Theological Studies
57 (1996)

BERNARD DEMPSEY'S THEOLOGICAL ECONOMICS: USURY, PROFIT, AND HUMAN FULFILLMENT

D. STEPHEN LONG

St. Joseph's University, Philadelphia

BERNARD W. DEMPSEY (1903–1960), an ardent student of the economic theories of Joseph A. Schumpeter,[1] published in 1943 a little-known book entitled *Interest and Usury*. Dempsey, a native of Milwaukee, who during his career taught at St. Louis University, Nirmala College in India, and Marquette University, was a Jesuit well versed in scholastic moral theology. He was also a trained economist, having received a Ph.D. in economics from Harvard University in 1940. Schumpeter wrote the introduction to Dempsey's book in which he stated that Dempsey's training as a theologian "made it easy for him to read the scholastic thought on interest and usury without any danger of misunderstanding." "Moreover," said Schumpeter, "his professional training as an economist put the methods and results of modern professional analysis at his command."[2] Schumpeter thought Dempsey's *Interest and Usury* was worthy of the attention of both economists and theologians.

Dempsey's theological and economic analysis of usury and interest presents a fascinating study in itself. But what is of particular note is that his work fits within a conversation on usury initiated not by the theologians but by the economists. No less significant an economist than John Maynard Keynes had reassessed the Scholastics' theological economics and, for a brief moment in the late 1930s, the Scholastics were reconsidered as valuable contributors to economic philosophy. This is surprising because most economists had long since dismissed them as irrationally committed to a tradition-dependent morality that failed to analyze economics on its own terms. Thus a precondition for

[1] Joseph A. Schumpeter (1883–1950), born in Moravia, first taught economics at Czernowitz, was then briefly minister of finance in Austria, and then held the chair of public finance at the University of Bonn. From 1932 to 1950 he taught economics at Harvard University. He is perhaps best known for his theory of "creative destruction." Based upon the ideal state of a freely working market, Schumpeter asked how profit arose. Profit arose, he argued, when equilibrium was disrupted by the destruction of old patterns and the creation of new ones. The key actor in the process of creative destruction was the entrepreneur. Schumpeter also suggested in his 1942 publication *Capitalism, Socialism and Democracy,* that capitalism would eventually collapse not for economic reasons, but for the cultural contradictions it created. Dempsey was attracted to Schumpeter's work partly because of his sympathetic portrayal of the Scholastics in his *History of Economic Analysis* (New York: Oxford University, 1954) 73–141.

[2] Joseph A. Schumpeter, "Introduction," in Bernard W. Dempsey, *Interest and Usury* (Washington: American Council on Public Affairs, 1943) vii.

the rise of the rational, modern study of economics was, it was judged, the death of the scholastic theological economics.

The story that modern rational economics emerged only after it freed itself from the dark, irrational world of the Middle Ages has a long history. A recurring theme of that account is that the mark of the medieval Church's irrationality was its prohibition of usury. A version of this assessment is found in the work of Adam Smith, although he did not explicitly set his work against the usury prohibition. In many ways, his arguments for interest were consistent with the Scholastics of the 17th century. He found interest legitimate inasmuch as the borrower risks the lender's profit by employing it on possible productive enterprises.[3] The Scholastics agreed that this was an acceptable reason for a nonusurious profit. Still Smith thought that European countries that enforced usury laws were only furthering the "evil of usury":

> In some countries the interest of money has been prohibited by law. But as something can everywhere be made by the use of money, something ought everywhere to be paid for the use of it. This regulation, instead of preventing, has been found from experience to increase the evil of usury; the debtor being obliged to pay, not only for the use of money, but for the risk which his creditor runs by accepting a compensation to that use. He is obliged, if one may say so, to insure his creditor from the penalties of usury.[4]

Smith's language is not as careful as that of the Scholastics. He did not distinguish between purely charging for the use of money (which would be usury) and legitimate profit received for the employment of one's savings in a productive enterprise at communally agreed upon levels of profit (which would not be usury). Smith's argument was less a refutation than a restatement of the usury principle, and he still called usury "evil."

Smith did not find the medieval Church's prohibition on usury irrational. This is not to say, however, that he thought medieval theologians had anything to offer economics. To secure "perfect liberty" for the market required challenging the Roman Catholic Church. The threat from that Church, he argued was its power over the poor through charitable organizations and its power over educational institutions that prevented students from getting a practical education necessary for the functioning of the free market.[5] The hold of the Catholic Church must first be destroyed both in its hospitality and its "corrupted" education over young minds.

Jeremy Bentham continued this story but took issue with Adam Smith for not going far enough to promote "perfect liberty." Smith had allowed the civil magistrate to fix the interest rate, which, Bentham

[3] Adam Smith, *Wealth of Nations* (New York: Modern Library, 1965) 52.
[4] Ibid. 339.
[5] Ibid. 727–28, 755–59.

argued, "is inconsistent with some fundamental ideas of Dr. Smith."[6] The central issue for Bentham remained what he had learned from Smith, the need for "perfect liberty" when it came to market matters. But Bentham wanted Smith to be more consistent and to refuse all restrictions on interest rates.

