



PRACTICE OF USURY: A SOCIO-ECONOMIC PERSPECTIVE OF MONEY LENDING SYSTEM IN ANCIENT INDIA

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Introduction

The term usury has an extensive historical background. It has often linked with the practice of demanding interest above the principal amount of the loan. However, in recent time, usury can be seen as an amount of interest which is being paid above the legally and socially acceptable rate. Usury means the practice of lending money at an exorbitant rate of interest especially at a higher rate than is allowed by the law. The ancient Indian Sanskrit texts convey the idea of interest or usury by various terms like kusida, vardhusa, vrddhi and vyaja. Since the terms were used indiscriminately by lawgivers, it is difficult to establish whether they used one for usury and the other for interest. However, it has been repeatedly discarded, linked to the unethical background, prohibited and restricted based on their moral, social perceptions. Religious institutions like Hinduism, Buddhism, Judaism, Islam and Christianity were the most discernible and vocal critics.

In the fifth century B.C., Baudhayana, a lawgiver considered the act of taking interest as low activity and prescribes it as the source of livelihood of the Vaishya and prohibits Brahman from indulging in such act and whosoever (Brahman) is linked with such activity was looked down upon as Sudra. In particular, a Brahman usurer (vardhusika) is condemned as a Sudra and is not to be treated even as a Vaisya. Usury was considered even worse than the murder of a Brahman or abortion. Manu, the most important lawgiver of post-Maurya times states in unequivocal terms that the Brahma or the Ksatriya should not take interest even in terms of distress, but should pay some interest to people of mean avocations (papiyase) out of legal necessity (dharmartham). Narada seems to concede this practice in favour of the kshatriya but lays down that a Brahman must never resort to usury, not even in the extremity of distress. Another lawgiver Brihaspati condemn the act of usury as inhuman as it does not consider the condition of the poor and increased their burden fourth fold to eight-fold without any hesitation.

Objectives

The objectives of the article are:

- To highlight the history of the critique of usury.
- To examine the reasons for usury's repeated denouncement and rejection in the society.
- To assess intuitively the relevance of usury in today's predominantly interest-based global economy.

Discussion

In many societies, the very idea of taking interest was not considered pure and ideal for respectable well-being and regarded as something reprehensive and immortal. In early Indian society, however, to draw a precise line between interest and usury was quite complex and finds it difficult to differentiate between usury and interest. In the 5th and 6th centuries, Brhaspati and Katyayana present to us fairly developed shreds of evidence regarding debt. Fragments of law ascribed to their successors add a little more evidence which is of great value. Ancient Indian Sanskrit texts which convey the idea of interest or usury by kusida, vardhusa, vrddhi and vyaja were used indiscriminately by lawgivers. It becomes quite difficult to identify which one was used for usury and which one for interest. On the other hand, Gautama, the ancient lawgiver permits kusida to a Brahman if he does not distinguish between vrddhi and kusida and lays down that the varddhusika (one who lends at interest) should take vrddhi. In the opinion of Vasistha, a varddhusika lends what he has acquired cheaply, to increase its quantity. Brhaspati's concept of usury was different however, according to him, the use of a pledge after twice the principal has been realised: compound interest and the addition of interest to the principal should consider as usury and are to be criticised.

The legal texts from ancient to medieval times show a changing attitude towards charging interest by members of various social classes (varnas). Lawgivers of the 5th-3rd centuries B.C. permit lending at interest only to the Vaisyas. The lawbooks of the following centuries till the Gupta age also do not allow Brahman to practice usury and live their life on interest. However, roughly three centuries later, the notion about usury and its practice began to change. In the 9th century A.D. commenting on Manu, VIII, 140, Medhatithi states that the god Vasistha, who possessed knowledge of all the three ages and was free from weaknesses of greed etc., accepted interest at the rate of 1/80th of the principal. The comparative rarity of the use of coin during the four centuries following the Gupta period leads to thinking that the supply of cash was limited and hence the rate of interest became higher. The decline in foreign trade may have been another reason for want of cash.



