A Historical Survey of an Everlasting Debate: The Nature of Interest

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Abstract:

The concept of interest has been discussed from various perspectives so far and it will be probably continued to be discussed. Contrary to the economists like Alfred Marshall, who argued for the necessity of interest for savings and capital accumulation; some other economists like J.M.Keynes, who characterized it as a barrier to capital accumulation, have been seen as well. Besides the views asserting that interest is a just and beneficial tool for the economic system to stand, some other opinions contending that it is unjust and leads to some costs more than benefits have been put into words as well. Although interest has been criticized throughout the history, it maintained its existence. At the present time, it is applied almost in every country. In this study, most of the philosophic, economic and religious interest-related thoughts from antiquity to the present will be analyzed within the framework of their arguments on the nature of interest, namely, its justness, costs and benefits. Our target is to find an answer to the question of what the nature of interest is by making use of the arguments of the thoughts in question.

Keywords:

Interest, the nature of interest, justness, costs and benefits.

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1. Introduction

Interest is a controversial issue that has been discussed by many economists, philosophers and religious scholars from antiquity to the present. Contrary to the economists like Alfred Marshall, who argued for the necessity of interest for savings and capital accumulation; some other economists like J.M.Keynes, who characterized it as a barrier to capital accumulation, have been seen as well. Interest has brought about such keen disputes throughout the history. To some extent, varieties in ideas about interest could be considered as the indicators of disagreement on the nature of interest. *Productivity theory* defending that capital goods are productive, thus ought to take functional share in the form of interest from distribution of income; *exploitation theory* describing interest as the undeserved share that capital holders take from the total production, which belongs solely to labourers; *renunciation theory* explaining interest as the price of altruistic behaviour of saver, who forges from satisfying its own needs, not spending its income for its expenditures; *labor theory* stating that people put their labors while saving and would like to earn satisfactory amount of money when they lend their savings; *agio theory* grounding interest on agio arising due to time difference between the present and future value of goods of the same amount, same kind and same quality could be given as examples to the reflections analyzing the nature of interest. Besides the old and new economic theories contending that interest could be derived only from loans, there are also some others stating that interest is an earning that could be derived not only from loans but also from lent goods. Some of the scientists ground their arguments in question on dissimilar Islamic principles about interest.

Contrary to the views supporting the financial system based on interest and defending that interest is a just, beneficial and indispensable practice; some other philosophic or economic thoughts and religious teachings have argued that interest is a tool causing costs more than benefits, and it is not a just practice. The views opposing interest argue that some economic, social and moral problems that interest practice causes at national and international level are the most important reasons of the critiques concerned. Such factors as that interest hampers the fair distribution of national and world income at national and international level, that it causes the emergence of idle people maintaining their lives on interest income, that it restricts the marginal productivity of capital, that it curbs the economic growth by reducing the investments, and hence increases the unemployment, that it hinders the projects which are not much lucrative but highly contributive to social welfare, that it makes way for injustice by laying the whole risk of not making profit from borrowed capital on debtor, that it hinders the optimal distribution of resources are a few of the examples economists give to illustrate the economic damages of interest. As of today, the justness of interest is out of discussion. This result does not stem from the agreement of all scientists on the issue. The basic reason is that no clear, accurate and generally acceptable explanation has been made so far. At present, discussions have mostly focused on at which level interest rates should prevail.

In this study, most of the philosophic, economic and religious interest-related thoughts from antiguity to the present will be analyzed within the framework of their arguments on the nature of interest, namely, its justness, costs and benefits. Our target is to find an answer to the question of what the nature of interest is by making use of the arguments of the thoughts in question.

2. Some Human Reflections on Interest

2.1. Interest in Ancient Times

In this era, philosophers of Ancient Greece; Plato and Aristotle, and thinkers of Western Rome; Cicero and Seneca, delivered ideas about interest.

To *Plato,* money is merely a means of exchange, a simple symbol. It symbolizes the product. It is not the source of wealth. Therefore, he opposed the interest he characterized as a tool causing money to be the source of wealth. He rejected the interest as he found it against moral values and his imaginative ideal order. Thus, he wished it to be prohibited. To him, ''interest intensifies the imbalance in distribution of income and causes the poverty to spread.'' (Ersoy 1980)

To Aristotle, a student of Plato, money is a means of exchange and value. It does not have the function of producing money. Earning income on money, namely interest, is not natural since money is not fertile. He considered the currency producing of money as an unnatural way of gaining wealth. (Ulutan 1978) Therefore, interest can not be deemed as legitimate. That is to say, it is unjust to draw interest since interest means the income earned on money and an increase in the amount of money itself. Aristotle claimed that interest effected the distribution of income adversely. To him, earning money on money does not contribute to the common wealth. Interest causes the wealth of some people pass into the hands of others.

Marcus Tullius Cicero, a Roman statesman and scholar, rejected the usury and claimed that those who gained money through interest disordered the social balance.

Alusius Annaeus Seneka, a Roman thinker, stated that plain living was virtous. He put forward that avarice induced people to misdo and those who tried to increase their wealth by drawing interest caused unfairness in distribution of income. (Ersoy 1980)

2.2. Interest in Middle Age

2.2.1. Interest in Medieval Europe

In middle age, scholasticism dominated in Europe. It originated in the efforts to maintain patristic philosophy and to ground and systematize Christianity, which turned into a tenet, on philosophical basis. Scholastic thinkers endeavored to evaluate the incidents by synthesizing the rudiments of Christianity with the approaches of Plato and Aristotle. As a result of the dominancy of Scholasticism, the medieval European thinkers were not able to go beyond the bounds Ancient Greek thought and ecclesiastical doctrines had set. Ecclesiastical prescriptivism hindered the emergence of new ideas. Religious tendencies dominated the thought. For instance, in this period, canonists would impose and construe the rules setting the environment of political, social and economic life. (Ergin 1983) As a natural consequence of the scholastic point of view, canonists improved their thought that were in favour of the prohibition of interest by benefiting from the thought of Aristotle. In this period when the religion had influence on ways of thinking, interest was opposed. However, interest-related thought changed markedly in course of time. Although interest was opposed strictly, it could not be put an end to. Various types of interest were practiced. 'Default interest (poena conventionalis)' received for overdue loans, 'damnum emergens' paid to compensate the loss of the lender, which emerged due to the unuse of money by the lender, were only two of the many types of interest concerned. As a matter of fact, it is possible to evaluate the reasons of the enumerated types of interest as endeavors to evidence the fairness of interest in Middle Age. Albert Magnus, St. Thomas D' Aquin, Nicole Oresme are a few of the scholastic thinkers. Interest-related thought of St.Thomas is as follows.