Bentham argued, however, that Christian anti-Semitism had prompted Christians to turn to Aristotle to justify their prohibition against usury.[7] They were seeking to distance themselves from all things Jewish. Bentham overlooked the fact that the Law itself condemned usury.[8] But he was not interested in theological matters, only in liberty. Thus he defended the proposition that "no man of ripe years, and of sound mind, ought, out of lovingkindness to him, to be hindered from making such bargain, in the way of obtaining money, as, acting with his eyes open, he deems conducive to his interest."[9] The precondition for Bentham's economics was the removal of civil or ecclesial prohibitions over contracts for either wages or interest. One should be free to enter into any contract deemed worthwhile.

The argument that a rational economy arose against the Church's resistance became dominant among the economists, and not only among the classical liberals. It is also present in the Austrian school.[10] Böhm-Bawerk's monumental 1884 publication, *History and Critique of Interest Theories,* contained chapters such as "Resistance of Economic Practice to the Canonistic Prohibition of Interest," "Victory in the Netherlands of School of Economists Who Approved of Interest," and "Backwardness of the Romance Countries: French Legislators and Writers Cling Tenaciously to the Canonistic Doctrine."[11] He obviously did not find the canonists to be rationally sound. He began his historical assessment of the period with the claim that, "since [the interest] controversy was at its height during the heyday of scholasticism, it can well be imagined that the growth in number of arguments and counterarguments was by no means a measure of the growth in knowledge of the subject itself." Much like Adam Smith before him, Böhm-Bawerk

[6] Bentham, Letter 13, "Defence of Usury," in *Jeremy Bentham's Economic Writings,* ed. W. Stark (London: Blackfriars, 1952).

[7] Ibid., Letter 10, 158.

[8] Deuteronomy 23:19–20; Exodus 22:25; Psalm 15:5.

[9] Bentham, Letter 10, 163.

[10] The Austrian school originated in Vienna with the work of Carl Menger (1840–1921). His contribution to economics was the development of the marginal theory of utility which viewed exchange in terms of subjective preferences that could be ordered hierarchically. This led the Austrian school to emphasize consumption instead of the emphasis on production by the classical liberals. Menger's work was developed by Friedrich von Weiser (1851–1926) who favored the idea of opportunity costs, and by Eugen von Böhm-Bawerk (1851–1914), Ludwig von Mises (1881–1973), and Friedrich von Hayek (1899–1995).

[11] This first volume is now published in the three-volume set known as *Capital and Interest,* trans. George D. Huncke and Hans F. Sennholz (South Holland, Ill.: Libertarian, 1959) 16–36.

set Roman society against medieval society and found the former much more economically rational than the latter because the Romans were tolerant of interest. Medieval society saw "a relapse in industry to the circumstances of primitive times." The triumph of interest was the triumph of practical businessmen over abstract and theoretically minded ecclesiastics.[12] Such a triumph was the first victory necessary for a rational free market.

Böhm-Bawerk was not alone in his assessment within the Austrian school. Ludwig von Mises discussed the canonists' influence as a "well known example of the failure of authoritative interference with the markets."[13] Even the independent thinker Schumpeter originally told a similar story; in his early work *The Theory of Economic Development,* he found medieval theologians woefully inadequate. They "only observed economic things fleetingly and only paid attention to the interest which was observed in their sphere."[14] They mistakenly viewed all loans as consumptive, and therefore prohibited usury. However, by the time he wrote his *History of Economic Analysis,* he gave a more sympathetic portrayal of the Scholastics.

Schumpeter's careful analysis of the Scholastics earned him Dempsey's admiration. In 1958 Dempsey wrote of it: "Probably for the first time in the English language the period of the scholastics is treated by a competent economist who is able and willing to read them."[15] The specification "for the first time" was not accidental. It was true that Keynes, before Schumpeter, had treated the Schoolmen sympathetically, but, in Dempsey's judgment, he had done so incompetently.

As a trained theologian, Dempsey recognized that many economists spoke about the Middle Ages out of a total lack of theological resources. As a trained economist, he also recognized that many theologians "applied" economics without seriously undertaking a study of that field. He sought to avoid both errors. However, the greater error he felt was to be found among the economists. Their contempt for the medieval theologians was symptomatic of an Enlightenment arrogance that refused to read or take seriously the work of those who had gone before them. These economists deceived themselves about the uniqueness of their own teachings by caricaturing the thought of earlier generations. Dempsey, on the contrary, drew upon 17th-century Scholastics to show their relevance for modern economics, while at the same time maintaining their moral and theological teachings. What the Enlightenment had rent asunder (economics, theology, and morality) Dempsey

[12] Ibid. 9–17.

[13] Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Fund, 1980) 84.

[14] Joseph Schumpeter, *Theory of Economic Development,* trans. Redivers Opie (Cambridge, Mass.: Harvard University, 1949) 178.