It is interesting to note that ancient Indian people were very much anxious about the repayment of debt and credit came into being. The practice of charging interest on monetary or non-monetary loans, however, appeared as a stumbling block in this circle of pure obligations. The perspective of the ethical responses from the ancient Indian thinkers evolved from time to time. Hence, it is from such a deep sense of gratitude that the three-debt theory of ancient Indian philosophy of life has evolved. Rina or debt is thus, an obligation on us and we are expected to repay it. In the later Vedic period, the growing orthodoxy received too much importance and elaboration which needed more wealth to perform costly sacrifices. Such costly sacrifices need money and the practice of usury began to play an important part in this period and money lending began to associate with the regular profession. In this later vedic time, the term kusida was associated with material debt different from the spiritual ones but rina was still associated with both kinds of debts. By this time, lending money on an appropriate interest had become legal and it was not looked down upon. Before the development of definite coinage or currency system in ancient India, the activities of lending, borrowing and repaying would have been going on in the form of transactions in kind and bullion, a state of affairs natural to the pre-monetary state of evolution. Ancient Indian lawgivers struck a balance between the two extremes by choosing the course of the golden mean and developed a distinction between the dharmyavrdhhi and adharmyavrdhhi of the capital legally sanctioning the propriety of the normal rate of interest while disapproving the abnormal and exorbitant ones. At this juncture, we can distinguish the term kusida from the vardhusa. Kusida was legal and religiously sanctioned but vardhusa, the lending on a higher rate of interest was still condemned.

The practice of money lending is often held responsible for the exploitation of the peasant class by the aristocratic rulers and has its importance in shaping the structure of the ancient Indian economy as a whole has not been placed properly. There is hardly any doubt that simultaneously with the introduction of money, borrowing and lending also stepped in for money besides being a medium of exchange is also a store of value. In modern times, our economy has a most sophisticated credit structure as compared to which ancient Indian credit structure was certainly a poor match. Apart from individual money lenders, ancient India had guilds, temples, village assemblies and even states as an institute of money lending. Huge amounts were taken as fixed deposits and returned for the stipulated rate of interest made perpetually available. Credit was thus used as a device to boost business and industrial capital, although on a limited scale. It was under the influence of the two opposite streams of thought, one of the Vedic pravrttimarga and the other of the Upanishads nivrttimarga adopted also by the non-Vedic religious that we get two extremely opposite attitudes towards this interest seeking profession of money lending. The distinction can also be found in the later texts. Thus, Narada defines vrddhusa simply as the lending of grain on interest. He does not relate it at this place with an exorbitantly high rate of interest which is condemnable. But elsewhere he sanctions even vrddhusa as the permissible profession for the Vaisya in times of distress. This shows that Narada did not look at vardhusa as a normal interest earning even for the Vaisyas.

Usury in Yajnavalkyasmriti

Yajnavalkyasmriti considers usury and essential a normal economic activity in which anyone can lend cash or kind and likewise a person in need can borrow on fixed interest whatsoever his varna or caste. The smriti provides state protection to the practice of usury and suggests that the king should not only help the lenders in recovery but should also manage loans for the needy by the lenders on surety. If the king has to intervene in the loan dealing, then he would get ten percent of the amount involved in the dealing. But it prohibits the intervention of the king in the normal and lawful practice of usury. In almost all ancient legal texts Brahmans and Kshatriyas are either totally prohibited or allowed with stricture from practicing lending at interest. But Yajnavalkyasmriti avoids considering the lending system on varna lines except in the case of the rate of interest.

The rate of interest laid down by Yajnavalkyasmriti shows that money and material were transactable in the lending system. For the money, it laid down the rate of percentage interest, whereas, for kinds, it prescribed the maximum to which the interest can arise. It lay down that the monthly rate of interest should be $1/80^{\text{th}}$ of the principal amount when a pledge or mortgage is given against the loan. But when the money is lent on personal security, the rate of interest should be 2, 3, 4 and 5 percent for Brahmana, Kshatriya, Vaishya and Shudra respectively. Regarding the loans of women and cattle, their issues are termed as interest, whereas on liquids it should be eight times the capital. On a loan of cloths, grain and the smriti direct the total recoverable cannot exceed four, three and two times the capital respectively.