Saint Thomas d 'Aquin elucidated his thought about interest by making use of Roman Law' s distinction of 'durable and non-durable goods'. To him, unlike the durable goods like car, non-durable goods like barley do not yield any income. Similarly, money is also a non-durable good. Thus, money is not procreative, it can not yield any income either. Money is used only through exchange and its ownership changes hands. As a matter of fact, many medieval European thinkers maintained that money was an 'unproductive/fruitless' means of exchange, and it could not yield any income without the efforts of its owner. For instance, to the thinkers in question, money is not a self-procreative being like cows and trees. Living beings like cows or trees can breed new beings without the efforts of their possessors. But this reality is not effectual for money. Its possessor has to make an effort so that money could produce something. Therefore, it is not moral to demand price in terms of interest or anything else in return for unproductive or fruitless money loaned to the other people. Additionally, to St.Thomas, lender's deprivation of his money, borrower's use of the borrowed money, value variance in the course of time are not the binding reasons to demand interest on loans. In other words, the matters in question are not convincing enough to prove the fairness of interest. Church, which had been effectual on European framework of thought once, lost its power following the Renaissance and the Reformation in Europe. The Renaissance is a period when ecclesiastical power started to disappear in European intellectual life. Economic, social and cultural developments effected the philosophical ones and new leaps emerged. In parallel, the approaches of European thinkers to the concept of interest also changed.

2.2.2. Interest in the Renaissance

Johann Eck was a 16th century and a defender of during the Protestant Reformation. ''According to his theory entitled ''Contractus trinus'', partnership agreements could be of three types.'' (Ergin 1983) The first one is the participation of the partners in profit or loss in proportion to their capitals. The second one is that the biggest portion of the loss or profit belongs to the partner managing the business. The third one is to give the predetermined dividend to the partner managing the business and the rest of the profit or the whole loss to the other partner(s). In addition to having accepted that any of the enumerated partnerships could be implemented in businesses, Eck did not oppose the interest.

Martin Luther was the father of Protestantism and a church reformer. He did not deem interest as a natural earning. Although he opposed the interest on principle, he considered that the application of interest on transactions at reasonable rate was fair.

Jean Calvin recommended people to provide investors with their savings. He considered that drawing interest on loans for investment or production purposes was fair contrary to drawing interest on loans for consumption purposes. ''Calvin broke with the Greek philosophers and with earlier church teachings by proclaiming that, in fact, money was not sterile and unable to yield its own fruits.'' (Homer, Sylla 1991) Calvin claimed that money would be a lucrative tool in case that it was used for profitable businesses. To state briefly, ''it was Calvin who enabled the modern attitude toward interest.'' (Lewison 1999) As a result of attaining the liberty of drawing interest by the Calvinists, the debates on the legitimacy of interest ended, and a new financing scheme through which capitalism was able to spread started to develop in Europe in the sixteenth century.

2.2.3. Interest in Medieval Islamic World

Islamic thinkers opposed the interest and displayed a common attitude towards it.

To *Gazali,* money is simply a means of exchange that eases the circulation of goods. But it is not a good itself. Regarding the function of gold and silver, an issue on which all Islamic thinkers have not been in agreement yet, he stated that both items were means of exchange, namely money. Consequently, he argued that both items had to be taken into consideration while figuring out whether a transaction bore interest. He claimed that it was cruelty and incompatible with justice to apply interest. Therefore, he believed that the trade of money would lead to injustice since he did not recognize money as a good. Additionally, he argued that it was possible to draw interest not only on money but also on goods. He put forward that it was cruelty to draw interest on food stuffes. In other words, to him, ''it is a kind of cruelty of those who sell food stuffes in return for interest earn income by taking advantage of the financial embarrassment of the needies.'' (Orman 1984) He also claimed that the impose of interest on food stuffes would increase their prices, impoverish the poors more and lead to the amassment of wealth in the hands of a few people.

2.3. Interest in New Age and Modern Times

In this part, some human reflections on interest that emerged in New Age and Modern Times are explained. The common features of most of the approaches to interest in these periods are as follows: Interest was not rejected. On the contrary, it was approved. Secondly, its fairness was tried to be proved; its positive or negative social or moral effects were not dealt with. Thirdly, economists mostly focused on the determinants of interest. The interest-related thought voiced in modern times, different from those in the middle age, emerged in the form of economic theories.

2.3.1. Interest in Mercantilistic Economic Thought

The approaches to interest changed during the mercantilistic transformation through when the volume of commercial activities increased rapidly and the market expanded substantially. Mercantilists equated money with capital and considered the interest drawn on capital as a payment for the renting of money. ''They supported low rates of interest to stimulate trade but failed to regulate the rate of interest.'' (Afzal 2007) That is to say, as a matter of fact, they argued that there was an inverse relationship between interest rate and trade volume. They took interest as a pure economic matter. Interest-related thoughts of some mercantilists are as follows:

Ferdinando Galiani is an Italian mercantilist. He was not concerned with the morality of interest but explored the reasons of why it was paid. He described it as a payment for the lender's risk in parting with his money. To him, currently available money is more valuable than the prospective money and interest is the price that equates the prospective value of money to its current value. (Ersoy 1980) Galiani's approach was similar to that of Neo-Classical economics.

Sir William Petty is a British economist and philosopher, who had such economic thoughts that would make him both a Mercantilist and a Classical thinker. To him, the lender gets in trouble since he foregos spending for his needs. Interest is the price of this trouble. To put it differently, he elucidated the fairness of interest with the excuse that the suffered trouble had to be compensated. Petty, who believed that interest was an essential tool, opposed the intervention in and the limitation of interest rates. As to his views over the economic effects of interest, he implied that interest had a negative effect on economic growth and it could hinder the output increase.