[15] Dempsey, *The Functional Economy: The Bases of Economic Organization* (Englewood Cliffs, N.J.: Prentice Hall, 1958) 15.

joined together. He accomplished this through his careful analysis of the prohibition against usury.

KEYNES'S CONVERSION TO THE MEDIEVAL CHURCH

Dempsey never explained what had precipitated his work on usury. One factor must have been several papal encyclicals, particularly *Rerum novarum* (1891), that claimed "voracious usury" was rampant in industrial society. Likewise *Quadragesimo anno* (1931) elaborated and applied the principles set forth in *Rerum novarum.* These encyclicals prompted theologians such as Dempsey to turn toward economic matters for the "restoration of the social order."[16] But another important factor was John Maynard Keynes's reappropriation of the scholastic tradition to support his attack upon classical liberal economics. Dempsey dedicated his final chapter of *Interest and Usury* to a refutation of Keynes's solicitation of the Schoolmen for support.

A debate broke out in 1931 in the *Economic Journal* of London with a brief essay by H. Somerville, entitled "Interest and Usury in a New Light." Somerville there stated that Keynes's *Treatise on Money* raised a number of questions and led to "unexpected consequences," one of the most startling being his "vindication of the canonist attitude to interest and usury."[17] Why had Keynes vindicated the canonists, or perhaps the canonists vindicated Keynes? Because of his distinction between savings and investment. For Keynesian economics, savings alone does not provide the capital necessary for economic growth. If savings is not immediately transformed into purchasing power, it diminishes effective demand and therefore supply as well. The result is unemployment and economic stagnation. As Somerville stated it, "the worst thing is the sterile saving of money." Sterile money resulted from interest on accumulated savings without employing it in productive enterprises. But when the interest rate is held low, this practice is discouraged and sterile savings can be transformed into productive investment. Therefore, as Somerville suggested, in the "keynesian analysis, interest is the villain of the economic piece."

This analysis opposed liberal orthodox economics, where interest and profits were correlated and high interest rates would entice savings which in turn would provide a pool of capital out of which profits could be earned. Savings equalled investment. But Keynes set interest and profits in opposition. Interest on money saved did not necessarily

[16] Dempsey translated a major work of the German Jesuit Oswald von Nell-Breuning, in the introduction to which Nell-Breuning stated that he wrote "to make some slight contribution to a realization of this desire of the Holy Father [Pius XI] to understand and apply the social doctrines of Leo XIII" (*Reorganization of Social Economy: The Social Encyclical Developed and Explained,* trans. Bernard W. Dempsey [New York: Bruce, 1936] 3).

[17] H. Somerville, "Interest and Usury in a New Light," *Economic Journal* 41 (1931) 647.

equal profits from capital usefully employed. He then distinguished capital (investment) from money (sterile savings). And this, argued Somerville, placed Keynes in the camp of the canonists who "never quarrelled with payments for the use of capital, but they disputed the identification of the lending of money with the investment of capital and denied the justice of interest as a reward for saving without investment."[18]

Somerville's understanding of usury was based on William James Ashley's *Economic History* (1888) where distinction had been made between a legitimate *societas* (understood as a partnership where capital was pooled for the purposes of profit and the lender was a partner who undertook risk) and usury (where the lender was only a creditor lending money without risk). This early usury proscription was undone in the 16th century when canonists such as Johann Eck (1486–1543) began to defend the triple contract which allowed investors to enter into a "partnership" without risk because they entered a second contract where they were guaranteed a return. But Somerville prophesied that, given the Keynesian revolution, "there may be reasons for thinking that the world will go back to the early Canonist doctrine."[19]

Somerville's essay led to the establishment of a symposium on savings and usury in the March 1932 edition of the *British Economic Journal* with contributions from Edwin Cannan, B. P. Adarkar, B. K. Sandwell, and Keynes himself. The symposium focused on "Mr. Keynes' conversion to the doctrine of the Medieval Church." This raised the question whether interest should be approved or condemned. The question was also raised, whether, as Somerville suggested, interest is the villain. If so, then the early canonists had been on to something.

All the respondents except Keynes found Somerville's suggestion ridiculous. Cannan used Somerville's argument to attack Keynes. He found Somerville's argument unpersuasive, but the problem was not Somerville's analysis but Keynes's economics. Somerville had rightly interpreted Keynes and thus had unwittingly demonstrated Keynes central error: he misunderstood savings. The canonists were not vindicated. Canaan distinguished savings as accumulation of "the excess of income over consumption" from savings as "mere refraining from expenditure." If we understood savings as the former, then interest was "both natural and useful." Interest is what people pay for access to this surplus for further profitable enterprise. It is useful because interest encourages surplus savings. If however, savings was mere abstinence, then interest would be "mysterious and indefensible" for no one should just make money merely by abstaining from spending.[20] For Canaan, savings is not mere abstinence but a form of investment and the two cannot be separated, as Keynes had attempted to do. The orthodox view still held. "The old orthodox view is right—that banks,

