so slowly and determinedly pushed away from the table. The religious vision and moral compass that is grounded in their sacred books and traditions, including the basic principles of economics that emerged from their traditions, must be included in the ongoing conversation and evaluation of the framework and laws of any financial system if both the social purpose and the common good are to be respected.
5) The faiths can be an advocate for the inclusion of this perspective when governments organize or reform financial systems so that the social and environmental costs that have been too readily externalized are included in the system. Is there room for a conversation about "partnerships" being the safest and most stable form of ownership, for instance, in the banking sector? Does this model that is deeply rooted in the faith traditions offer a more desirable framework and structure in a sector that constitutes something akin to a global circulatory system that nearly everyone relies on?
6) While finding themselves in most places coexisting within the larger dominant financial and commercial systems, faith communities may also want to establish an alternative operating space and system that will allow their followers to more faithfully integrate their beliefs into the management of their financial and commercial affairs. In this innovative space, many faith traditions have established funds and innovative credit mechanisms that reflect more faithfully their foundational principles on the practice of credit, borrowing, and lending while preserving wealth and fostering stability. They have done this successfully in the past through instruments and mechanisms that are more appropriate to the needs of communities, offer stable and accountable delivery systems, and promote sustainability.
7) In the interfaith space the Abrahamic faiths share some of the following basic principles that serve to evaluate any financial system: responsible ownership, duty, community, charity, partnership, compassion, justice, economic independence, and achievement. In their respective traditions they have very detailed prohibitions of usury, models for partnerships, and warnings about excessive speculation. The faiths working together can draw on the principles they hold in common to promote a more humane system and reform the dominant financial system. By working together, they can bring the values of sustainability, social responsibility, solidarity, and subsidiarity into a vibrant debate and conversation about the kind

of economic model that is consistent with the vision of their beliefs. In the post–World War II period, for instance, we have examples of the modification of a free market individualistic capitalism to a more social market economy in some societies.

8) The faiths can also work with allies who are concerned about the growth of "empty ownership" that has been fostered through investment in derivatives, to examine the impact of such practices. An active and engaged ownership is a dimension of the responsible ownership and responsibility that faith traditions espouse and teach. The development and promotion of a system that recognizes these values can find common ground with the "stewardship codes" that are being developed in some jurisdictions.
9) Finally, the faiths can likewise find common ground with others in the ongoing process of evaluating the tools and innovations that are introduced into any financial system by using the wisdom in their traditions and the environmental, social, and governance criteria that have been established. The approach of the precautionary principle that states that if an action or policy has a suspected risk of causing harm to the public or the environment, then the burden of proof that it is not harmful falls on those taking the action, can also be useful.

## CONCLUSION

In our review of how the customs, rules, and regulations of financial and commercial transactions emerged in early communities and traditions, we were able to see how they were a response to lived experience and its evolving questions. As these rules were written down and codified in religious communities they were scrutinized in terms of their consistency with the accepted understanding of God and concepts such as being in "right relationship" with God, the earth, and one's fellow human beings.

In each of the successive periods these basic teachings and beliefs were tested both by the emerging understandings and uses of money and collateral and the questions that surfaced through engagement with communities that were more diverse both culturally and religiously. In addition, the challenges that securing financing and apportioning both the potential profits and losses for such activities as merchant shipping presented would necessitate further study and examination of the teaching of the traditions for guidance and rules that were consistent and appropriate.

The recent near-meltdown of the prevailing financial system has resulted in an extensive analysis of many of the specific laws and regulations that have regulated that system. In the last section of this paper I have identified a number of the ways and areas where the faith traditions can participate in and contribute to this analysis. This type of engagement and examination has been a part of their lived tradition for centuries and the principles and values that they can bring to the conversation are important and necessary.

Integrity, stability, and sustainability must be the cornerstones of a global financial system that impacts the lives of billions of people across the world, if it is to be consistent with the long-term vision and horizon of the faith traditions. A system and its institutions must be consistently reminded of their social purpose to provide financial services and facilitate commercial transactions that advance human well-being, promote the common good, and respect and protect the environment. The faith traditions are uniquely positioned to bring these priorities to the ongoing dialogue.

## Endnotes

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