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From "Usury" to "Financial Alchemy:" Martin Luther's Economic Writings Revisited

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Abstract

This paper deals with the economic writings of Martin Luther, especially his critique on usury, against the backdrop of the recent financial crisis. It demonstrates that Luther developed several arguments that are still relevant to current problems regarding financial markets. The most remarkable points in Luther's critique are his warnings against contingency, fraudulent activities and power abuse, and his demand for personal liability of investors. Today, Luther's arguments should be understood as a call for reform to improve the financial sector's functioning, especially regarding its task to provide services for consumers and other businesses in a proper way.

JEL Codes: B11, G01, G20

1. Introduction

For more than 150 years, the relevance of Martin Luther's economic writings on interest and capital has been discussed extremely controversially by economists, social scientists, and theologians, whereby opinions differed even among scholars of the same discipline. Many researchers tended to be alienated by Luther's almost complete ban on interest, which obviously contradicts the core principles of capitalist market economies. Thus, famous social scientists and theologians like Max Weber or Ernst Troeltsch were of the opinion that Luther's thoughts could only be understood from the context of a pre-capitalist environment.

On the other hand, Karl Marx, in his fundamental analysis of capitalism, called Luther "Germany's first economist," (1980, 35; 1984, 905) expressing the opinion that Luther's considerations about the financial markets of his time revealed features concerning financing structures which were still relevant for capitalist market economies.

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This leads to the question of how to deal with Luther's writings today. Interestingly, the recent financial market crisis has raised issues which lead back directly to problems mentioned by Luther. Against this background, this paper aims at demonstrating that Luther's publications contain arguments that are still relevant to recent economic challenges.

The paper is organized as follows: Section 2 analyses Luther's economic writings and describes the reasons for his critique of interest contracts. Section 3 bridges the gap to the present day by briefly describing how economists, social scientists, and theologians of later times dealt with Luther's thoughts. Section 4 analyses the adequacy of Luther's considerations under the conditions of a contemporary market economy. In section 5, the significance of Luther's thoughts with regard to the recent financial crisis is explored. Section 6 presents final conclusions.

2. Luther's Critique of Usury

2.1 General Topics

With regard to his economic writings, Luther developed his perspective from a theologian's point of view, especially concerning debt problems or pauperisation (Lindberg 1993). Nonetheless, he always strove toward a profound understanding of the economic problems he discussed. This approach was quite common in the 16th century when many economic insights were conceived by theological thinkers who had to deal with everyday problems in sermons or confessions. A famous example of this are the scholars of the "School of Salamanca," who developed significant elements of a theory of market prices by debating how to deal with parishioners addressing business problems in confessions.

Martin Luther criticised usury, in particular, as was his tendency with regard to all kinds of lending money while charging interest (e.g., Doherty 2014, 7–70). Luther pointed out that taking interest was a sin against God and an affront against the order of society. On the other hand, in contrast to some radical theologians of his time (like Jacob Strauß), he did not go so far as to say that debtors were justified to reject interest payments which they were obliged to pay, as he considered it a Christian's duty to see to his obligations to other people (Wiersma 2010). At first glance, his critique looks like the traditional rejection of interest known from medieval scholastic theology. Going into greater detail, however, the reader realizes many aspects that are also highly relevant for understanding recent economic problems (Hecker 2015).

Luther's arguments for rejecting interest on loans were partly based on the ban on usury by the medieval church, which was founded on the writings of scholastic theologians like Albertus Magnus or Thomas Aquinas. In this context, the idea of Christian charity (see section 2.2) and some insights of Aristotle (see section 2.3) played a decisive role. On the other hand, Luther went far beyond the scholastic ideas of the age by pointing out problems of contingency in economic activities (see section 2.4) and by considering personal responsibility in business activities and professional life (see section 2.5).

When giving advice to political authorities of his time, Luther, however, did not propose an immediate and total ban on usury, but pleaded for a gradual reduction or limitation of interest rates (Luther 1826 [1525]). This obvious deviation from his fundamental critique on usury has been analysed by several scholars and could be interpreted as opportunism (Wünsch 1927, 321–322; Fabiunke 1963, 127–132; Peukert 2010, 35–46). However, Luther’s general approach to political questions leads to a different interpretation. In this way, Luther’s proposal to accept moderate interest rates temporarily should be regarded as a cautious way of dealing with challenges that were prone to overthrow the order of society. Obviously, Luther rejected all hopes to install a Christian regime in the world and demanded a clear distinction between the functions of the church and the tasks of political authorities. He pointed out that governments and public officials should only focus on banning the most severe forms of misbehaviour (Prien 1992, 225–231). Consequently, he also shied away from reforms that could be detrimental to the political and economic foundations of human life, as the reformer was afraid of abuses of his ideas for political purposes. Luther’s fear of the reformation being misused for revolutionary purposes was strongly influenced by his perception of the German Peasants’ War (1524–1525) and his struggle with Thomas Müntzer (Kaufmann 2006, 84–96; Schilling 2012, 250–252, 294–317). In this context, Luther’s way of handling the question of interest payments in political practise can be interpreted as an expression of his general preference of evolutionary reforms to revolutionary change. Therefore, it appears comprehensible that Luther aimed at avoiding a disruption of economic structures by abrupt reforms such as a total ban on usury.

2.2 The Argument of Christian Charity

In condemning the aim of earning income from lending money to other people, Luther referred to the principle of Christian charity, which played a decisive role in many of his publications on economic and social issues (Prien 1992, 213–241). Luther thereby pointed out that Christians should be willing to lend money to persons in need without a profit motive. As a foundation of this demand, he referred to several rules from the Bible, especially Leviticus 25 and Matthew 5:42. He also quoted the “Golden Rule” (Matthew 7:12) and explained that in times of need everyone had hopes to receive a loan without having to pay interest (Luther 1540, 393). Therefore, every Christian should treat his fellow citizens in the same way and not take interest for lending.

This argument does of course make sense in cases of emergencies, but it is not convincing in situations when money is invested for economic purposes. Thus, at this point, Luther's line of reasoning is not comprehensible from an economist's point of view. This was even clarified by Luther's contemporary John Calvin, the Swiss church reformer, who also had to deal with questions of usury. In contrast to Luther, Calvin distinguished between loans aiming to support people in need, which should be provided without interest, and commercial investments, when investors were allowed to take interest (Calvin 1545; Calvin 1921, Art. 191; Peter 1990, 70–75; Pawlas 2014). In this context, Calvin also quoted the "Golden Rule" (Mathew 7:12) to explain that there was no reason to condemn interest if money was invested in commercial activities. Thus, Calvin's interpretation of the "Golden Rule" is more practical with regard to the economic background of lending money.