[18] Ibid. 648.
[19] Ibid. 649.
[20] *Economic Journal* 42 (1932) 126.

far from paying interest on idle money and delaying its investment, facilitate and quicken the necessary transactions between passive savers and active producers."[21]

B. P. Adarkar defended Keynes against Somerville's discovery. He found Somerville's correlation between Keynes and the early canonists a misreading of Keynes which, he wrongly assumed, Keynes would surely repudiate. The canonists' doctrine, he wrote, "has been buried long ago by both classical and modern economists." And Keynes cannot be placed in the canonist camp. Yet Adarkar was proved wrong by Keynes's response to Somerville's essay as well as by Keynes's 1936 publication, *General Theory of Employment, Interest and Money.* Keynes did not leave the canonists buried but tried to dig them up.

B. K. Sandwell did not dismiss Somerville's essay as thoroughly as had Canaan and Adarkar, but, he argued, the similarities between Keynes and the canonists were less than profound.

The Canonists held that there is a form of investment which involves no risk, and that because it involves no risk it should not be allowed to receive remuneration. Mr. Keynes holds that there is a form of holding of savings which involves no investment, and that at times when the amount of such holding becomes excessive it might well be discouraged by reducing the rate of its remuneration, if necessary to zero. If the proposition that savings deposits might in certain circumstances advantageously be deprived of interest is a "vindication" of the proposition that no interest should ever be allowed on safe investments of any kind, all I can say is that the Canonist doctrine must be very hard up for vindication. Which, of course, at the present time it is.[22]

Sandwell found no value in considering the relationship between the canonists and Keynes. The usury prohibition, he argued, is merely an effort to "impose upon mankind the ethics of the early Hebrews" and it was where those ethics "first and foremost" broke down. The usury prohibition only reflected an irrational theological ethic, and Somerville's essay was a disguised attempt to challenge "personal ownership and the exchangeability of capital goods." The canonist doctrine, Sandwell concluded, "affords a splendid springboard for the transition to a full Soviet economy."

These criticisms of Somerville's essay demonstrated how little these economists understood theology, moral philosophy, and especially the writings of the Scholastics. However, their criticisms also underestimated Keynes. His response came to the support of Somerville on one main issue. Keynes took exception to Canaan's interpretation of savings. He reiterated that there is no necessary connection between savings and an increment of capital wealth. And he stated:

If an increment of saving by an individual is not accompanied by an increment of new investment—and in the absence of deliberate management by the Central Bank or the Government, it will be nothing but a lucky accident if it

[21] Ibid. 128.

[22] Ibid. 132.

is—then it necessarily causes diminished receipts, disappointment and losses to some other party, and the outlet for the savings of A will be found in financing the losses of B.

How did this relate to the teaching of the Scholastics? Keynes agreed with Adarkar that the canonists did not fully understand the difference between interest on savings by debts and savings by assets. Nonetheless, he raised the question, "May not Mr. Somerville be right that the social evil of usury, as conceived by the Canonists was essentially due to the fact that in the circumstances of their time savings generally went with the creation not of assets but of debts?" Somerville's essay certainly prompted Keynes to rethink the Scholastics' position. By the time he published the *General Theory* in 1936, he had emphasized the similarities between himself and the Scholastics whom he now called upon as allies. He wrote:

> I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment was merely jesuitical attempts to find a practical escape from a foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital. For it now seems clear that the disquisitions of the schoolmen were directed towards the elucidation of a formula which should allow the schedule of marginal efficiency of capital to be high, whilst using rule and custom and the moral law to keep down the rate of interest.[23]

Keynes argued that the soundness of the usury proscription resided in the Scholastics' effort to reward investment by keeping the marginal efficiency of capital high and not to reward mere savings by keeping the rate of interest low. Thus, for Keynes, the beauty of the scholastic teaching resided in the just reward for investment risk and the denial of a just reward merely for lending out of one's savings. This fit well with the Keynesian revolution, for it emphasized investment and deemphasized savings.

Keynes revivified the Scholastics to support his attack on the classical economists. Of course, he never analyzed the Scholastics work with any depth.[24] His arguments were haphazard and employed merely for the sake of supporting his own position. They occurred in that portion of the *General Theory* (chap. 22) that Keynes called "his way of honoring cranks who have preferred to see the truth obscurely

[23] Keynes, *General Theory of Employment, Interest and Money* (San Diego: Harcourt Brace, 1964) 351–52.