Dudley North, like Sir William Petty, is a British intellectual known for his thoughts that could be accepted within the scope of both Classical and Mercantilistic thought. He established a similarity between the interest drawn on loans and the rent earned on leased land. ''To North, just as rent is the return of leasing the land so is interest the return of renting the money.'' (Selik 1973) He viewed interest as a price of money stock that would be loaned. Regarding the economic effects of interest, he stated that there was an inverse relationship between interest rates and trade volume. That is to say, he illuminated that trade volume would decrease as interest rate increased and it would increase as interest rate decreased. He evidenced that ''commerce was alive in the Netherlands as interest rates were low then.'' (Letwin 1963)

John Locke believed that a country's gold and silver reserves had to increase so that its wealth could increase. He opposed foreign indebtment since he reckoned that increasing the gold and silver reserves through foreign indebtment would rise the interest rates. That is, he formulated that there was an inverse relationship between foreign indebtment and interest rates. The thinker argued that keeping the interest rate at high level would have negative effect on commercial activities. (Ersoy 1980) He also stated that money demand, investment and output level would increase in case that the interest rates declined. Moreover, he put forward that high interest rates would rise the cost of borrowing and thus profit margin would decrease and distribution of income would deteriorate. As to his views concerning the economic effects of lowering the interest rates, ''he saw that lowering of interest by legal means might very well lead to a collapse in trade because it would not reflect the ''natural scarcity'' of money. If money collapsed, then there would be, alternatively, a collapse in output or prices. The collapse in prices would lead to relatively cheap English goods and relatively expensive foreign ones.'' (Locke 1692) ''He points out the obstacles to trade that are caused when the rate of interest is fixed by law, and he argues in favor of freedom for what he calls, in words which suggest Adam Smith, the natural interest of money.'' (IEP 2010) In other words, he believed that interest rates should be determined between the lender and the borrower freely, not by law. The thinker, who claimed that interest rates effected the whole economy negatively, argued that there was an inverse relationship between interest rates and the value of land. To him, the value of land is determined by the prevailing interest rates. He exemplified that the value of land would decrease as interest rates increased, and it would increase as interest rates declined. Because people would not wish to buy the land that would record gains less than the amount of interest income they could earn on their money.

Richard Cantillon influenced both the Classical and Neoclassical economic thought with his theories. (Ersoy 1980) ''Cantillon rejected the Lockean-mercantilist view that the rate of interest was a purely monetary phenomenon. Like Mises, he found that the interest rate was based on the forces of supply and demand in the market for loanable funds.'' (Thornton 2010) To explicate, he stated that the savings amount and the efficiency of transactions for which the borrowed money was used would determine the interest rates. To him, savings do not increase due to the increase in money supply. If the level of income does not increase in the fields wherein money is invested, then the interest rate does not change despite the increase in money supply. To formulate the interest function, he stated that an increase in the number of borrowers, a decline in the number of lenders, and a decline in the amount of money to be loaned would increase the interest rate. Cantillon, being opposed to the determination of interest rate by law, made the following remarks to elucidate the origin of interest. As is seen from his statement, to Cantillon, the lender faces some risks. Therefore, the borrower should stimulate the lender by paying him some amount of profit. This amount of profit should be proportionate to the needs of the borrower and the fear and greediness of the lender. In short, the risks of loaning constitute the reasons of interest.

> *The needs of man seem to have introduced the usage of Interest. A man who lends his money on good security or on mortgage runs at least the risk of the ill will of the Borrower, or of expenses, lawsuits and losses. But when he lends without security he runs the risk of losing everything. For this reason needy men must in the beginning have tempted Lenders by the bait of a profit. And this profit must have been proportionate to the needs of the Borrowers and the fear and avarice of the Lenders. This seems to me the origin of Interest.* (Cantillon 1755)[3]

*To David Hume,*who finds the government intervention in interest rates incorrect, interest rates must be formed by money supply, money demand and the intensity of money demand. Accordingly, he opposed the view that an increase in money supply would absolutely decrease the interest rate. ''He noted that increased money would only result in higher labour and commodity prices.'' (IEP 2010) ''While arguing that an increase in the money supply is neutral regarding the rate of interest, he also concluded that, in the long run, such a continuing increase might actually lower the interest rate.'' (Formaini 2009) To him, the matters that are influential on interest rates are as follows:

> *High interest arises from three circumstances: A great demand for borrowing; little riches to supply that demand; and great profits arising from commerce: And these circumstances are a clear proof of the small advance of commerce and industry, not of the scarcity of gold and silver. Low interest, on the other hand, proceeds from the three opposite circumstances: A small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: And these circumstances are all connected together, and proceed from the encrease of industry and commerce, not of gold and silver.* (Hume 1742)

Hume viewed that trade and industrial production were the two crucial tools for the enrichment of a country. He argued that high interest rates retarded the economic growth and the enrichment of a country, claiming that there was an inverse relationship between high interest rate and the commercial and industrial growth. To him, ''low interest rates are thus the symptoms of a booming, commercial economy, where thrift and the desire for gain and accumulation take hold.'' (HET 2009) To put it differently, he put forward that there was a positive relationship between low interest rates and commercial and industrial growth.

3 Cantillon's remarkable treatise, Essay on the Nature of Interest in General, was written around 1730s and published anonymously in 1755.

Mercantilism is a milestone in the history of economic thought, which led to the development of industry in Europe, to colonialism and to the transport of world resources to Europe. It contributed to the institutionalization of capitalism significantly. Economic and social structure of Europe started to change since the middle of the 18. century. In the following subchapter, the interest approaches of the pioneers of physiocratic economic thought, the basis of liberal capitalism, are analyzed.

2.3.2. Interest in Physiocratic Economic Thought

Physiocracy lexically means ''natural order'' or ''nature's dominance''. Physiocrats advocated the minimization of the interventions to regulate the economic life. Because Physiocrats argued that the economic process was subject to some certain objective laws which operated independent of human free will. ''They called such forces 'Natural Law,' which had two components, physical and moral laws. Quesnay defined the physical law as ''the regular course of all physical events in the natural order which is self-evidently the most advantageous to the human race.'' and the Moral law as ''the rule of human action in the moral order conforming to the physical law which is self-evidently the most advantageous to the human race.'' (Cleveland 1999) To physiocrats, the violation of these laws disorders the economic and social life. Therefore, the government must protect the natural order or the natural law, consisting of the physical and moral laws, and not intervene in them. In contrast to mercantilists, as a consequence of their belief in natural law, they are known as the proponents of the ''laissez-faire and laissez passer'' liberalism. F.Quesnay, V.R. Mirabeau, M.De la Rivere, D. Nemours and A.R.J Turgot contributed to physiocratic economic thought.