2.3 The Aristotelian Tradition

Other parts of Luther's reasoning are rooted in scholastic concepts based on Aristotle. In general, Luther did not have a very high opinion of Aristotle, as he wanted to liberate theology from Aristotelianism (Singleton 2011). Luther was sure that "no one can become a theologian unless he becomes one without Aristotle" (1517, 224, art. 44). Regarding ethics, however, Luther stuck to many Aristotelian conceptions, as long as they seemed to be comprehensible from his point of view.

Luther's critique on usury is based on Aristotle's proposition that money is sterile, i.e., money is not able to generate profits on its own. Luther referred to this opinion several times when rejecting the idea of earning income from lending money (e.g., 1540, 360).

Aristotle developed this proposition in his "Politics" (book 1, chapter 8, 1256) in order to explain why usury should be regarded as *chrematistike*, i.e., a way of earning income that contradicted human nature and the natural principles of society. According to Aristotle, only nature was fertile and provided men with all necessary goods. This proposition of Aristotle came along with a high appreciation of agriculture as the foundation of society, connected with a disregard of other professions. In the view of Aristotle, the ideal citizen of a Greek *polis* was a farmer endowed with enough land to support himself, his family and his slaves (book 7, chapter 10). Furthermore, according to the idea of autarchy, all citizens were supposed to be in the possession of sufficient means (tools and labour) for farming, so that no one was in need for capital from other sources.

In the time of Aristotle, this opinion was comprehensible, given a situation in which most of a nation's wealth depended on agricultural land which would not have been augmented by accumulating financial capital. Under these conditions, additional money was not able to enhance productivity, at least so far as agricultural land was the production factor that limited growth. Consequently, the marginal efficiency of additional capital could only be zero.

And indeed, during the history of ancient Greece, lending money at interest often caused social problems, leading to debt overload or even debt bondage. The beginning of the classical period of ancient Athens was thus marked by a severe debt crisis eventually solved by Solon's reforms in the early 6th century B.C. Solon, who was often mentioned by Aristotle, initiated broad debt relief and the abolition of debt bondage in order to restore the economic foundations of Attic society.

This economic background changed, of course, as soon as real capital, like tools or machines, started to play a bigger role in the economy. Nowadays, when money can easily be transformed into physical capital, the Aristotelian argument is no longer convincing. Nonetheless, it brings to mind one important precondition of economic activity: Money can only generate profits once it is successfully transformed into physical capital, which is used for producing goods or services. This proposition clarifies that there can be situations in which no profits are generated, and for this reason, expecting interest payments is pointless. Thus, it further substantiates Luther's demand to allow for contingency in economic transactions (see part 2.4).

The proposition that money is a sterile thing also influenced Luther's attitude towards an opportunity to condone interest that was very common in scholastic theological thinking: the *Schadewacht* (compensation for damage, in canon law: *lucrum cessans/damnum emergens*). This reason is based on the argument that a lender must be allowed to ask for compensation for damage connected with providing the loan. In this context, Luther underlined that only damages which had really occurred should be taken into account, whereas pure "opportunity costs" should be no ground for compensation.[1] Thus, no lender should have a right to demand compensation for fictional costs which in fact had not materialised (Luther 1540, 347–352).

As an example, Luther described a situation when a creditor claimed compensation from his debtor because he was not able to buy a garden for his family due to a delay of payment by the debtor. In this context, Luther pointed out that compensation could only be demanded if the creditor was able to prove that he had really lost an opportunity for a profitable purchase of a garden. People who could not prove such a lost opportunity were not entitled to claim compensation. From Luther's vantage point, this was fully comprehensible: In a world which did not provide endless productive opportunities to invest money, there was only limited space for opportunity costs.

1 In Luther's words: *non verum sed phantasticum interesse* (1540, 349).

Indeed, some centuries ago, investment opportunities were often not easy to find, as was proved by Lord Macaulay:

> But in the seventeenth century, a lawyer, a physician, a retired merchant who had saved some thousands, and who wished to place them safely and profitably, was often greatly embarrassed. Three generations earlier, a man who had accumulated wealth in a profession generally purchased real property, or lent his savings on mortgage. But the number of acres in the kingdom had remained the same; and the value of those acres, though it had greatly increased, had by no means increased so fast as the quantity of capital which was seeking for employment (quoted in Bagehot 1978 [1873], 115).

Therefore, Luther's assumption of a very limited scope of investment opportunities seems quite realistic regarding his environment.

In Luther's opinion, providing money for economic purposes and expecting a return on investment was only justified in conjunction with purchasing or renting agricultural land. The purpose of this rule was to make sure that capital was really used in a way it could generate returns without causing social problems, as only such returns could legitimately be shared between investor and debtor. It was in this line of thinking that Luther demanded that not only profits – but also losses – must be shared between all participants involved in the transaction.

Luther's focus on agriculture was deeply rooted in the economic thinking of Aristotle, but it also reflected the situation in 16th century Germany. In economic theory, the leading role of agriculture was predominant up until the Physiocrats of the 18th century. François Quesnay (1965 [1758/59]), head of this school, regarded only agriculturalists as the *classe productive*, whereas craftsmen and merchants were termed *classe sterile*, as they were presumed not to contribute to national wealth. Therefore, from Luther's point of view, it was neither inadequate nor simplistic to primarily consider agricultural land when dealing with the question of how to invest in productive economic activities.

An examination of Luther's personal life, his household, and possessions has proven that the reformer personally stuck to the rules he proclaimed (Stiftung Luthergedenkstätten in Sachsen-Anhalt 2000). Nonetheless, he was not subjected to poverty. At his death in 1546, he bequeathed neither money nor financial assets, but real estate, consisting of certain landed properties in and around Wittenberg.

2.4 The Role of Contingency

Aside from the scholastic portion of his argument, Luther also gained interesting insights by examining economic aspects of lending money. He pointed out for which reasons and under which circumstances lending money with interest could cause problems to society.

A crucial point in his reasoning was contingency, connected with the conviction that only God had the power to determine success or failure in business. Thus, people had to cope with the fact that the future was uncertain and unpredictable. Therefore, all economic activities had to be carried out with this uncertainty in mind. Luther pointed out: "(Trying to attain safe returns on investments) … is against the nature, not only of merchandise, but of all temporal goods, which God wants to be subject to risk and uncertainty" (Luther 1524, 312; translation by author).