[24] In fact, Keynes was not truly interested in avoiding usury; he once stated: "Avarice and usury and precaution must be our foods for a little longer still. For only they can lead us out of the tunnel of economic necessity into the daylight" (Robert Skidelsky, *John Maynard Keynes: The Economist as Saviour, 1920–1937* [London: Penguin, 1994] 237).

and imperfectly rather than to maintain error reached by easy logic on hypotheses inappropriate to the facts."[25]

DEMPSEY'S CRITIQUE OF KEYNES'S CONVERSION

As a Jesuit economist, Bernard Dempsey had a stake in this debate. Indebted to Schumpeter's economic thought as he was, he obviously did not find palatable Keynes's appropriation of the Jesuit theological tradition for the Keynesian revolution.[26] Dempsey did not defend the liberal orthodox theory, but he found Keynes's reappropriation of the Scholastics backwards. He recognized with Keynes the legitimacy of interest for investment risk, which is "a special case of emergent loss." He agreed that this was an important aspect of the scholastic teaching, but that was the only aspect of it that Keynes understood. Concerning Keynes's famous passage in *The General Theory,* Dempsey wrote:

> This statement contains a truth, but one very poorly presented. To a Schoolman, the marginal efficiency of capital would be another name for the loss emergent or gain cessant upon the relinquishing of money, the true cost of the alternative opportunities. In communities where these alternatives were numerous and would be competed for, there would arise a common price based on the community appraisal of an average profit opportunity, an average rate of marginal profit from investment.[27]

The modern economic assumption of the marginal efficiency of capital, that rate of return which can be expected from the employment of a particular amount of capital, was correlated with the scholastic assumption of *lucrum cessans* or cessant gain. This was the principle that allowed one to receive a return for a loan. This return was not viewed as interest on a loan but as the fair profit one would have received had the money been employed in some other venture. The loan becomes a good deed by which a lender employs his savings and accepts the risk of the borrower's venture.

Usury had not been proscribed because one made a profit on one's investment but for making a profit merely by loaning money. For although money itself does not fructify, money employed in useful ventures can, through those ventures, fructify. For instance, if I purchase a pear orchard for a certain amount of money, I hope that those pear trees will fructify and bring me a return for my investment, a profit. But if I loan that same amount of money to another when I could have used it to purchase the pear orchard, I can receive as a fair return the same amount of money which I would have received on the investment I have now foregone in order to make the loan.

[25] Ibid. 369.

[26] Schumpeter disagreed with Keynes, stating that "decisions to save depend upon and presuppose decision to invest" (*Capitalism, Socialism and Democracy*) [New York: Harper Torchbooks, 1976, original ed. 1942] 396).

[27] Dempsey, *Interest and Usury* 220.

Thus, as Dempsey pointed out, the Scholastics taught that marginal profit should equal the rate of interest if a sin against commutative justice was to be avoided. And Keynes was consistent with the Scholastics, against the classical theorists, in distinguishing marginal profit from the rate of interest. Yet Keynes was incorrect in his conclusion, as Dempsey wrote:

> But though this possibility of *de facto* divergence meant that the *concepts* are distinct, it may be very misleading to say that the *Scholastics* labored to keep them separate when *concretely* their whole purpose was to keep them together. A high marginal efficiency of capital meant a true emergent loss to him who relinquished capital goods or the money means to them. The just price of present money, the rate of interest, was therefore high and a consistent Scholastic would work to keep it up, and to allocate the benefit to him to whom in commutative justice it was due, namely, to the one who incurred the emergent loss. Keynes is right in the distinction which he draws; but the use he makes of it is so different from the scholastic application that it might readily be the source not only of confusion of ideas but also of imputation to the Schoolmen of ideas directly contrary to what they held.[28]

Although Keynes wrongly applied the scholastic teaching on usury, Dempsey agreed that scholastic thought was relevant to the modern economy. In fact, he found the modern acceptance of usury one of the central reasons for violations of distributive justice. He concluded that we live in a maldistributed economic system because it institutes usury.

INSTITUTIONAL USURY

In his landmark book *The Scholastic Analysis of Usury,* John T. Noonan found no direct application of the usury proscription to our credit economy: "Usury today is a dead issue and except by a plainly equivocal use of the term, or save in the mouths of a few inveterate haters of the present order, it is not likely to stir to life."[29] The usury proscription can be applicable only to loan sharks and pawnbrokers. It cannot be used as an indictment against our current economy. Those persons who seek to invoke it do so only as a foil for their hatred of the present economic system. They are not in any way committed to scholastic principles.

Although Noonan began his work with this moral judgment, he found Dempsey's work an exception. Noonan noted: "Far more scientific and subtle than the rhetoric of the Viennese circle and the indignation of Belloc and Benvenisti is the criticism launched against the present order under the banner of the usury theory by Bernard Dempsey."[30] Dempsey was no inveterate hater of this world. He cannot be as

[28] Ibid.

[29] John T. Noonan, Jr., *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University, 1957) 1.

[30] Ibid. 403.

easily dismissed as Hilaire Belloc and J. L. Benvenisti because he did not rush to judgment on the question of the viability of usury to the modern economy. Only after a careful analysis both of the scholastic position and of profit and interest in the modern economy, did he reach his conclusion that modern economics is founded on "institutional usury."