A.R.J.Turgot is a French economist and statesman. ''Turgot highlighted the importance of capital in production and considered the capital as a fundamental factor of production like a simple or qualified labor.'' (Brewer 1987) That is to say, to the thinker, the capital also has a share in the product. What falls to capital's share from the total product is the interest. It must be given to the capital holder. Though he did not approve the receipt of interest on money loaned for consumption purposes, he found the receipt of interest on money loaned for commercial and investment purposes fair. He elucidated why he found the latter type of interest fair with the following remarks:

> *A man then may lend his money as lawfully as he may sell it; and the possessor of money may either do one or the other, not only because money is equivalent to a revenue, and a means to procure a revenue: not only because the lender loses, during the continuance of the loan, the revenue he might have procured by it; not only because he risks his capital; not only because the borrower can employ it in advantageous acquisitions, or in undertakings from whence he will draw a large profit; the proprietor of money may lawfully receive the interest of it, by a more general and decisive principle. Even if none of these circumstances should take place,*

> *he will not have the less right to require an interest for his loan, for this reason only, that his money is his own. Since it is his own, he has a right to keep it, nothing can imply a duty in him to lend it; if then he does lend, he may annex such a condition to the loan as he chuses, in this he does no injury to the borrower, since the latter agrees to the conditions, and has no sort of right over the sum lent. (*Turgot 1774)

As is seen, Turgot did not see the reasons adduced by the other thinkers as the main causes of interest. In addition to accepting these reasons, to him, the main cause is that the loaned money belongs to the lender and the lender is entitled to use his money as he wishes. Consequently, the lender has the right of earning income on the lent money. Turgot likened the money to a good, and accordingly the loaning and borrowing of money to trade of goods. Therefore, interest stands for the price of the loaned money. Turgot preferably focused on the issues of why interest was drawn, how its rate would be determined, and how interest rates would react to various conditions rather than the issues of the benefits and damages of interest.

2.3.3. Interest in Classical Economic Thought

The economic thought developed between the years of 1776, when Adam Smith's ''The Wealth of Nations'' was published, and 1843, when John Stuart Mill's ''Principles of Political Economy'' was published, is called Classical Economic Thought. Adam Smith, David Ricardo, Jeremy Bentham, Thomas Robert Malthus, Nassau W.Senior, Claude Frederic Bastiat, John Stuart Mill, James Mill, J.E. Cairnes are some of the pioneering classical economists. In this part, the interest-related thought of some classical economists are summarized. Subsequently, an overview of the interest approach of the classical economics is explained.

Adam Smith was the pioneer of political economy and one of the key figures of the Scottish Enlightenment. To Smith, interest is the income of the lender, who is devoid of using his own savings, and also the price that the borrower pays to the lender in return for the profit opportunity. Though he found drawing of interest on loans for invesment purposes fair, he found interest drawing on loans for consumption purposes unfair. Because he claimed that the debtor would not be able to pay his debt that consisted of the summation of the principal and interest in case of the inadequacy of income resources of the debtor in the latter case, and this situation would damage both the debtor and the creditor. ''Adam Smith, despite his image as the ''Father of the Free-market Capitalism'' and his general advocacy of laissez-fair economics, came out strongly in support of controlling usury.'' (Jadlow 1977) ''While he opposed a complete prohibition of interest, he was in favour of the imposition of an interest rate ceiling.'' (Visser 1998) He argued that pawnbroking could become widespread in case of the control of interest rates intensely. To the thinker, the legal interest rate should not be more or less than the interest rate prevailing in the market. As for the determination of interest rate, he formulated that whereas high capital demand would increase the interest rate, and the adequacy of capital accumulation and the decline of profit margin would decrease the interest rate.

William Nassau Senior is an English economist. He developed an ''abstinence'' theory of capital and interest. Senior explained the legitimacy and the reasons of drawing interest. The rationale behind his theory is as follows: In addition to the factors of production such as labour and natural resources, which are required for production, one more factor is needed. This factor is called capital. The accumulation of capital is the result of the postponement of a certain part of consumption, that is, ''the abstinance''. (Barda 1968) In other words, the savers provide producers with capital by abstaining from the satisfaction of their own needs. It is natural that those who suffer from the postponement of the current consumption expect a payoff. Interest is the reward of such an abstinance. Consequently, interest is a fair application. To put it differently, the only phenomenon that makes the prospective consumption more desirable than current consumption is interest. He claimed that interest rate was determined as per the mutual interaction of the real supply of savings and the real demand of capital, similar to the determination of the price of a good as per the mutual interaction of its demand and supply. In his opinion, if the balance between the investment and savings level is disrupted due to any of the variables, the balance can be restored thanks to the changes in interest rates without any other change. The prominent thinkers of Classical School of Economics, *Jean Baptiste Say, Thomas Robert Malthus, John Ramsay McCulloch, Johann Heinrich von Thünen, Henry Charles Carey, James Maitland and the 8th Earl of Lauderdale* contributed to the concept of interest with the theory of productivity. To this theory, capital goods are productive. Consequently, capital goods must be awarded with some amount of income, which is interest.

To summarize the classical interest theories; interest rates play a major role in the determination of consumption and savings amount of households at a certain income level. Whereas a rise in real interest rates increase the savings and decrease the consumption, a decline in real interest rates reduce the savings and increase the consumption. That is to say, there is an inverse relationship between real interest rate and savings amount. To the classical thinkers, the real savings amount is equal to some portion of the real income in a certain period of time and it generates the amount of loanable funds or the supply of funds. As to the real interest rate, it is the price of the loanable funds. (Orhan, Erdoğan 2006) In classical theory, the real interest rate also determines the amount of investment expenditures besides the savings amount. There is an inverse relationship between interest rates and investment expenditures, similar to the law of demand. The private economic units demand funds at a certain interest rate to finance their investments. The rise of interest rates reduces the demand of loanable funds as it increases the cost of capital investment, and vice versa. The equilibrium interest rate occurs at the point where the quantity of demand of loanable fund is equal to the quantity of supply of loanable funds. The savings-investment equality is met when the market of loanable funds is at equilibrium. In case the market equilibrium is disrupted, it is reset by virtue of the rational preferences of the suppliers of savings and the demanders of capital spontaneously.

Classical economics not only contributed to the development of western economic thought but also led to the emergence of the opposing views. Socialist economic thought is one of the streams, which reacted against the classical economic thought. In the ensuing chapter, interest in socialist economic thought is explained briefly.

2.3.4. Interest in Socialist Economic Thought

Compared to capitalism, wherein saving is a voluntary act, saving loses its characteristic in socialism and becomes compulsory. Because the central planning organization decides on what and how much to produce, what portion of the output will be consumed or saved, and what portion of, for what purpose and where the capital composed of savings will be used in advance. Contrary to capitalism, wherein interest and capital permeated deeply, the structure of socialism is incompatible with the concepts in question to the utmost. (Mevdudi 2004) Socialists elucidated their views on interest with the theory of exploitation. To socialism, interest is the consequence of the exploitation of labourers by capitalists. Capitalists disseize labour's product under the name of interest. The revenue derived from the labour of other people is simply an exploitation. In brief, the revenue of interest derived from the output belongs to the labourer and the drawing of interest means to derive an improper personal benefit. In socialism, not only the capital but also other factors of production are not allowed to receive a share from the income. Neither landowner nor entrepreneur and capital holder take share from the income. It is the exploitation of labour that these people in question get a share from the income. It is an unfair earning.

2.3.5. Interest in Neoclassical Economic Thought

The critics to the Neoclassical economic thought made the rehash of the foibles and the criticized sides of classical thought necessary. Neoclassical thought is a stream to achieve this goal. In this part, interest-related views of some neoclassical economists are analyzed.