As a consequence, Luther rejected fixed interest rate agreements because they did not provide space to deal with contingencies and neglected the problem that future developments might deviate from former expectations. In Luther's words: "But now that incomes (i.e., fixed interest rates) are bought in definite and certain amounts, all years are equal, good and bad alike, and land and people must be ruined. The purchaser buys the same income for unequal and equal years, poor years and rich years; nay, he buys a blessing that God has not yet given for a blessing that is already given" (Luther 1524, 322; see Wieland 1991, 2014). Thus, seeking fixed interest rate payments despite uncertain future expectations was not only a sin, but even worse – it was ruinous to the order of society (Lindberg 2003, 171–174). In Luther's opinion, making *ex contingente necessarium*, i.e., "transforming contingency into necessity" (Luther 1540, 350) was a behaviour that could only destroy society because, in the medium term, it would lead to a situation in which financiers were wealthier and thus more powerful than kings, princes or governments (Elert 1932, 476–477). Therefore, Luther called upon the princes and governments of his time to prohibit usury, i.e., to ban lending money at fixed interest.

From Luther's point of view, a fair distribution of losses between investors and debtors was the only way to prevent such developments. This demand was connected with the principle of personal liability of investors, as each creditor should be disposed to accept losses as a precondition of his chance to make money on his investment (Hecker 2014). Luther described this rule by a simple normative principle: "If you want to win money, you must also be ready to lose money in case of failure" (Luther 1520, 57).

As an example for sharing losses, Luther referred to the tithe described in the Old Testament, which had to be devoted to God as the final owner of all land cultivated by men (Luther 1520, 57; Luther 1524, 321; Peukert 2010). Following this principle, the investor should receive a fixed percentage of all profits. Such burden-sharing was seen as an appropriate way to deal with contingency by ensuring that losses were distributed in a fair way and could thus be absorbed without destroying the order of society.

Luther only allowed for one exemption, which he called *Notwucher* ("usury out of need") – the case when people owning small amounts of capital needed interest rate payments in order to survive (Luther 1540, 372–373; Pawlas

2015, 42). He especially had in mind widows or orphans who had inherited small amounts of money as their only source of income. For these groups of people, Luther even demanded preferential treatment in cases of debt restructuring. When he was asked how to deal with unbearable debt burdens, he responded that *Notwucherer* ("usurers out of need") should be fully compensated, whereas all other creditors would have to accept haircuts on their exposures (Luther 1826 [1525], 656–659; Lindberg 2004, 144).

Luther did not accept the argument that lending money with interest was legitimate as long as it provided a win-win-situation to both parties. He even compared this argument to the attempt to condone adultery based on the assertion that both participants would benefit from their "cooperation" (Luther 1540, 339). From an economist's point of view, Luther's argument is fully comprehensible because it brings to mind the relevance of externalities associated with economic activities. It points out that it is important to mention the interests of all stakeholders, including damages to society such as additional social costs.

2.5 Luther's View of Profession as a Vocation

Another part of Luther's critique on usury is based on his "doctrine of vocation." In Luther's view, it was not merely clergymen, but all Christians had a vocation founded on the Gospel, following the idea of the "priesthood of all believers" (Luther 1522; Froehlich 2004). Thus, everyone should regard his or her functions in everyday life as a way of practising their belief (Wünsch 1927, 545–547, 566–580; Elert 1932, 65–67; Jähnichen 1998, 103–104). In other words, family lives as well as professional activities of Christians should reflect their vocation by God.

This "doctrine of vocation" led to a new interpretation of daily professional work as a way to serve God which was connected to a renewed understanding of labour and business. Work was seen as a service to God and the neighbour, rooted in the relationship to Jesus Christ. As a consequence, every professional work was supposed to be a service to other people following Luther's interpretation of the seventh commandment in his Small Catechism: "… that we may not take our neighbour's money or property, nor get them by false ware or dealing, but help him to improve and protect his property and business [that his means are preserved and his condition is improved]" (1529, 245). This point of view definitely excluded professions that were not useful to anyone or even prone to harm other people.

Following this idea, it was an obvious problem to see people getting rich by financial transactions or trading activities, whereas other people carrying out hard manual labour faced poverty and hunger. Thus, Luther blamed usurers for exploiting people who worked for their daily bread. From his point of view, financiers did not contribute anything (but damage) to society, and thus should not have expected to be paid for this non-service.

Furthermore, Luther was concerned about greed becoming the main motivation for economic activities. On the one hand, he feared a decay of human nature if more and more people were only interested in earning as much money as possible. On the other hand, he worried about severe economic consequences, such as price increases resulting from merchants simply selling their goods at the highest possible prices rather than actually taking their customers' needs into account (Luther 1524).

At this point, there are also similarities to Aristotle's concept of distinguishing between natural and unnatural ways of doing business – *oikonomia* versus *chrematistike* (book 1, chapters 8–9, 1256b–1257b). From Aristotle's vantage point, *chrematistike* was detrimental to society as it did not recognize natural limits to wealth or income. Thus, Aristotle criticized people engaged in such businesses, like usurers or merchants, because they tried to make as much profit as possible without respecting limits given by their position in society. This argument was quite similar to Luther's in criticizing usurers for disturbing the order of society.

Luther's approach to cope with illegitimate financial activities was twofold: On the one hand, he called upon governments to regulate usury. However, he was also convinced that it wouldn't be possible to suppress all problematic financial transactions, as he reluctantly admitted that "the world could not be without usury" (Luther 1540, 354). Thus, he also appealed to each Christian's responsibility to refrain from illegitimate financial transactions. And, as an early way of mentioning "civil society," he called upon the clergy to preach against usury and to reject absolution to usurers who did not abandon their business (Luther 1540).

2.6 Luther's Quarrel with Scholastic Defenders of Interest

Luther developed a significant portion of his critique on usury by arguing with scholastic theologians who, over the years, had discovered several ways to defend interest payments and thus to undermine the medieval ban on usury. This was part of Luther's general dispute with the catholic theology of his time as several of his theological opponents were also well known for their position as defenders of interest contracts.

Cardinal Cajetan (Thomas de Vio), who "examined" Luther at Augsburg in 1518 and demanded from him to revoke his 95 theses, founded his defence of interest payments on the statement that money – as it was subject to the industry of businessmen – had an additional power to generate value. Thereby, Cajetan rejected the Aristotelian proposition that money was sterile and thus highlighted a way to condone interest payments (Noonan 1957, 250–255).