Interest and Usury divides into two sections. First, Dempsey analyzed modern interest theory. He did this through an examination of the theory of interest found in Knut Wicksell, Ludwig von Mises, Friedrich von Hayek, Irving Fisher, Joseph Schumpeter, Gunnar Myrdal, and John Maynard Keynes. Second, he explained the scholastic prohibition of usury in the 17th century through the work of Juan de Lugo, Luis Molina, and Leonard Lessius. Then he compared the two economic theories.[31] He concluded his comparison with the following assessment:

> The modern situation to which theorists have applied the concepts of divergence of natural and money interest, divergences of saving and investment, divergences of income disposition from tenable patterns by involuntary displacements—all these have a sufficient common ground with late medieval analysis to warrant the expression, "institutional usury."[32]

How did he reach that conclusion? To understand Dempsey's judgment, we must first observe the three divergences he examined. The three divergences (natural and money interest, savings and investment, and divergences of income disposition from tenable patterns by involuntary displacements) had been discussed in the work of Knut Wicksell, John Maynard Keynes, and Ludwig von Mises respectively. Since we have already examined the second divergence, between savings and investment, we will examine here only the first and the third divergences.

Divergence between Natural and Money Interest

Institutional usury suggests that our modern economic system creates the effect of usury without personal culpability.[33] How does this happen? Wicksell's analysis of the divergence between natural and money interest helps explain this phenomenon. In *Interest and Prices* Wicksell hypothesized a "pedagogical economy" where goods were lent *in natura* without a monetary medium. Dempsey found this compelling in part because it fit within the traditional, scholastic possibilities of exchange. For Dempsey, "If goods did not have the characteristics of producing a greater volume of goods in time, interest as a production

[31] He justified the possibility of the comparison on the basis of the natural law: because the scholastics' theological economics was fundamentally based on observations of the natural law and not merely divine law, a congruence can be assumed between their work and modern economists (see Chap. 1, "Terms of a Comparison" 1–6).

[32] Dempsey, *Interest and Usury* 228.

[33] Ibid. 207.

factor would not exist."[34] Using one's goods to increase one's goods is not usury. Thus Wicksell's natural rate of interest fit within scholastic possibilities for legitimate profit.

Wicksell stated that the natural rate is "the rate which would be determined by supply and demand if real capital were lent in kind without the intervention of money."[35] Yet while this understanding of interest fit within the limits of the usury prohibition, Wicksell did not advocate the natural rate of interest as something beneficial or desirable. For in this natural economy, prices would fluctuate at the discretion of nature, dependent more or less on the "beneficent influences of nature."[36] This prevents the achievement of Wicksell's ideal future state where prices will have a certain invariable stability. As we rely more on "our own strength and foresight" and less on nature, we will become "masters" rather than "slaves" of nature. Monetary theory and practice has not yet improved to that point, but Wicksell's work was an effort to determine the causes that influence interest and prices in an effort to rationalize them.

At this stage in his argument, Wicksell rehearsed the modern theory of value where supply and demand are conditioned by marginal utility. Each person continues the process of exchange as long as "he continues to acquire commodities which represent more than the equivalent of the commodities that he gives in exchange."[37] Insofar as these exchanges will be indirect, which is inevitable, money will be required. But here the purpose of money is merely to effect the exchange or to serve as a store of value over time until the exchange is transacted. However, money becomes something other than this once it "derives a marginal utility and an exchange value against other commodities." Insofar as money serves either to facilitate exchange or as a store of value for future exchange, then the usury proscription would not be violated. However, when money does not express the "value relationships" between commodities exchanged, then it clearly does violate the usury proscription, for it provides the possibility of an income which was never earned and yet can be used for future gain whether that gain goes to the individual employing it or to someone else.

By showing how the money rate of interest diverges from the natural rate of interest and does not need to come into equilibrium with it, Wicksell demonstrated no necessary connection between money and commodity exchange.

> It is possible for a considerable difference between the uncontrolled rate and the contractual rate to persist, and consequently for entrepreneur profits to remain positive or negative, as the case may be, for a considerable period of time. It has already been mentioned that this possibility arises out of the fact

[34] Ibid. 206.

[35] Wicksell, *Interest and Prices* (New York: Sentry, 1965) xxv.

[36] Ibid. 3.

[37] Ibid. 19.

that the transfer of capital and the remuneration of factors of production do not take place in kind, but are effected in an entirely indirect manner as a result of the intervention of money. It is not, as is so often supposed, merely the form of the matter that is thus altered, but its very essence. For real capital goods can no longer be supposed to be actually borrowed and lent; they are now bought and sold. An increase in the demand for real capital goods is no longer a borrowers' demand which tends to raise the rate of interest, but a buyers' demand which tends to raise the prices of commodities. But money, which is the one thing for which there is really a demand for lending purposes is elastic in amount.[38]

As long as commodities are lent in kind, the physical commodities themselves establish the objective limits of their relationship. However, once commodities are bought and sold and money is lent for that purpose, then such limitations are no longer extant. And money does not possess the same limits commodities do. The market rate of interest is determined by the credit institutions separate from any necessary connection with the natural rate of interest.

