We Need to Talk About Usury

CPERC Debt Workshop

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‘Usury’

= Lending at interest, or at interest rates regarded as excessive . . .

? Pre-modern category, based on irrational/religious dogma/arbitrary authority?

Resistance to usury in contemporary liberal societies

- A form of unwelcome dependence, inequality, that threatens relationships of equality. E.g.:

  - borrowing from a friend > unwanted asymmetry

  - borrowing from a bank > more asymmetric but de-personalised
- ‘Moral economic partitioning’

Varieties of loans

- Loans of productive assets (e.g. a hen) v. loans of ‘barren money’
- Productive loans v. consumptive loans
- With or without interest
- With or without debt-peonage/slavery as an option
- Different allocations of risk between lender and borrower

  - with or without collateral, different bankruptcy laws

  - gains and losses can be shared – or not
- Loans of savings or credit money
- Debt as an asset, capable of being traded

Usury . . .

- is a source of unearned income*;
- extracts wealth from the productive sector in a manner that is parasitic;
- extracts wealth from those who lack wealth (the asset-less) and transfers it to the already rich (those with assets); and
- makes a claim on the future.

(adapted from Anne Pettifor (2006) *The Coming First World Debt Crisis)*

* Extracted ultimately from producers, and privately, not democratically controlled

Islamic Banking*

- Basic principles - lender and borrower should share the profit ***or loss*** associated with the use of the loan. No predetermined interest.
- *Musharakah* – borrower invests some of own capital in the venture
- *Mudurabah* – borrower invests own labour in the venture, lender liable for financial costs in the event of failure
- *Murabahah* – borrower pays admin costs to the lender for interest-free loan (?)

*Charles Tripp (2006) *Islam and the Moral Economy*, Cambridge UP

‘Moral’(?) defences of interest

1. Reward for abstinence
2. Compensation for risk
3. Entitlement/free contract – the owner of money is entitled to lend it and the borrower is entitled to borrow it, assuming no deceit or duress.

1 and 2 mistake justifications(?) for explanations.

3. Conditions often not satisfied + ignores privately created credit money.

Pragmatic defences

- Credit essential for markets and capital to function efficiently – for bridging time gaps in payments and expenditures, speeding up circuit of capital
- Credit can enable investment
- Unless savers are paid interest they won't lend – so money won't circulate properly (ignores credit money)
- Flexible interest rates allow risk to be managed
- Consumer credit is *popular* (from dread and shame to entitlement and social inclusion)

Further problems of contemporary usury

- It’s predicated on unceasing growth – compound interest extracts wealth at rates that exceed wealth production;
- It increases pressure on the environment;
- At macro-economic level, consumptive loans reduce rather than increase the ability of borrowers to repay;
- Increasing debt for consumption and purchase of existing assets rather than for productive investment creates asset bubbles;
- Indebtedness throughout the lifecourse;
- Actively increasing government debt allows financial capital to discipline governments and shrink the public sector: in effect to switch from taxing the rich to borrowing from them. I.e. credit/debt as a neoliberal weapon;
- Complicity of the public (‘the fortunate 40%’) through pensions;
- The absurdity of companies ‘loading up with debt’ to avoid takeover;
- ‘Leveraged buyouts’;
- Neoliberal delusion of wealth extraction as a spur to wealth creation in the real economy. Neoliberalism as new rentier-dominated economy.

Contemporary Normalized Usury: Wonga advert (APR = 4214%)

Conclusions

- The critique of debt must go back to the critique of usury, to treating debt as a social relation, to be evaluated in terms of both its functionality and its fairness and the implications for the public and environmental good.
- The critique of usury is more relevant than ever!

Inconsistencies, hypocrisies

- narrative of the feckless borrower and the innocent lender, but:
- a company declaring itself bankrupt is seen as OK, and in some circumstances, as smart: “they can restructure their debts, renegotiate with the unions and generally get a fresh start.”
- Finance Addict = (author) ‘The hidden meanings of debt’, http://www.creditwritedowns.com/2011/12/the-hidden-meanings-of-debt.html
- Lender wants the borrower to be able to repay (unless they can sell on the debt)

The normalisation of consumer debt

- From scarcity, dread and shame to abundance and entitlement, a mark of social inclusion
- Consumer savings

  – from national savings contributing to public investment (prudence and self-interest combined with acting in the public good)

  > to prudent/smart ‘investment’, purely self-interested,

 - from investment in production, infrastructure, skills to ‘investment’ in existing assets (wealth extraction) https://www.wonga.com/

Explanations, Justifications and Critique

- *Explanations* of economic institutions – largely a product of power – ‘because they can’
- *Justifications* – in terms of benefits, necessity, fairness, justice
- Critiques – either or both;

  - engineering – malfunctions, irrationalities, contradictions

  - ethical – justice/fairness, well-being

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