Another opponent of Luther, Johannes Eck, who represented official Catholic theology at the dispute of Leipzig with Luther, Andreas Karlstadt and Philipp Melanchthon ("Leipziger Disputation" 1519), also came out with publications on business topics. His defence of interest payments even enabled Eck to get financial support from the merchant bankers' firm Fugger, whose business was severely criticised by Martin Luther. Eck based his argument on the fact that *societates* (partnerships for business purposes), whereby gains and risks/losses were shared, were deemed legitimate even by the scholastic theology of the Middle Ages (e.g., Thomas Aquinas, II, II, quaestio 78). Correspondingly, Eck defended interest payments by describing loan contracts as "guaranteed partnerships," whereby one party (the lender) was insured by the other against potential losses and thus got, instead of a share in the profits, only a fixed annual payment. Eck described loan agreements as involving three contracts (*contractus trinus*): a contract of partnership, a contract of insurance of the principal, and a third contract by which an uncertain future gain is sold for a lesser certain gain (Noonan 1957, 208–211). Thus, Eck was able to justify many types of loan contracts, as far as interest rates were significantly below expected profits.

From Luther's vantage point, these lines of reasoning could only be improper attempts to conceal usury, as he defended the Aristotelian proposition of the "sterility of money." Even Eck's idea of loan contracts as "guaranteed partnerships" was not appropriate in his eyes, as it was not deemed sustainable under the conditions of contingency. In an environment where only God had the power to determine success or failure, the aim of guaranteeing interest payments in favour of the lender was a vain approach to promise something that could not be promised.

Luther's rejection of many scholastic approaches to condone interest payments led to Max Weber (1947 [1905]: 74) regarding his views as antiquated and not appropriate under the conditions of capitalist market economies (Braun 1994, 130–141). The recent financial crisis, nonetheless, demonstrated that this reproach was premature (see part 4.4).

3. Further History of Luther's Economic Thought

During the following centuries, Luther's economic thought did not play a significant role in theory or practice, as it was not cited by influential philosophers or economists. Remarkably, even German economists interested in economic ethics, social reform and economic history paid little attention to Luther's economic writings, although many of them obviously dealt with his role in history. For instance, Wilhelm Roscher, proponent of the "Older Historical School of Economics," referred to Luther's theology several times, but he did not comment on the economic content of his writings (e.g., Roscher 1874;

Priddat 1995; Fischer 2010). Similarly, Gustav Schmoller, head of the “Younger Historical School of Economics,” who wrote his PhD dissertation on economic thought during the Reformation period, considered Luther’s economic writings as barely relevant to recent economic questions (Schmoller 1860; Shionoya 1995).

The first well-known economist who mentioned the economic arguments in Luther’s writings was Karl Marx (1980, 35; 1984, 905). In his economic works, especially *Capital*, Marx cited Luther quite often, especially regarding his opinions about interest and capital (Fabiunke 1963, 156–159). Marx even called Luther “Germany’s first economist.”

Interestingly, Marx revealed a more positive attitude towards Luther’s economic thought than almost all Protestant theologians of the 19th and 20th century, as this thinking did not play any role in the social doctrine of Protestant churches. Even the prefaces and comments on Luther’s economic writings in the “Weimarer Ausgabe” (the main theological edition of Luther’s collected works, edited in the first half of the 19th century) express the opinion that Luther’s views only reflect medieval thinking. Accordingly, Reinhold Seeberg, one of the most influential Lutheran theologians of the Wilhelmine Period, regarded Luther’s economic writings as “largely outdated and impossible” (Fabiunke 1963, 159). Thus, even prominent proponents of Protestant social ethics tended to assess these thoughts as hardly relevant to recent challenges, as they seemed to belong to a feudal social order whose relicts were to be overcome (e.g., Troeltsch 1931). A more differentiated approach to Luther’s economic writings was developed by Werner Elert in his “Morphologie des Luthertums” (1932, 466–492). Elert argued that Luther generally embraced the idea of improving human life by economic progress, but he also mentioned shortcomings, especially caused by the “sterility of money” argument of Aristotle. He generally regarded Luther’s proposals as an attempt to fight power abuse and criminal activities in business, aiming at protecting communities and weaker market participants in order to maintain peace in society.

Against this backdrop, it is not surprising that even Lutheran churches in Germany tended to ignore Luther’s warnings against problematic dynamics in financial markets. At the very least, his thoughts on contingency were not included in any official church documents regarding economic or social questions.

Only Luther’s moral attitudes and his principle to support poor people by local communities were mentioned by theologians and economists interested in social reform (Jähnichen 1998, 183–189). This was identified as a reason why all modern welfare states were developed in countries with a strong historic influence of Lutheran churches (Wegner 2014).[2] In this context, Luther’s writ-

2 From a historical vantage point, see (Elert 1932, 409–429).

ings on social and economic questions usually were reduced to moral or social requests without an economic foundation.

When 20th century protestant theologians like Georg Wünsch (1927) or Arthur Rich (1984) started to write on business ethics, they mostly referred to general principles of Lutheran ethics, instead of analysing Luther's economic writing in detail. Only recently has the range of Protestant literature on Luther's economic thought begun to increase, as a growing circle of Protestant theologians is writing on topics of economic ethics. Among them, especially Hans-Jürgen Prien (1992) and Andreas Pawlas (2014, 2015) directly referred to Luther's texts in order to apply them to recent questions. Traugott Jähnichen (1998; 2008) also developed an approach to business ethics in the Lutheran tradition. Jähnichen (2008) aims at applying Lutheran professional ethics to contemporary challenges, especially regarding the responsibility of firms, entrepreneurs, and managers. He also considers deficits in the financial system in order to ensure capital is used for productive investments such as job creation.

4. The Appropriateness of Luther's Thought to a Contemporary Market Economy

As Luther's arguments were developed against the backdrop of a pre-capitalist society on an agrarian basis and without any substantial growth prospects (Prien 1992), it is necessary to analyse their adequacy to a 21st century market economy before applying them to recent economic questions. Thus, the following section explores to what extent the core elements of Luther's approach to interest contracts remain relevant for modern market economies.

4.1 Christian Charity under the Conditions of a Market Economy

First and foremost, market economies are based on a definite distinction between capital allocation, considered to be a market function, and distributional policy in order to care for people in need. Capital allocation should, by granting loans or buying stocks, generally follow the principle of maximum efficiency, i.e., capital should be priced at market values in order to ensure its employment in the most productive way. The principle of need, on the other hand, should be restricted to social policy, carried out by income redistribution, mostly via tax-financed public transfers or social insurance.