At this point, Dempsey found the usury teaching applicable. If Wicksell had adequately explained the modern economic situation, then no emergent loss is possible, and money violates the purposes it should serve.

If money does not so change hands as to express accurately these value relationships [of physical objects], then the relations themselves are *altered* rather than expressed by the money sums paid for them. When investment is made with funds that have never been income and, before being income, have never been cost, such a derangement is theoretically inevitable.[39]

The problem with this derangement was that it distorted just distribution.[40]

Divergences of Income Disposition from Tenable Patterns by Involuntary Displacements

How institutional usury occurred can also be seen in the work of Ludwig von Mises, especially in his discussion about the nature of fiduciary media. Von Mises argued that "it is a complete mistake to assert that the nature of an act of exchange is altered by the employment of fiduciary media."[41] Dempsey disagreed. Fiduciary media are employed in credit transactions. Von Mises divided credit transactions into two types, the first are those that "impose a sacrifice on that party who performed his part of the bargain before the other does" through

[38] Ibid. 135. The use of the distinction between uncontrolled and contractual rates of interest in Wicksell's argument is confusing at this point. However, I take it that the former is similar to the natural or normal rate and the latter is the market rate which is determined by the banking system.

[39] Dempsey, *Interest and Usury* 207.

[40] This will be more fully explained after the discussion of von Mises.

[41] Von Mises, *The Theory of Money and Credit* 308.

the "foregoing of immediate power of disposal over the exchanged good." This first type of credit transaction is called commodity credit. In this sense, credit transactions would not be usurious because *lucrum cessans* could be demonstrated. But there is also a second class of credit transactions "characterized by the fact that in them the gain of the party who receives before he pays is balanced by no sacrifice on the part of the other party."[42] In this second class of credit transactions, referred to as circulation credit, no sacrifice is made by the issuers of fiduciary media. They could never incur a loss for they have not given up the power of disposal over any commodity. The issuance of fiduciary media for the second class of transactions would not be usurious if it were kept within certain natural limits. That is to say, if it were contained by the natural rate of interest, as Wicksell described it, in terms of commodities lent *in natura*. Economists such as Tooke had argued that the elasticity of fiduciary media was the effect and never the cause of "fluctuations in business life."[43] Therefore, the banking industry which issued fiduciary media was merely "passive." But von Mises showed the error in this way of thinking, an error residing in a misunderstanding of the "fundamental nature of fiduciary media."

His argument had four steps. First, fiduciary media is issued, i.e. a bank discounts a bill or grants a loan, as an "exchange of a present good for a future good." This is why fiduciary media is employed. A bank provides a loan (the present good) in exchange for future goods which the borrower will receive through employing the present good. But what makes possible the present good? This question gave rise to the second step in von Mises's argument, "the issuer creates the present good that it exchanges, the fiduciary media, practically out of nothing." This lead to the third step. Because fiduciary media is issued practically out of nothing, no "natural limitations" exist for the quantity of fiduciary media. In truth, the future goods which will be produced are limited, but no limitations are present in their possibilities for exchange in terms of present goods, as circulation credit, in the market. And the fourth step is that the issuers of fiduciary media can "induce an extension of the demand for future goods by reducing the interest demanded to a rate below the natural rate of interest, that is, below that rate of interest that would be established by supply and demand if the real capital were lent *in natura* without the mediation of money, whereas on the other hand the demand for fiduciary media would be bound to cease entirely as soon as the rate asked by the bank was raised above the natural rate."[44] The conclusion is that "the quantity of fiduciary media in circulation has no natural limits." For von Mises, this was just how the market worked. For Dempsey, this was institutional usury.

Dempsey did not argue that these theorists advocated usury, but

[42] Ibid. 297.

[43] Ibid. 340.

[44] Ibid. 341.

that their analysis showed us the usurious and negative effects of the modern economy.

> Apart from enrichment of politicians by confiscations, and exploitation of natives in imperial areas, whence do the modern aggregates of free capital funds arise if not from profits of credit-financed innovations, including the periodic innovation of military enterprise requiring the complete re-direction of the economy, with credit-financed windfalls to those holding assets with special wartime values? . . . If innovation had always paid a full just price for the saved resources employed to the persons whose income-curtailment furnished the savings and upon whom the consequent emergent loss descended, how different would distribution of income be from what it is? What its shape would be we may not say, but we can safely hold that it would be very definitely less askew than it is.[45]

The capital which financed the modern economy violated the usury proscription because it was based either on confiscation, conquest and exploitation, or credit that had little connection with savings. All of these acts of accumulation were usurious because no *lucrum cessans* could be named when capital was formed in this way. This is obvious in the case of confiscation and exploitation, but the use of credit is the heart of the matter. Following von Mises, Dempsey found credit to be created without foundation in any present income or savings. Therefore, access to credit provided a gain for which no corresponding risk or loss could possibly be found. Profit was made solely on one's access to this credit separate from any corresponding debt or obligation to another.