Carl Menger was the founder of Austrian School of economics, famous for contributing to the development of the theory of marginal utility that refuted the cost-of-production theories of value developed by the classical economists such as Adam Smith and David Ricardo. Menger argued for the use theory to explain interest. To this theory, the capital borrower must pay for both the being and the use of capital since its use other than its being is also valuable. What is paid in return for its use is interest. In use theory, the rent paid in return for the use of real estates and interest paid in return for the capital loaned for production or consumption purposes for a certain period of time are accepted similar. The fact that money does not lose its value as a consequence of its use, but real estates somewhat wear out due to their use and that the rent is the price of the wearing out were not taken into account in this theory.

Eugen von Böhm-Bawerk was one of the leading members of the Austrian school of economics. Besides his other books, he has a book devoted only to the issue of interest, ''Interest and Capital''. In this book, he strove to find answers to the questions of ''Why interest is drawn on capital and Whether interest should be banned or its rate should be reduced.'' To Bawerk, the matter of interest could be clarified by taking into consideration the time factor while satisfying human needs. That is to say, there is a connection between interest and time factor. In this regard, Bawerk displayed a dynamic approach to the issue of interest. ''Böhm-Bawerk took up a central question that was much discussed by his contemporaries and predecessors. ''Is there any justification for the payment of interest to the owners of capital?'' (LMI 2010) ''The justification, in his view, rests on a simple fact of reality: People value present goods more highly than future goods of the same quantity and quality. This proposition is the kernel and center of his interest theory, called time preference or agio theory. He offered three proofs for this fundamental proposition.'' (Ekelund, Hebert 2004)

The first proof of the preference of current goods to the future goods is that the desire of satisfying the current needs is more dominant than the desire of satisfying the future needs. People do not undervalue their future needs. Nonetheless, they attach more importance to their current needs. Because the satisfaction of the current needs is usually well to the fore. The inducement behind their preferences is that they are optimistic about future. To put it differently, the main cause lying at the root of such a preference is that they believe that the quantity of goods and services they will gain in the future will be more than the quantity of the goods they are gaining currently. The second cause is that they think that the quantity of their needs will decline in the future. As is seen, Bawerk made a psychological analysis to evidence his first proof. *The second proof* that makes the current goods more precious than the future goods is that people undervalue their future needs compared to the current ones. The thinker attributed his claim to such a psychological factor that people find future ambiguous and life short. As a matter of fact, that Bawerk views the use value as a value changing from person to person, namely as a subjective value, constitutes the basis of the two proofs he put forward. *The third proof* is that the current goods, tools to satisfy needs, are technically more superior than the future goods. ''This corollary rests on the principle of round-aboutness established by Böhm-Bawerk. Production, he noted, is ''round-about,'' meaning that it takes time.'' (CEE 2010) ''This method of production requires great arrays of tools and machines, which in turn create a demand for capital.'' (Bell 1953) The capital owner has the right to demand and get an agio to compensate for the postponement of the present consumption of those goods.

To Bawerk's analysis, the three reasons enumerated heretofore make the current goods and available money more preferable than the future goods and money. The value differentiation between the current goods/money and the future goods/money has to be eliminated with a premium, *agio.* The concept of interest arises as a result of this elimination. To put it another way, ''the difference between the two must be equalized through interest for present goods- namely ready money- to be lent for a certain period.'' (Özsoy 2007) ''The rate of interest is essentially the price of time.'' (Backhouse 2002) Interest performs such a function in the elimination of the value differentiation: The preference and consumption of the current goods instead of the future goods result in the decline of the current savings. The increasing of current savings is possible with the application of interest only. Likewise, since the future money is accepted less valuable than the available money, interest has to be applied at such a rate that could equate the value of the future money to the value of the available money of the same amount. To summarize, Bawerk argued that interest was an indespensable instrument for the capital accumulation. He adduced three evidences to support the justness of interest. He claimed that interest rooted in the subjective evaluation of people and almost all people virtually made the same evaluation anywhere and anytime.

Irving Fisher was an American economist, and one of the earliest American neoclassical economists. ''The theoretical contribution of Fisher to monetary issues keeps on existing thanks to the present-day monetarists pioneered by Milton Friedman and Chicago School.'' (Skousen 2007) The thinker developed the ''impatience and opportunity theory'', another interest theory that could be classified under time preference theory. Fisher described interest as ''an index of a community's preference for a dollar of present (income) over a dollar of future income.'' (CEE 2010) He used the concepts of time preference, productivity of capital and risk to explain the issue of interest. ''Fisher saw that subjective economic value is not only a function of the amount of goods and services owned or exchanged but also of the moment in time when they are purchased. A good available now has a different value than the same good available at a later date; value has a time as well as a quantity dimension. The relative price of goods available at a future date, in terms of goods sacrificed now, is measured by the interest rate.'' (Wikipedia 2010) To Fisher, impatience induces people to choose the present income. Therefore, time preference or impatience for the current income impels the borrowers to pay interest in return for the borrowed money and encourages the lenders to draw interest on loans.

Alfred Marshall was an English economist. Marshall did not agree with N.Senior's abstinence theory. To Marshall, what postpones the consumption expenditures is not the abstinence, but waiting. Because the saver postpones its consumption but does not waive from it permanently. A stimulus is needed for this postponement, which is interest. To the thinker, whereas an increase in interest rate reduces the total supply, its decline rises the total supply.

Knut Wicksell is a Swedish economist. ''He built his interest theory on a solid foundation by adding monetary components to the real interest theory of classical economics and suggested two types of interest rate: Market (monetary) and Natural interest rate.'' (Keyder 1996) Monetary interest rate is the one that financial institutions demand in return for the loans granted. It is determined by monetary factors. Natural interest rate is the interest rate that equalizes investment demand to fund supply. It is determined by the real factors such as efficiency and savings. It reaches the equilibrium point where the supply and demand of fund are equalized. While the supply of fund is composed of savings and monetary expansion, the demand of fund consists of the demand of investment and idle money. Natural interest rate is the rate of profit earned on the borrowed real capital. In other words, it is the marginal productivity of the real capital, which entrepreneurs obtain by using the borrowed funds.