This distinction, aimed at protecting the efficiency of markets for promoting economic growth and thus enhancing social welfare, involves a legitimization of self-interest regarding individual behaviour in markets demonstrated by Adam Smith's detection: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages" (1961 [1776], Book 1, chapter 2, 18). Such a glorification of self-interest was unthinkable in Luther's time, when the economy was regarded as static and people's duties were usually derived from their positions in feudal society. The establishment of market economies in the western world obviously led to a formerly deadly sin being "transmogrified into a manifestation of the core social engine of the new age" (Persky 2007, 235). Under the conditions of a properly functioning market order, however, a legitimization of self-interest can also be deemed appropriate from the moral point of view, as long as it results in growing welfare for all classes of the population and thus also improves the society's means to care for people who are not able to gain sufficient income in markets.[3]

It is obvious that Luther's approach to implement Christian charity or social security by a regulation of interest contracts, i.e. by interfering in capital allocation and hampering market efficiency, is not compelling today, as it would impede markets' potential to improve social welfare and thereby even deteriorate the situation of people Luther wanted to protect. As long as credit contributes to enlarging the economy's capital stock and thereby improves growth prospects, interest payments for loans could even be regarded as legitimate compensation for benevolent activities (Smith 1961 [1776], book 2, chapter 3, 358–371). Under the conditions of a growing economy, even loans for the purchase of long-run consumer goods can enhance social welfare, as they enable people with less income to participate in improving living conditions. Thus, even interest for consumption loans can be justified in a growing economy.

4.2 The Idea of Profession as a Vocation

Nonetheless, the legitimization of self-interest under the conditions of a market economy does not completely repeal the idea of entrepreneurial responsibility, as current discussions on Corporate Social Responsibility demonstrate (e.g., Heidbrink 2008; Frederiksen/Nielsen 2013). A core argument in favour of entrepreneurial responsibility is based on the fact that changing business environments continuously lead to markets with imperfect regulation. As long as the possibility to benefit from economic change in general is embraced by market participants, this involves a field for individual responsibility, because no one would desire a regulatory policy preventing economic change or regulating every change process from the very beginning.

Therefore, under the conditions of market economies, Luther's idea of profession as a vocation is intrinsically connected with the philosophical principle that liberty implies responsibility and, thus, economic freedom implicates indi-

3 See, for example, the "difference principle" of Rawls (1971, 75–83).

vidual responsibility for preserving the foundations of a liberal market economy. From a philosophical point of view, this postulation can – *inter alia* – be justified by Immanuel Kant's Categorical Imperative: "Act only according to that maxim whereby you can, at the same time, will that it should become a universal law" (Kant 1993 [1785], 30; Frederiksen / Nielsen 2013, 24–25). Accordingly, the principle of carrying out business in a way that contributes to preserving the preconditions for its success provides an adequate framework for a modern interpretation of Luther's idea of profession as a vocation.

Modern professional ethics in the tradition of Martin Luther should therefore deal with the question of how to use individual action space. Thus, from a contemporary point of view, Luther's idea of profession as a vocation aims at using individual leeway – as entrepreneurs, managers, employees – in a responsible way (Jähnichen 2008, 106–108). This postulation is strongly connected to management and operational structures in firms and leads to the question whether relations to other people in business (suppliers, customers, employees, …) are shaped in a way that does not violate fundamental ethical standards like human dignity.

4.3 The "Sterility of Money" Argument

It is obvious that Luther's opinion that only agricultural land was the main source of wealth does not hold in a contemporary economy, where only a very limited part of the GDP is produced in the agricultural sector (Pawlas 2014). Thus, the following considerations about the "sterility of money" argument are focused on the point that money is not able to generate profits by itself, but needs to be transformed into physical capital if it is supposed to enable profits.

This precondition had still been broadly reflected by older generations of economists up to the early 20th century. Adam Smith pointed out that there might be situations when capital, due to high interest rates, was only available for "prodigals and projectors" (1961 [1776], volume 1, book 2, chapter 4, 379). Smith thereby referred to situations when the expectation of interest rates was distorted by unrealistic assumptions or fraudulent promises. Thus, Smith wanted interest rates, in contrast to all other prices in the economy, to be regulated by government authorities, in order to ensure that capital was channelled into productive investments.

Ludwig von Mises, one of the proponents of the "Austrian School of Economics," also emphasized that only money transformed into physical capital should be regarded as part of the economy's capital fund (1924, 66). He pointed out thereby, referring to Aristotle, that money needed to be transformed into physical capital before being able to generate profits. Thus, he rejected all approaches of his contemporaries to blur the line between money and physical capital.

His contemporary Joseph A. Schumpeter, who, *inter alia*, dealt with the development of capitalism in the 20th century, pointed out that the opportunity of earning interest was dependent on dynamic entrepreneurs carrying out successful business ideas and thus realizing productivity growth based on investors' money (1926, 240–317). Thus, in his theory, interest was intrinsically tied to entrepreneurs discovering new investment opportunities. Consequently, interest can be paid only in cases where successful entrepreneurs exert demand for purchasing power, which enables investors to participate in entrepreneurs' profits. From Schumpeter's vantage point, a world without economic dynamism cannot provide opportunities for receiving interest payments. For cases of insufficient demand for investors' money by prosperous entrepreneurs, especially in case of a “stationary-state economy,” Schumpeter even suggested the possibility that future money might be valued higher than current money, ultimately leading to negative interest rates (*ibid.*, 1926, 291–293).

A new perception was brought in by John Maynard Keynes, who also emphasized that there might be situations when savings are not completely transformed into physical capital as interest rates were above the marginal efficiency of capital (Keynes 1936, 351). Keynes, on the other hand, interpreted this problem from a macroeconomist's point of view, i.e., as a lack of demand that should be counterbalanced by expansive fiscal policy. He criticized the classical economists of his time for not addressing this problem, and as historical proof, he referred to scholastic theology of the Middle Ages as well as to Adam Smith. Keynes did, though, tend to neglect the microeconomic point of view, as he totally shifted the treatment of these matters to the macroeconomic level, although many of the problems he mentioned had a microeconomic background (Clower and Leijonhufvud 1975). Accordingly, from his perspective, all these problems could be solved by monetary or fiscal policy. Nonetheless, the question remains whether expansionary monetary or fiscal policy can provide an adequate solution to cases when institutional failure, especially insufficient trust in political stability or a lack of investment opportunities, impedes the transformation of money into physical capital.

