

## **Lecture 3: The Birth of Banking**

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### **Introduction to Changing Attitudes Towards Usury**

- The history of usury (interest) and its moral implications in the Western world
  - The transformation from a view of usury as a sin to a necessary economic practice
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### **Martin Luther and Usury**

- Luther condemned usury but recognized it as a practical reality in the sinful world
  - Advocated for government regulation, acknowledging the need for interest while maintaining moral opposition
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### **John Calvin's View on Usury**

- Calvin believed that usury was not inherently sinful and justified it as a necessary part of business
  - Shifted views on usury, permitting it in the course of business but still opposing the profession of moneylending
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## **The First Legal Recognition of Interest (1545)**

- Parliament in England acknowledges interest as an economic reality and sets limits on it (initially 10%, later reduced to 5%)
  - The recognition of interest as part of trade, but with moral concerns still at the forefront
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## **Shakespeare's *The Merchant of Venice***

- Depiction of usury in Shakespeare's work, reflecting the ongoing debates about its morality
  - Shylock, a Jewish moneylender, represents the morally suspect view of usury
  - Christian moneylenders contrast with Shylock, highlighting the tension between business and morality
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## **The Renaissance and Enlightenment Shift in Economic Thought**

- Shift from moral condemnation to economic recognition of the role of interest in facilitating trade
  - Emergence of new ideas on how interest is connected to property rights, risk, and the time value of money
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## **Theories of Interest and Economic Growth**

- **Turgot:** Interest as compensation for time, recognizing that time changes the value of money
- **Jeremy Bentham:** Advocates for the freedom of interest rates, highlighting the

economic benefits of unrestricted lending