Money lent for purposes of trade and commerce is charged higher interest in the Yajnavalkyasmriti. It lays down ten percent for those traders who traverse forests and twenty percent for those who carry on maritime trade. It further provides liberty to the lender to fix the interest as accordingly agreed upon by the debtor. Vijnaneshwar has justified the reasons for exorbitant rates as the danger of the loss of even the principal amount in these types of trade was high. It also deals with the repayment of the loan in detail. According to it, if a person has taken loans from several lenders, priority in repayment should be given to the hierarchy of varanas. It suggests that if a debtor becomes insolvent and his caste is lower than the lender, the debtor should be forced to work and pay service to the lender according to his caste. The text has exonerated Brahmans from this provision and has advised recovering the loan on an instalment basis according to the capacity of the Brahmana debtor.



Regarding personal loans, the members of the family, viz., wife, husband, son and father, have been exonerated from the repayment of the loan. But if the loan is taken for the family purpose, then after the death of the debtor, the loan had to be paid by the wives. In only one case, the wife was responsible for the repayment of the loan, when the loan was taken for the treatment of the diseased husband or loan had been taken by the husband for a foreign trip. If the father had gone abroad or had died, then the son and the grandson had to refund the loan. In normal cases, the partners of wealth and the successors are liable for the loan taken by the owner of the wealth. Yajnavalkyasmriti has provided that if a debtor clears the loan with due interest and the lender does not accept the loan returned, the total amount should be deposited to a third party called Madhyastha and from that day no interest shall be levied upon the debtor. Hence, unlike other lawbooks, Yajnavalkyasmriti considers the collection and repayment of loans on a humanitarian basis. The lawbook also makes arrangement for exemptions from the loan repayment as well as the interest.

The guarantors become an essential part of the money lending system in ancient India. According to Yajnavalkyasmriti, one who takes responsibility for the recovery of the loan is called pratibhu, guarantor. Three types of pratibhu in the smriti are found. The first is called darshan pratibhu, who remains present at the time of loan dealing. The second is pratyaya, in which the guarantor assures the lender for recovery of the loan on behalf of the debtor. The third one is called dan pratibhu who agrees to refund the loan himself if the debtor fails to repay. The smriti further provides that if darshan and pratyaya pratibhu dies during the loan period then their sons are not responsible for the recovery of the loan. But the son of a dan pratibhu is liable to obey the commitment of his father. It also suggests that if there is more than one guarantor of dealing and the debtor fails to refund the loan then all the guarantors of a loan should divide the principal with interest among themselves and refund to the creditor. The smriti stresses that members of the family of the debtor cannot be a guarantor in any type of loan dealing.

Apart from the guarantor, the Yajnavalkyasmriti also makes witnesses and written agreement an essential part of a loan dealing. It advises that witnesses must be of high character and like guarantors, there must be a third party. According to the smriti in the agreement, the principal amount, rate of interest, mode of repayment and loan period with the names of the creditor, debtor and witness with their period with their gotra and caste and father's name must be written. The date, month and year of the agreement should also be mentioned. For a valid agreement, the creditor, debtor, witness and the writer of the agreement must put their signature and write their father's name. The smriti suggests that the number of the witness should be even. The smriti further says that if the agreement is written by the debtor and creditor themselves then there is no need for a witness and hence accordingly the written agreement is valid for three generations. To avoid dispute, it directs that the debtor must note down the amount refunded on the back of the agreement while the creditor should issue the receipt of the amount received from the debtor. It further provides that the loan must be refunded in the presence of the witness.