Wicksell explained the business cycles by using the concepts of natural interest rate and monetary interest rate. It is possible to illustrate the interrelation of interest rate and business cycles put forth by Wicksell with such an example: Let's assume that monetary interest rate is prevailing at 20 % and natural interest rate is prevailing at 30 %. An entrepreneur who borrows 50 YTL makes a profit of 5 YTL in such a case.[4] This situation brings about an increase in credit demand, investments and profit amount. Accordingly, a drop in market interest rate leads to revival, and its hike leads to contraction. However, because of either the fall of the fund supply in time or the increasing credit demand, market interest rate increases. When the rising market interest rate is equal to the natural interest rate, recession breaks out. Prices also increase in the revival period when credit demand increases. Wicksell argued that the interest rates imposed by banks on loans had different effects on balance between savings, investment, and consumption and the difference between monetary and natural interest rates would pave the way for the change in prices. (Öcal, Çolak 1999) To sum up, credit demand, investment amount, and the levels of employment, output and price do increase in the revival period, which arises since market interest rate is less than the natural interest rate. As the price level rises, the demand for loans declines and the compulsory savings increase. The decline in demand on one side and the rise of market interest rate on the other give rise to a decline in output level and to economic crisis. As a consequence of the cessation of price increases, economic activities restart to revive as the market interest rate falls under the natural interest rate. The process operates in the same way.

Another interest theory that could be considered within the scope of the Neoclassical economic theory is the *Mc Kinnon-Shaw hypothesis*. In this theory, the question of why interest is drawn is not investigated. To this theory, the greatest obstacle to the development of countries is the inadequacy of savings that are indispensable to finance the investments. In these countries, investments and growth are achieved thanks to the policy of high interest, a policy of promoting savings. (Büyükdeniz 1991) On the contrary, low interest rates lead to insufficient capital accumulation and to reduction in savings. To the theory, the entrepreneurs in developing countries use their own capital stocks to finance investments since the capital markets in these countries are not sufficiently developed. Furthermore, the being limited of the borrowing opportunity hinders the big scale investments. Therefore, it is a must to increase the capital accumulation in these countries. This aim could be achieved only through the policy of high interest rate to promote saving. To

4 50 YTL* (30 %) – 50 YTL* (20 %) = 5 YTL

summarize, Mc Kinnon-Shaw hypothesis sees high interest rates as mandatory for the growth of developing countries.

2.3.6. Interest in Keynesian Economic Thought

Keynesian economics has developed from the work of John Maynard Keynes, ''General Theory'', and focused on macroeconomics. This part discusses the approach of Keynesian economic thought to ''interest'' within the scope of the thoughts of Keynes and James Tobin.

John Maynard Keynes explained his thought about the nature of interest in his work titled ''The General Theory of Employment, Interest and Money''. Interest theory of Keynes is called Liquidity Preference Theory. Keynes opposed the classical economists who suggested that interest rates balanced investments and savings. He argued that savings and investment were independently determined. To him, the amount saved has little to do with variations in interest rates. Saving is a function of income not of interest. People can make saving in proportion to their incomes. Therefore, there is no need to introduce any savings incentive. In other words, it is not an appropriate method to use interest as an incentive tool to promote savings. In Keynes' opinion, interest rate is set at the point where a balance is established between money supply and money demand (in other words liquidity preference). Due to this thought, Keynes differs from both Classical and Neo-Classical theoreticians. To him, ''the rate of interest is the reward for parting with liquidity for a specified period.'' (Keynes 1936) Lending means that the lender waives of the advantages of holding liquidity. Therefore, interest turns out to be the cost of this waiver. On the other hand, interest can be regarded as a measure against the money demand (in other words liquidity preference) of people. Keynes also made some suggestions about the economic impacts of interest as well.

> *''... whilst a decline in the rate of interest may be expected, cet. par., to increase the volume of investment, this will not happen if the schedule of the marginal efficiency of capital is falling more rapidly than the rate of interest; and whilst an increase in the volume of investment may be expected, cet. par., to increase employment, this may not happen if the propensity to consume is falling off.....''* (Keynes 1936)

As can be inferred from the statement above, Keynes suggested that, under specific conditions, a decline in the interest rates could increase investment and an increase in the investment could increase employment and vice versa. To him, reduction in investment and employment will bring about an increase in the unemployment and thus a decrease in the income level. Therefore, a decline will also be recorded in the savings that are positively related to income. To explain briefly, according to Keynes, interest rate has an economic impact that can slow down economic growth. On the other hand, to Keynes, ''reduction of interest rates decrease renters' income and the unfairness in distribution of income and alleviate the underemployment problem by increasing investments.'' (Ersoy 1980) To summarize the thoughts of Keynes about the economic impacts of interest, he stated that high interest rates could increase the savings amount provided that income level does not decline. To him, high interest rates would cause the contraction of investments and employment, and hence the decline of income level of people. A decline in income level would lead to decrease in savings. That is to say, to him, savings depend on income and employment level. It does not depend on interest rates. Therefore, he opposes the views contending that interest rates should be raised to increase the savings. The primary duty is to reduce the interest rates as much as possible so that investments, which enable the savings to increase, could increase. Because, low interest rates would raise the investments and thus income level.

2.3.7. Interest in Monetarist Economic Thought

Economic thought that proposes monetary phenomena as the main reason of economic problems is called ''monetarism''. Since this thought supports the idea that most of the economic instabilities have monetary grounds, it suggests that monetary policy is relatively more effective when compared to other economic policy tools. Monetary thought is also named ''Chicago School''. Interest approach of this school can be outlined as follows: As in many other modern interest theories, Monetarist theory does not discuss non-economic impacts of interest and whether interest is a legitimate practice or not. Monetarism opposes the Keynesian economic thought which suggests that interest rates are effectual on investment, income, saving and consumption. Because, according to monetarism, increase in the money supply results in a *temporary* decrease in the interest rates which increase again after some time.

2.3.8. Interest in Neo-Keynesian Economic Thought

Neo-Keynesian macroeconomics is a semiformal representation of Keynesian ideas centered around Hicks' IS/LM model.

Hick-Hansen's interest theory is a synthesis of the Liquidity Preference Theory of Keynesian economic thought and Loanable Funds Theory of Classical economic thought. According to Hansen, an appropriate interest theory can be developed only on the basis of these two theories. This new interest theory is based on four variables. (Hansen 1961) These variables are composed of ''investment demand'' and ''saving supply'' variables of goods and services market and ''liquidity preference'' and ''money supply'' variables of money market. Hick-Hansen's interest theory is also named ''IS-LM analysis''. Whereas the LM curve expresses a positive relationship between interest rates and national income, the IS curve expresses an inverse relationship between interest rates and income. As a natural result of being a synthesis of Keynesian and Classical interest theories, Hick-Hansen's interest theory suggests that interest rate increase has both negative effects (as a result of its effects on goods market) and positive effects (as a result of its effects on money market) on income level. Briefly, this theory underlines how effective interest can be on economic growth. Let's illustrate the economic impacts of interest rate changes within the framework of IS-LM analysis. Let's assume that a country pursues an expansionary fiscal policy, and increases public expenditures to achieve this goal. In this case, national income level will increase, which will result in an increase in money demand. Increase in money demand will raise interest rate. By reducing the investments, the raise of interest rates will reduce the positive impacts of public expenditures increase on national income. Interest rate increase will prevent, to some extent, the realization of income level increase that is expected to be created thanks to the expansionary fiscal policy. Similarly, the results expected to be created by a contractionary fiscal policy will not be realized completely due to the decrease in the interest rate.