Thus, by the end of the 20th century, the consideration of this problem had almost completely disappeared from the economic literature, because it was either neglected by neoclassical economists who thought that interest rate changes were an efficient instrument to reach an equilibrium between savings and investments, or solely regarded as a problem of lacking demand by Keynesian economists. Most economists and people in the financial sector were convinced that money was more or less automatically transformed into productive capital and could thus yield a return under almost all circumstances. This led to Samuelson and Nordhaus explaining in their famous textbook that “rates of return have remained high because innovation and technological change have created profitable new opportunities as rapidly as past investment has annihilated them” (Samuelson and Nordhaus 2010, 292). This observation led to the assumption that transforming money into productive capital had meanwhile become trivial. Thus, contrary to Luther's warnings (see 2.3), calculating opportunity costs for the use of money seemed appropriate.

Accordingly, the Capital Asset Pricing Model (CAPM), a common tool in financial economics, is based on the assumption of risk-free interest rates as a key factor for portfolio optimization. The idea behind this model is that such interest rates can easily be earned without much effort or economic analysis.

This perception was predominant up until the recent financial crisis, when interest rates declined to historically low levels. At that point, it became obvious that considerations about a world without positive interest rates and possible reasons for such a development were far from irrelevant (for more, see section 5.4).

4.4 The Role of Contingency in Financial Markets

The relevance of contingency in modern financial markets was recently clarified by Mervyn King, former governor of the Bank of England. In his book on the current financial crisis, King emphasised two expressions: "radical uncertainty" and "financial alchemy" (2016, 88–155). By the term "radical uncertainty," he described the phenomenon that developments in financial markets tend to depend less on facts than on "narratives," i.e., the interpretation of facts by market participants which can change very quickly. This led King to a more general problem which he calls "financial alchemy:" the process of financial markets transforming illiquid positions into liquidity and uncertain positions into safe assets. As the expression "financial alchemy" indicates, King (2016, 88–119) regarded this kind of transformation as a cause of severe problems which usually appear in times of financial crises. Accordingly, the main reason of such crises was seen in improper attempts to deal with risk, most notably by pretending risk exclusion when in reality risk was only concealed.

King especially pointed out that it is necessary to differentiate between risk and uncertainty, because risk can be calculated by regarding probabilities, whereas there is no reliable way to deal with uncertainty. This difference had already been discussed in the 1920s in the works of Frank H. Knight (1921) and John Maynard Keynes (1921, 70–78; 1936, 148), but nonetheless it was often neglected when financial markets were booming. Then, as a consequence of neglecting uncertainty, equity of banks was reduced (Admati/Hellwig, 2013) and investment bankers designed products based on expectations that turned out to be too optimistic.

This development demonstrates that Luther's warning against uncertainty, based on the theological term "contingency," was a reasonable way to distinguish between developments that could be projected (i.e., human behaviour) and changes that were unpredictable as they were subject to God's autonomy.

Consequently, Luther's rejection of many scholastic concepts to condone interest contracts, like Eck's idea of a "guaranteed partnership" (*contractus trinus*), was not founded on ignorance of current academic theories. In fact, his opinion appears as a comprehensible consequence of a different assessment of risk and uncertainty. Thus it was not without reason that Luther declined to accept some measures of risk transfer practiced at his time, especially if they were designed in favour of large and wealthy creditors like merchant companies (e.g., the Fuggers). Especially his proposal that poor creditors ("usurers out of need") should be allowed to receive fixed interest payments, whereas wealthier investors should participate in losses, reveals a profound understanding of the economic and social implications connected with the underlying financial transactions, as a shift of risk in favour of large creditors was connected with a perilous concentration of power in the hands of a small financial elite (Elert 1932, 476–477). At this point, Max Weber's judgement on Luther's economic writings (see part 2.6) has turned out to be inappropriate. In fact, Weber's opinion appears as a typical expression of his time – the early 20th century – when, at least from a liberal historian's or social scientist's point of view, human development was regarded as a permanent process of improvement, leading to more and more facts becoming predictable.

In his writings, Luther clearly pointed out that he did not generally disapprove of efforts to provide for the future, as he considered it a Christian's duty to care for his family and his servants.[4] Thus, Luther only castigated attempts to gain security illegitimately at other people's expense. Thereby he especially condemned risk transfer to the disadvantage of people in a weaker economic position. Accordingly, Luther should not be regarded as an opponent to all kinds of risk management.

This goes along with the fact that, from a contemporary point of view, denying all means of risk transfer is not a useful attempt to solve current financial market problems either, as many financial products – like insurance contracts – enabled people to get rid of risk which had been prone to ruin future prospects before. Nonetheless, it remains important to keep in mind that not all kinds of peril can be managed that way.

5. Luther's Writings Rediscovered Against the Backdrop of the Recent Financial Crisis

Against the backdrop of the recent financial crisis, many of Luther's thoughts have emerged as highly relevant to current financial market problems.

4 See explanations of the fourth commandment in the Large Catechism (Luther 1529a, 147–157; Jähnichen 1998, 98–101).

5.1 Relevance of Institutions to Prevent the Transformation of Contingency into Necessity

Luther's warning against "transforming contingency into necessity" is especially remarkable, as many financial products that turned out to be fraught with problems were designed exactly for this purpose. Asset Backed Securities (ABS), for instance, aimed at transforming interest rate payments depending on the personal situation of debtors (job security, income, health etc.) into fixed cash flows for investors. As many ABS tranches had very good ratings, they appeared like risk-free assets with contingencies seeming to be excluded. But in times of crisis, contingencies suddenly reappeared, when the quality of assets was doubted and markets became illiquid. Then the investors had to realize that risk had only been disguised, rather than excluded.

In his analysis of the recent financial crisis, King (2016, 89–90) points out that individual banks or bankers usually are not able to prevent problems of uncertainty on their own. In this context, he describes an economic problem that also has its own ethical implications: the "prisoner's dilemma." This dilemma is characterized by the problem that two people fail to achieve an improvement on their situation because each of them only considers his own interests preventing him from being able to enter into a binding agreement with the other player.