The Yajnavalkyasmriti also deals with the pledge and calls it Adhi. It provides that if the interest on the pledged estate exceeds two times the price of the estate mortgaged, the right of the debtor is forfeited on the pledged estate. But if the mortgaged estate is productive (such as land) and the creditor uses it then the property right of the debtor remains intact. The lender can use the pledged estate till the loan is refunded to him. It provides that if the mortgaged estate is destroyed due to divine calamity, state anarchy or theft then the creditor is liable to refund the estate of the same price to the debtor at the time of the final repayment of the loan. The smriti warns the creditor to return the pledged estate at the time of the repayment of the loan otherwise the creditor might be punished by the king. It suggests that if the loan amount becomes double the price of the pledged estate, then the creditor has the right to recover the pledged by selling out the estate in the presence of the witnesses. But if the pledged estate is productive then the debtor has the right to recover the pledged estate after the payment of the loan. Thus, the Yajnavalkyasmriti makes full provisions for safe usury based on legality.

It seems that the purpose of the elaborate description of loan dealings in three consecutive pradhikaranas in the Yajnavalkyasmriti is to prevent the exorbitant rate of interest and protect the interests of both the lender and the debtor. It is a progressive lawbook of ancient India, which provides for guarantors and witnesses, mentioning their full personal details. It prescribes the rate of interest on money and kinds, even on animals and women. It also mentions the various forms of interest. It involves the state in loan dealings and provides state protection to the practice of money lending and dealings in kinds and other materials. The only conservative aspect of the lending system in Yajnavalkyasmriti is that it supports the principle of the lower the varna the higher is the interest. No doubt it touches upon all aspects of the lending system and makes necessary arrangements to carry on this practice smoothly under the garb of the legal sanctions.

Rate of interest

From the fifth century B.C. onwards loans were given in both cash and kind. Some early lawgivers, such as Baudhyana and Gautama mentioned the percentage in terms of coins which shows that money lending was practiced. Some later lawgivers do not clarify it but the rates they lay down refer to loans in cash. Concerning loans in kind, they do not indicate the rate but merely prescribe the maximum to which the interest can arise. The rate of interest lay down by the legal texts shows a tendency towards a gradual



increase. Baudhayana prescribes 10 percent per year but Gautama whose lawbook was compiled later raises it to 15 percent which is supported by Vasistha. This rate is endorsed not only by the Arthashastra of Kautilya but also by the lawbooks of the first six centuries of the Christian era. Thus, by the ninth century, there seems to have taken place an appreciable increase in the rate of normal interest which is a general rise from 12 percent in the fifth century B.C. to 24 percent in the ninth century A.D. The comparative absence of the use of coin during the four centuries following the Gupta period leads us to think that the supply of cash was limited and hence the rate of interest became higher. The decline in foreign trade may have been another reason for the want of cash.

Money lent for purposes of trade is charged higher interest. Kautilya characterises 15 percent as legal but lays down 60 percent for those who are engaged in ordinary trade, 120 percent for those traders who traverse forests and 240 percent for those who carry on maritime trade. The same rates for the three grades of traders are laid down by Yajnavalkya whose eleventh-century scholiast Vijnanesvara explains the reasons for it. According to him, these exorbitant rates are justified by the danger of the loss of even the principal as the debtors may perish on account of shipwreck or the attacks of robbers and wild beast. During post-Maurya times in northern and western India, endowments in money were invested with guilds which undertook to pay a certain amount of interest for carrying on worship but the rate is not mentioned anywhere. The oldest hint of such rates is thrown by the South Indian inscriptions of the early medieval period.

The ancient lawgivers down to the time of Manu seek to regulate the return of a few articles given on loan, but these provisions became more detailed in the law books from Gupta times. Vasistha lays down that the return on grain, roots, fruits and fluids shall be three times and that on things that can be weighed shall be eight times. It appears that the articles which can be weighed were meant to be loaned to small traders or producers. Gautama prescribes a higher rate, although he does not differentiate between various kinds of articles. According to him on loans of grain, fruits, wool and beasts of burden and products such as ghee and milk from cattle, the total recoverable cannot exceed in any case five times the capital. The provision is repeated by Manu. Narada and Visnu lay down the following schedule more or less on similar lines:

Gold	2 times
Grain	3 times
Cloth	4 times
Liquids	8 times
Women and cattle	One issue

Brhaspati's provision regarding gold is the same as that of the two lawgivers but is somewhat different regarding other articles as would appear from the following:

Gold	2 times
Cloth and base metals	3 times
Grain, edible plants, cattle, and wool	4 times
pot-herbs	5 times
Seeds and sugarcane	6 times
Salt, oil and spirit	8 times

As mentioned in the earlier lawbooks of Gautama and Manu, the pledge became obligatory and prevalent from Gupta times. The practice of mortgaging land for interest which began towards the end of the Gupta period continued for another three or four centuries. This again points to the practice of pledging land for the payment of debts. Curiously enough, the Mitaksara does not favour it. Brhaspati lays down that a creditor should never lend money without having first secured a pledge of adequate value or a deposit or some trustworthy security, nor without a bond written by the debtor himself. Along with Narada, he provides for the enjoyment of the pledge instead of interest. According to him, the pledge which was not given instead of interest lapses to the creditor a fortnight after the date when the principal is doubled or the stipulated period has expired. On the contrary according to Narada, the foolish fellow who enjoys the pledge (bandhaka) without the term of the debt being completely out of greed is not entitled to any profit for such a pledge should be protected like a deposit (nyasa), if it is not interesting is destroyed. The same idea is expressed by Narada according to whom a pledge should not be used by force, if the creditor does so he should surrender the interest due to him from his debtor. Moreover, he must compensate the owner for the pledge or else he is considered a thief appropriating the pledge.

The detailed laws regarding interest on such commodities as grain, cotton, milk products, salt, sugar, fruits, etc, laid down by the lawgivers of Gupta times and their successor shows that these were lent to traders as well as ordinary peasant consumers. They create the impression that loans in kind were more frequent than those in cash in early medieval times- a feature in keeping with the



largely self-sufficient character of the economy of the period. It is possible to differentiate between the ancient and medieval systems of interest in certain respects. In ancient times, the Vaisyas were permitted to live on the interest, but in early medieval times, even Brahmanas and Kshatriyas were allowed to practice lending on interest which was generally forbidden to them in ancient times.

It seems usury had deeply penetrated not only in rural life but also in urban life, penetration being impelled by the large magnitude of the land revenue demand and the growth of cash nexus. The paradigm shift of agricultural products to towns from village markets through commercial channels and the revenues of the city people helped to create and maintain a large non-agricultural population consisting of various classes such as artisans and labourers, petty traders and merchants and nobility and its hangers-on. Spontaneously, they seem to be attracted more towards maintaining monetary relationships than urban-rural population relationships.

Conclusion

The social attitudes towards usury have changed dramatically over the centuries. From earlier times, usury was regarded as an inherently evil activity. However, in the present scenario, usury is accepted with few exceptions here and there. Today's criticism to usury is diverted upon demanding excessive interest rate than interest per se. With this changing attitude towards usury, the very definition of usury has changed. Many early pronouncements against the taking of interest emphasised the plight of the poor but ironically, the poor pay the higher rate of interest in modern society. Despite the usury's universal appeal, some religious institutions still have a way to avoid indulging in usury and taking or giving of interest. Orthodox branches of both Islam and Judaism have maintained bans on usury throughout the centuries and up to the present time.

Monetary power is essential for adopting any commercial economic activities. Even in non-economic enterprises such as war money is needed in great bulk. So, the circulation of cash is essential and cannot be achieved without the proper channel of cash flow. In modern times, our economy has the most sophisticated credit structures, was certainly a poor match. But to say that in ancient times credit structure worth the name is patently wrong. Apart from individual money lenders, ancient India had guilds, temples, village assemblies and even states as institutions of money lending. Huge amounts were taken as fixed deposits and returned for the stipulated rate of interest made perpetually available. Credit was thus used as a device to boost business and industrial capital although on a limited scale. A very high rate of interest on risky business loans further indicates a method of inviting capital on the assurance of sharing the high profitability of such enterprises. Devices were also known as is clear from the provision of an *adesa* in Kautilya's Arthashastra and reference to *hundika* in text like the *Lekhapaddhati* for transferring huge amounts from one place to another. The money was transferred through notes of credit without actual transactions of the amount. It is thus clear that money lending was an essential element in the ancient Indian economy and the importance of its role increased with the greater and greater prevalence of money.

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