3. Approaches of Divine Religions to Interest

3.1. Interest in Judaism

In Judaism, the issue of interest is complicated and detailed like in other religions. The biblical terms used to refer to interest are neshekh and marbit/tarbit. ''Neshekh, literally meaning a ''bite'', refers to any gain, whether from the loan of money or goods or property of any kind.'' (Iqbal, Mirakhor 2007) The latter means the gain by the creditor. The impose methods of both interest types are different. Whereas interest is charged by deducting it from the money itself in neshekh, it is charged by adding it to the amount to be repaid in marbit/tarbit. Marbit/tarbit in Judaism and interest concept in modern times seem alike. In modern Hebrew, the term marbit/tarbit is replaced with the term ribbit, equivalent of which in Islam is riba. Regardless of the name attributed to it, interest is forbidden by both Moses and Old Testament (Hebrew Bible) in Judaism. The *Torah* and *Talmud* encourage the granting of loans provided that it doesn't involve interest, with certain exceptions. Charging interest is among the worst sins in Judaism. The book of *Ezekiel*, a book of the Hebrew Bible, named after the prophet *Ezekiel*, condemns interest and denounces it as an abomination.

3.2. Interest in Christianity

''Every time lending on interest is mentioned in the Bible, it is spoken of with disapproval.'' (Gamoran 1971) But, this disapproval is not for the interest charged to the believers in other religions. It is for the interest charged to Christians. Not only lending on interest but also giving food or any other goods on interest is forbidden by Christianity. The money made via interest or exaction is stated to be harmful for the poor. Cooperation and solidarity are ordered rather than loan on interest. In addition, some Christian reverends arrived at a consensus against interest in Medieval Age. For instance, Saint Gregoire de

Nazianze (329-389) accused those who generated income via interest for polluting the earth and associated them with the farmers who harvested without cultivating the land. According to Saint Gregoire de Nysse (331-400), since interest is one of those beings not suitable for reproduction, it is against human nature. According to Saint Jean Chrysostome (344-407), interest harms both parties, increases richness of one party and poorness of the other. Thus, it is forbidden by God.

''The ban of interest in the Bible was in force among Christians until the fifteenth century. But the ban has since dissipated in Christianity while persisting to the present in Islam.'' (Rubin 2007) Christians become more flexible towards interest in the course of time. Funding need that could not be met via the alternatives other than funding on interest resulted in the relaxation of interest ban and turning of interest into an indispensable part of economic life upon its religious legitimization.

3.3. Interest in Islam

In pre-Islamic period, many types of interest were being used by Meccan society. Most widely applied interest type was debit interest. In this type of interest, debt term would be extended when the borrower failed to pay his debt in due term and the debt amount would be increased in proportion with the term extension. There was also another interest practice: A fixed amount of goods would be given (as interest) to the lender in return for the loaned goods each month and, at the end of the term the capital goods would be turned back to its owner. No limitation would be imposed on the interest rates applied in the market. There were also some other interest types used in Arabian society. Moreover, people borrowed loans for not only consumption but also production purposes in pre-Islamic period. ''There are official records showing that Jews in Medina granted loans on interest for not only consumption but also commercial purposes.'' (Qureshi 1972) As in today's world, interest was regarded an inseparable part of commercial life.

In post-Islamic period, on the other hand, interest was gradually and completely banned. *Riba*[5], an Arabic word which literally means ''increase'', was banned by Quranic verses and hadiths. Whether the rate of interest is low or high, it is simple or compound, it is for the purpose of consumption or production, it does not make any difference about the fact that interest is forbidden. ''All of the Islamic schools of jurisprudence/law, Sunnis or Shias, unanimously on about it.'' (Khan 1984) However, some Islamic theoreticians suggest that there is a distinction between interest and *Riba* and that Islam bans interest but not *Riba*. In addition, there is some dissensus on the types of transactions which can be classified as interest. Various ideas have been proposed to explain the reasons why interest is banned by Islam. For instance, İsmail Özsoy makes the following explanation to explain why interest is banned by Islam:

5 The word ''*Riba*'' is used instead of the word ''interest'' in Islamic Law. There is no difference between Riba and interest in Islamic Law.

> "*Because of the fact that either the debtor or the creditor would absolutely and inevitably be subjected to injustice in any case, for its rate is fixed at the very beginning, even though it is impossible to predict the outcome (profit or loss or how much either it would be), interest is prohibited.*" (Özsoy 1994)

This statement also puts forward the Islamic thought about the nature of interest. From the Islamic perspective, interest is an actual or potential surplus in one of the two items without any comparable and corresponding equivalent, which appears both in loans or exchanges of goods or currencies, and which causes harm to either of two parties. In Islamic approach to interest, there are two kinds of interest; interest of debt/loan (*Riba al-dain*) and interest of exchange (*Riba al-bai*). The latter is also divided into two types: Interest of surplus (*Riba al-fadl*) and interest of delay or deferral (*Riba al-nasia*). Interest of debt/loan is the type of interest that is applied to debts. It is added to the principle either as a percentage or as any fixed amount, both of which are determined at the beginning of the transaction. The payment is made in return for a certain term or for the extension of the term. The origin of this debt could be a loan, the price of a purchased goods or service or any other reasons. The failure or low-amounted outcome of the business at which the borrowed capital, money or physical capital was used does not abolish the liability of the debtor to the creditor. The debtor has to pay his debt even though he goes bankrupt. "Since the outcome of the business at which the loan/debt is used might be very high, very low, zero, or even minus in contrast to the expectations, either the person who pays the interest or the one who receives it will be definitely and unavoidably wronged at the end of any interest-based transaction." (Özsoy 2008) Interest of exchange is the kind of interest that occurs when goods and currencies are exchanged on the spot or on forward basis. It has two types: Interest of surplus is a kind of interest that arises as a quantitative surplus in one of the exchanged items of the same kind. In this type of interest, the exchange of goods[6] or currencies is carried out on the spot. Interest of delay or deferral is the one that arises in exchanges as a quantitative or potential surplus wherein one of the items exchanged is delayed. That is to say, the exchange of goods is carried out on forward basis. Exceptionally, if one of the items exchanged is money, then this kind of interest does not occur. In this type of interest, the sameness and quantitative equality of the goods do not matter.