Luther, as a theologian, would not have been surprised by this result, due to his opinion of human nature, perfectly reflected by the following verse of St. Paul: "For I do not do the good I want, but the evil I do not want is what I keep on doing" (Romans 7: 19). In Luther's theology, the epistle to the Romans played a crucial rule for substantiating the principle of "justification by faith" (*sola fide*), as people obviously were not able to follow God's commandments on their own.[5] Accordingly, Luther emphasized the role of political authorities for structuring secular life in order to ensure peace in society.

Thus, in modern economic language, problems of this kind can only be solved by institutions which restrain the behaviour of all players in financial markets as a precondition for more stability. The role of institutions had already been outlined by Luther, who demanded that governments should prohibit or at least regulate usury.

Nowadays, there is a broad range of literature about such institutions, especially regarding regulations and rules to tackle the problem of excessive risk transformation in the financial sector. Some of these rules aim at restraining risk-taking of banks, especially by supervisory authorities. The European Central Bank, which is in charge of banking supervision at the European level, has intensified its analyses regarding risk management of banks and is currently

[5] For more, please reference Luther's preface to the epistle to the Romans in his translation of the Bible.

extending its audits to banks' business strategies. Other institutions were set up to ensure that all players in financial markets, especially banks, are prepared to deal with contingency. In this context, higher equity buffers are the most relevant instrument.

5.2 Warnings Against the Power of Financiers

Another warning of Martin Luther proves to be highly relevant to the financial system of the 21st century. Luther warned that, if usury was not sufficiently regulated, financiers would become more powerful than kings and governments. A situation very similar to Luther's warning could be witnessed during the recent financial crisis when banks had to be rescued by states, i.e., with taxpayer money. This was deemed necessary, as many financial institutions were regarded as "too big to fail" and supervisors expected a breakdown of the whole financial system in the event of a failure of these banks. As a consequence, large banks were able to force politicians to use public funds to support the financial sector. This revealed a significant shift of power in favour of big financial institutions.

The problem of "too big to fail" was caused for several reasons. Banks were highly interconnected to each other due to interbank lending, spillover effects in financial markets and derivatives, so an insolvency of one bank could immediately affect many other financial institutions. Due to innovative financial products, there was additionally a lot of risk in the balance sheets of banks, which was not sufficiently identified by risk managers. This situation was aggravated by high leverage ratios, i.e., equity was not adequate to cover potential losses.

In the aftermath of the crisis, many reforms have been started to tackle this problem that banks could be "too big to fail." Capital requirements have been increased by "Basel III," and additional capital buffers have been introduced for systemically important institutions.

The most important approach has been the introduction of rules to resolve banks in case of insolvency. Such a set of tools has recently been introduced in the European Monetary Union by the "Single Resolution Mechanism" (SRM). The aim of this mechanism is to resolve cases of systemically important banks which have defaulted at the expense of shareholders and investors, without using taxpayer money.

Furthermore, the "Bank Recovery and Resolution Directive" (BRRD) provides resolution tools which are supposed to dissolve failed credit institutions without threatening financial stability. The new resolution proceedings allow interventions in creditor rights in order to prevent bail-outs by the state. In this context, the resolution of insolvent banks is to be organized by resolution authorities (like the Single Resolution Board (SRB) on the European level), which are entitled to use several resolution tools: sale of business, foundation of bridge institutions, asset separation, and bail in. The "sale of business" and the "bridge institution" tools aim at facilitating the continuation of critical functions by different institutions. The "bail in" tool is designed as the centrepiece of the system of resolution tools. It proposes a hierarchy of shareholders and creditors who are supposed to take losses by a write-down or conversion of their capital instruments (Deutsche Bundesbank 2014).

The introduction of the SRM and the BRRD is, of course, an important step to prevent further bank bail-outs at taxpayers' expense (Lannoo 2014). Now it is up to the responsible authorities to ensure that the new rules are adequately implemented in cases of future banking crises, as it is already foreseeable that there will always be lobbying pressure to allow exemptions from the bail-in procedure. Notwithstanding, a certain degree of flexibility is inevitable to give the resolution framework traction in practice. However, it must be assured that the application of exclusions is limited to extreme exceptional cases and does not de facto become the rule.

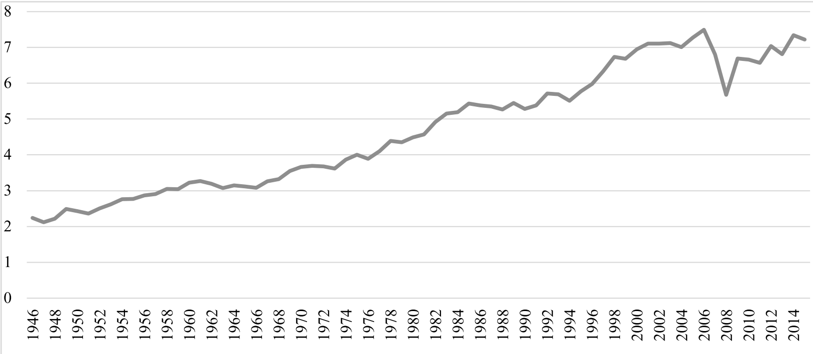
In this context, it appears problematic when even today the rescue of banks by the state is occasionally justified by the aim of protecting customers against losses of their deposits. At this point, Luther's distinction between "usurers out of need" (*Notwucherer*) who should be protected, and other investors who have to bear losses would be a helpful measure to prevent the abuse of public funds as well as moral hazard in the financial sector (Hecker 2016).

5.3 Problematic Business Models in the Financial Sector

Luther's warnings against financial transactions that are not connected to investments in physical capital (at his time: agricultural land) are also highly relevant to current problems. In popular economic literature, these problems are often described as a conflict of "Wall Street versus Main Street," characterized by a continuous growth of the financial industry compared to other sectors of the economy (see Figure 1 for the U.S.).

This development has been at least partly fuelled by the expectation of government support in cases of crisis. Besides this, market participants have expected interventions of central banks in the aftermath of financial crises, with a focus on mitigating effects on financial markets (the so called "Greenspan put"). Thus, high profits and salaries in the financial sector, at least up to a certain degree, reflect expected future state support (Admati / Hellwig 2013).

As a consequence, human and physical capital is crowded out of other businesses in favour of the financial sector, where the highest salaries are paid, thereby hampering the growth perspectives of other sectors (Cecchetti / Kharroubi 2015; Sahay et al. 2015; Arcand / Berkes / Panizza 2012). This development has already been criticized by James Tobin, who wrote: "we are throwing more and more of our resources, including the cream of our youth, into finan-



Data: Bureau of Economic Analysis (2016).