WHY DOES A THEOLOGICAL ECONOMICS MATTER?

What does it matter that profit can arise separate from one's earned savings and investment? Usury still mattered for Dempsey because of his Thomistic account of economic life. The fullest articulation of this is found in his 1958 publication *The Functional Economy: The Bases of Economic Organization.* This work is an application of the teaching of Pius XI's *Quadragesimo anno.* Dempsey argued that the "goal of the economic process" was "the development and perfection of human personality." Human personality was not understood here in an individualist manner after the personalist philosophers of this era. Instead, personality was viewed as an Aristotelian *ergon,* a proper work or function that each person has. The task of each agent is to perfect his personality. This is accomplished by the inevitable identification of one's actions with the objects for which one aims. And this occurs only within a social community. "Only within community can man make any decent progress in fulfilling his basic urge to the perfection of his powers."[46]

[45] Dempsey, *Interest and Usury* 212.
[46] Dempsey, *The Functional Economy* 273.

Within the social community a person is called upon to do a certain work and should be adequately compensated. This compensation can then be employed for the good of the community through "contributive justice." By this a worker perfects both his or her work and the community's good. Once profit on investment is separated from savings, it is also separated from one's work. Perfection of personality cannot occur, and the economic life is reduced to a large lottery system where profit can be made, but this profit will have no connection to a person's proper work or function.

A restored social order is required if economic life is to achieve its appropriate goal. For Dempsey, neither liberalism nor Marxism allowed for the form of social activity that could perfect human personality. Both Marxism and liberalism assume conflict and antagonistic social relations. In this sense, his theological economics provided an alternative to the current conflicts within theology which suggest that theologians must choose either capitalism or Marxism. Dempsey saw too much commonality between Adam Smith and Karl Marx for either of them to be used to create a society that can fulfill the appropriate function of economic life. Therefore, the moral demands of a Thomistic theology require the "restoration of the social order." He invited theologians and others to create those forms of economic life that can be oriented toward theological ends.[47]

The state cannot function as the social community which will allow for human perfection to proceed as it should. But neither can "privatization," for that is merely the securing of the power of the individual (the corporation) by the state.[48] Instead, something like the medieval guild economy needs to be in place. This is not a call for a return to the medieval guild economy, and Dempsey was well aware of the problems of that system. His work was a call for local communities to have some control over their economic life. This would allow for local social functions where people would be able to fulfill the tasks of responsibility, loyalty, and liberty that allow for the perfection of their end. This cannot occur within modern economic arrangements, because the class conflict written into liberalism reduces workers' labor to a mere commodity. Workers are not adequately compensated for their contributions. Thus they themselves cannot cultivate the virtue of justice by contributing to a common good. The savings which provides a pool of capital is separated from human activity. It appears as though money fructifies even though we all know that it cannot.

Dempsey's economic work was truly theological. He provided a pattern for theologians and economists who think that theology matters

[47] Dempsey was founder and president of the Catholic Economic Association which sought to apply Catholic teaching to corporate life.

[48] Dempsey suggested, following Walter Lippman, that business corporations are nothing but "creatures of the state"; they bear no resemblance to the medieval guild organization (*The Functional Economy* 294).

for integrating economics into theology. He recognized two tradition of thought—the tradition of economic philosophy and of moral theology. These traditions sometimes conflicted and sometimes cooperated. Yet the tradition of economic philosophy failed to see either the conflict or the cooperation, for it was insufficiently aware of its own historical inheritances. It did not know the conditions for its own possibility. Dempsey pointed out those conditions.

The fact that Dempsey could position economics as a tradition and then interrogate it with the scholastic tradition of moral theology was itself a great achievement. As a science, economics has become increasingly antihumanistic. First, it was freed from theology in the 18th century to become political economy. Then it was freed from political philosophy in the later-19th and early-20th century. Now, through its utilization of mathematical models, it increasingly looks like an autonomous science. But beneath those mathematical models is a philosophy of human action that makes economics inescapably a moral science. Dempsey took economists seriously, not as mere accountants but as philosophers of human action. This meant that their work had theological relevance. Although economics has a certain, relative independence that theologians should not tread upon, economics and theology can never be thoroughly separated any more than any human action can be seen as theologically irrelevant. Through his careful analysis of those actions to which economics lent itself, Dempsey demonstrated that theological relevance.

Dempsey assessed human action by a normative ethic grounded in the Thomistic tradition. Although this meant that he took seriously the usury proscription, his work was more than an ethic of obligation which posited laws that were to be obeyed. He situated the usury proscription in the social context of a functional economy. Participation in economic life was a theological task. Although increased productivity, efficiency, and the production of wealth were important elements of a functional economy, so too was the life of virtue. If the economy could not contribute to the latter, even though it increased productivity, then it was a social organization that failed to achieve its proper end. Dempsey masterfully joined two worlds without subordinating the theological tradition to another tradition supposedly more rational. He showed us how a master craftsman works a tradition.