To summarize, Islam added the concept of interest of exchange to the concept of interest of debt, the interest type of modern times. In other words, Islam introduced some new principles about the definition of interest. Islam regards interest as an unfair and unjust transaction and suggests that interest persecutes either the borrower or the lender. The word "persecution" is interpreted as "doing harm". By taking as basis the verses on interest and other principles of Islamic economics, many interpretations have been made on the concerned persecutions. Concerned interpretations suggest that interest do some

6 All of the goods are not subject to interest in Islam. For detailed information on this issue: Please refer to: Özsoy, İ. (2008). "Islamic Approach to Interest", 12th World Accountancy Historians Congress, Istanbul, Turkey.

social, moral and spiritual[7] harm as well as the economic ones. Some of the suggested economic harms are as follows: interest prevents the fair distribution of national income, prevents people from making labor supply, limits the efficiency of the capital, hinders development and increases luxury consumption, investment costs and risks.[8]

4. Evaluation and Conclusion

Interest is accepted as a tool to convince or encourage people or institutions to lend. Generally, people expect to attain material or spiritual gain in return for their material or spiritual favors to the other people, which is a course of action that suits human nature. Rewarding lenders with a certain amount of income is one of the precautions in capitalistic economic order to build the financing scheme on firm grounds.

Interest-based financing scheme is considered as a well-designed and economically beneficial system by some economists. Because, to the scientists in question, while interest stimulates people and institutions to save on one hand, on the other hand, it contributes to the achievement of economic growth and the increase of total welfare, enabling the transfer of capital to producers and consumers in need. However, besides the scientists supporting that drawing interest on loans is a just practice, there are some others claiming that it is unjust and of great cost. To the opponents of an interest-based financing scheme, some costs and drawbacks of such a scheme are as follows: Firstly, interest debt is calculated prior to lending process as a fixed rate or amount, irrespective of the change in economic variables in favour of or against the debtor or creditor. The unintentional ability loss of the debtor to refund is not a reason for the removal of its debt. The mentioned features of interest indicate some income derived from lent money without running a risk and laboring. Secondly, interest does some economic harm. For instance, interest prevents the fair distribution of national income, hinders labor supply, limits the efficiency of the capital, increases luxury consumption, investment costs and risks. Thirdly, Mevdudi, a contemporary writer, claims that interest causes moral and spiritual problems and conflicts with human nature. To him, there are some features in human nature such as benevolence, generosity, altruism and philanthropy. But, along with some other factors, interest affects the human nature negatively. To him, at every stage of interest-bearing transactions, human is under the effect of ill emotions such as selfishness and stingeness and these emotions become a part of its character inevitably. This situation damages human both morally and spiritually and conflicts with human nature.

7 For the suggestions on social, moral and spiritual harms of interest: Please see: Mevdudi (2004), Faiz, Translated By: Dr. N.Ahmet Asrar, İstanbul: Hilal Publications and Seyyid Kutub (1998), Faiz, Translated By: Cafer Tayyar, İstanbul: Ravza Publications.

8 For the suggestions on economic harms of interest: Please see: Özsoy, İsmail (1994), Faiz ve Problemleri, İzmir: Nil Publications, p.4.

Many reflections have been put into words to clarify the nature of interest so far. Despite the failure in developing a common thought to be accepted by all economists and philosophers, it is observed that there has been a convergence between some thoughts. This situation mainly results from the fact that concerned thoughts feed from the common source. For instance, Socrates, Aristotle and Plato, the Greek philosophers of the first era, developed nearly the same approaches to interest. This is the result of the fact that these philosophers were the teachers or students of one another. Besides, divine religions follow nearly the same attitude towards interest since they stemmed from divine inspirations. Additionally, divine religions show a parallel approach towards interest with those of some modern theoreticians. For instance, similarities can be detected between the Agio Theory of Bawerk and *Nesie* interest expressed by Islam. According to Agio Theory, 10 TL of today is more valuable than 10 TL of a future date due to some psychological reasons. Therefore, income should be generated over the lent money which could be used otherwise to generate income. This revenue is called interest. Islam also accepts that a specific amount of money of the same currency or a specific amount of goods can have different values in different periods of time. However, Islam bans *Nesie* interest since it is impossible to calculate in advance the difference in the value of the concerned money or goods and it is impossible to estimate in favor of whom this change will create a benefit and against whom a loss. As seen, Bawerk's theory and Islamic interest theory are similar to a specific point; however, these two approaches differ in the result.

It is noteworthy to remark that modern interest theories have some shortcomings in explaining the existence and payment reasons and the nature of interest. For instance, Senior, in his Abstinence Theory, suggested that the pain cost, or disutility, incurred in saving is the same for the wealthy as for the poor. Because he dealt with interest exclusively as a payment for the pain costs, or disutility of forgoing consumption, no social or economic justification is given for the receipt of interest on capital that is acquired by inheritance or by gift. In other words, saving does not necessarily mean to waive from satisfaction or to suffer from this waiver. The wealthy can save money without any pain cost. On the other hand, to Marshall, the saver postpones its consumption but does not waive from it permanently. A stimulus, interest, is needed for this postponement. This view of the nature of interest has some shortcomings as well. For instance, every postponement of current consumption does not necessarily require interest payment. The most common and reasonable feature of almost all economic theories regarding interest is that they characterize capital as productive. Since capital is productive, then its owner ought to be given a share from total product in terms of interest. On the other hand, it is also reasonable that there is a difference between the values of current and future money, accepted by Bawerk as a binding reason for drawing interest on loans. However, the questions of how and at which stage of the lending process interest rate should be determined and interest income should be paid have to be reconsidered. Because it is not absolutely known how much and whether the merchant who borrows for investment purposes will make profit from the borrowed money. This is just a possibility since economic life is dynamic and open to changes. On the contrary, borrower can make loss as well. In this case, requesting interest from the borrower is unjust and causes him lose much more. In addition, it is not sure that a certain amount of money will lose in value in time. Because it might gain value in case of deflation. In a nutshell, rewarding capital owner with a predetermined amount of interest income absolutely irrespective of the outcome of the transaction can damage either the borrower or the lender. Calculating the amount of income with which the capital owner is rewarded after the outcome of the transaction is determined seems as a more fair way of distributing the total income.

At the present time, interest has become a practice applied in many countries. It is assumed necessary for economic growth since it plays an important role in promoting saving of a specific amount of income, canalizing it to investment financing. These items reflect the mainstream approach to interest. However, it is put into words by some economists that an interest-free financing scheme should be replaced with interest-based financing scheme as well since the current financing scheme brings about some economic problems.

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