Figure 1: Gross Value Added to the Financial Sector in Relation to GDP, USA, in %

cial activities remote from the production of goods and services, into activities that generate high private rewards disproportionate to their social productivity" (1984, 14).

From the viewpoint of Lutheran ethics, this development also violates the idea of profession as a vocation, as it leads to a distortion of markets in favour of professions that contribute relatively little to economic welfare.

Besides, the growth of the financial sector increases the risk of problematic dynamics, like herd behaviour of investors. As a result, fundamental analyses can be crowded out by market dynamics. For instance, due to booming securitization markets, the analysis of creditworthiness partly lost its relevance in the banking business because many banks were mainly interested in selling their credit risks in markets. Thus, financial market considerations became more important than analysing creditworthiness.

A further expression of this problem was financial products which obviously did not provide any service to the real economy, like re-securitizations, i.e., ABS transactions based on other ABS. Obviously, designing such financial products did not contribute much to economic welfare, but was even prone to severe social costs, up to financial crises. Thus, social costs caused by stability risks due to intransparency and unreliable data clearly outweigh (mostly hypothetical) gains from intensified risk distribution (Hellwig 2008, 24). Another example is financial products aimed at creating intransparency in order to deceive counterparties, like complicated interest rate swaps (e.g., "spread ladder swaps with chance") which were designed in a way that one party's losses were limited, whereas the other party could lose unlimited amounts of money. Often these products were sold to inexperienced counterparties, like municipalities or owners of small enterprises which trusted in the bank's respectability, leading to a further abuse of that trust.

Coping with such transactions is often not easy, as legal bans are usually not feasible because it would be easy to circumvent such laws by shadow banking activities or escaping to other jurisdictions, where financial supervision is impossible. Besides, it would often be difficult to distinguish which products should be forbidden because usually most problems are not connected with the products themselves but with the way they are used, which is mostly dependent on the question of whether risks are properly realised and managed by all counterparties.

Thus, Luther's appeal to individual responsibility, derived from his approach to regard profession as a vocation, is still relevant. Today, this mainly refers to business models in the financial sector. As the recent crisis has demonstrated, banks that refrained from certain problematic activities, like re-securitizations, were often successful with this strategy in the long run. So it has obviously been worthwhile to forgo some short-term opportunities for long-term benefits. This illustrates that there are usually alternatives for bank managers to do business in a more responsible way, especially by focusing on long-term strategies. Thus, Luther's appeal to personal responsibility is obviously viable even in the 21st century.

5.4 The "Sterility of Money"-Proposition Revisited

During the financial market crisis, market participants increasingly complained about interest rates near to zero and diminishing interest incomes of banks and other financial corporations. Thus, discussions arose surrounding the question whether natural rates of interest might have fallen permanently to a level far below former expectations. The conception of natural rates of interest was introduced into economic theory by Knut Wicksell (1936 [1898]) and is supposed to reflect the interest rate level that is "neutral in respect to commodity prices," i.e., it causes neither a boom nor a recession (Williams 2003). In discussions on the decline of natural interest rates, two main reasons are identified:

- Lack of innovation, leading to a decrease in profitable investment opportunities (Gordon 2012) and
- Demographic change, which reduces potential growth and leads to an increase in people's savings for retirement (von Weizsäcker 2013).

In connection with this development, some economists pointed to problems which are not considered by neoclassical or Keynesian theory. Mervyn King accentuated that there was a different level of problems when market structures, political instability, or structural imbalances (e.g., between savings and investments) impede a transformation of savings into productive capital (2016, 317–353). Thus, focusing on demand is not sufficient for solving the crisis, and structural reforms are deemed necessary.

Besides, market participants must be prepared to persist in a low interest rate environment. Accordingly, a crucial point is to overcome the conviction that positive risk-free interest rates can easily be obtained, which was ironically expressed by Keynes' quotation of Walter Bagehot that "John Bull can stand many things, but he cannot stand 2 percent" (1936, 309). Keynes' purpose was to bring to mind that in an environment of low marginal efficiency of capital, market participants must be disposed to see very low interest rates. This might be useful to warn investors and other financial institutions against taking a certain level of interest rates for granted (Nassr, Wehinger and Mamika 2015). Recent history has clarified that financial products based on guaranteed returns, like many life insurance contacts, can cause severe problems and even threaten financial stability (Belke 2013; Kablau and Weiß 2014). Thus, the old proposition of the "sterility of money" can still be useful to remind investors that, in a market economy, there is no guarantee to receive a certain return on investment.

6. Conclusion

This paper has demonstrated that Luther's writings on economic topics are worth revisiting against the background of the current financial crisis. On a general level, Luther's fundamental criticism of lending money and charging interest is not convincing in our times, as long as money can be transformed into productive investments. Nonetheless, the reasons for Luther's critique are remarkable as they refer to arguments that are still relevant to recent problems of financial markets. The most important issues are his warnings against contingencies in business activities and his demand for personal liability of investors, with a clear distinction between owners of small savings who should be protected against losses and wealthier investors who would have to bear the risks of their investments.

Thus, Luther pointed to aspects of significant economic relevance, which, regrettably, have often been neglected in history. Especially relevant is Luther's idea of a shared responsibility for the financial sector, as he, on the one hand, emphasized the necessity of government interventions, i.e., institutional reforms regarding the legal framework for financial transactions. On the other hand, he appealed to each Christian's personal responsibility to refrain from problematic activities. Additionally, he pointed out the role of the clergy as an institution that belonged neither to the government nor to the private sector. This argument resembles modern concepts in social science focusing on the role of civil society to enforce rules and values in economic activities.

Remarkably, Luther developed his ideas mainly from his understanding of human nature, which was deeply rooted in his theology. This fact demonstrates to what extent answers to economic questions are influenced by basic anthropological assumptions regarding human opportunities, freedoms, and constraints. In the words of Mervyn King, these assumptions determine "narratives," i.e., the way economic facts and data are interpreted, which is crucial for decision-making and market developments (2016, 310–317).

This is furthermore a major reason for the cyclical nature of scientific progress in economics. In many cases, advanced knowledge is gained by applying old thoughts or theories to new developments. Rediscoveries and reinterpretations of "classical" authors can therefore be valuable instruments of economic thinking (cf. Streissler 2002). Luther's economic writings are an apparent example of this. Therefore, the 500th anniversary of the reformation in 2017 provides a proper occasion to rediscover Luther's economic writings and to see that Karl Marx was right to call Luther "the first German economist."

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