

Twenty years ago Margrit Kennedy<sup>1</sup> published a short book entitled *Interest and Inflation Free Money*.<sup>2</sup> She cited German studies of the *Interest Content* in the prices of different products and services. Her conclusion was that inflation was caused by interest-bearing money. The studies also suggested that the greater the capital content and the longer the term of the funding, the higher the proportion of interest in the price. In the case of water and sewerage service interest could account for half of the price. Kennedy believed that much of a country's business and economic activity could be interest-free.

The fifth chapter of Henry Swabey's *History of Usury and the English Church* is about *Church Mints* and R.H. Tawney in his ten-essay introduction to Thomas Wilson's *Discourse Upon Usury* devotes two of them to the subject of the Elizabethan exchanges. Mints and exchanges are the bedrock of every financial system. The edifices built upon these basic foundations are seldom essential for the sound operation of a real economy. Over elaboration and complexity, in and of itself, is often the problem. 'When something is wrong,' Leopold Kohr<sup>3</sup> once wrote, 'Something is too big.'

One interesting conclusion arising from Swabey's investigation is that over the past thousand years, mints and exchanges have come and gone in England. As the enforcement of the Church's *Doctrine of Usury* has waxed and waned, so *Coinage Power* has flown to and from the centre. Good times and bad times in the *Real Economy* seemed to correlate with the flow. Decentralised mints would appear to be essential for prosperity. There are periods in the past thousand years of England's written history when these mints and exchanges served the needs of the gentlemen, the shop-keepers and the yeoman farmers who had a part to play in the cash economy of their age. But they were seldom more than a small minority.

Calvin is often cited as the theologian who drove the wedge into the *Doctrine of Usury* and set the merchants free from the constraints of its traditional prohibition. It is true that in the United States in the nineteenth century it was the Calvinist churches who sided with the *Bankers* against populist politicians like Andrew Jackson<sup>4</sup> and their championing of the public right to issue currency.

But the Calvinist churches misunderstood the subtlety of Calvin's teaching and the context in which he developed his doctrine. The principal villain was not Calvin but Bentham. Bentham equated interest with usury. It seems he knew no better. He was a blunt man. The measure of his success is clear from any survey of a dozen undergraduates. Eight or nine of those asked will have no idea what usury is and the others will tell you it is an old-fashioned word for interest.

One of the most exciting developments in recent years has been the way in which the *Grameen Bank*<sup>1</sup> have recreated the system of usury-free mints and exchanges formalised in England by the *Usury Law of 1571* and have developed the techniques of lending out money to the poor at interest but not at usury. And they are ridiculously successful. The *Loan Recovery Rates* of nearly all Grameen Banks are in the high nineties and average 98%. This compares with the 70% and below for many conventional banks...before taking account of the billions upon billions of write-offs and write-downs generated by the *Credit Crunch*.

*Grameen Loans* meet the fairness criteria of the *Doctrine of Usury* by being subject to renegotiation by the borrower in the light of his changed situation. They also follow the *ABC Analysis*<sup>2</sup> approach of the *1571 Law of Usury* by specifying a repayment ceiling above which they do not go.<sup>3</sup>

The *Grameen Banks* provide microcredit programmes at interest rates that fit into one of two zones: the *Green Zone*, which equals the cost of funds at the market rate plus up to 10 percent, and the *Yellow Zone*, which equals the cost of funds at the market rate. Other microcredit suppliers are now moving into the *Red Zone* above these rates of interest with profit-maximization as their goal.

But the *Grameen Banks* avoid this territory. They are not in business to earn large profits for shareholders and other investors but have very different objectives. Institutionalising the traditional *Moneylender System* is not one of them. In Bangladesh, for instance, the *Grameen Bank* has very successful *Home Loans for The Poor*<sup>4</sup> and *Microcredit Lending* to beggars.<sup>5</sup>

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<sup>1</sup> <http://www.margritkennedy.de/index.php?lang=EN>

<sup>2</sup> <http://www.margritkennedy.de/index.php?modus=BUE&inc=ENG&lang=EN>

<sup>3</sup> [http://en.wikipedia.org/wiki/Leopold\\_Kohr](http://en.wikipedia.org/wiki/Leopold_Kohr)

<sup>4</sup> [http://en.wikipedia.org/wiki/Andrew\\_Jackson](http://en.wikipedia.org/wiki/Andrew_Jackson)

## Endnotes to Usury Free Banking

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- <sup>1</sup> *Grameen* went back to the drawing board in 1999 and came back with a major upgrade in 2001 which they refer to as *Grameen II*. ‘The differences between *Grameen I* and *Grameen II* are many and interesting’ (to quote the *Nobel Prize Winner* Muhammad Yunus who founded the *Grameen Movement*...see the full story in *The Poor Always Pay Back: The Grameen II Story*. Predictably attempts have been made to discredit the *Grameen Microcredit* idea by hijacking the meaning of *Social Business*. There were 3000 delegates at a *Microcredit Summit* in Washington in 1997 prompting Yunus to classify microcredit programmes as Poverty-focused (Type 1) and Profit Maximizing (Type 2). Type 2 was just fine as long as they were targeted at the Middle Classes. They should be kept away from *The Poor*.
- <sup>2</sup> There are two aspects to the *Parliament of 1571's* deliberations on the *Act of 1571*. Firstly they took the Francis Bacon line (see his *Essay on Usury*...a masterpiece of concise erudition) and in effect did an ABC analysis of the problem of usury by saying there is outrageous behaviour (A), sensible socially acceptable behaviour (C) and then a grey area in between (B). As a first approximation civil society was given the OK to adopt 10% as the discerning factor (Bacon put it at 5%) and the *Doctrine of Discernment* is a key concept in *Catholic Christian Ethics*. So we get Class A Usury as anything over 10%, Class B Usury as 0-10% and Class C Usury at 0% and under...at which point the Lender pays the Borrower a *Stewardship Fee* for looking after his money. Secondly Parliament adopted distinctly different approaches to the three classes of usury in the administrative procedures of the *Doctrine of Usury*. Class C cases are dismissed out of hand. ‘No case to answer! Don't waste the Court's time! Credit makes the world go round! Of course the Merchants are right and the Theologians are splitting hairs! Go dance on pins! However *The Poor* should pay lower and not higher rates of interest for their credit. Why? Because they are poor so they don't have any money. Christian Charity, common courtesy and run-of-the-mill justice. Class A cases are also dismissed...but done so by the *Courts* so that the dismissal is backed up by the full force of the Law, its Prisons, and its *Law Enforcers* and the *Property Confiscators*. The Penalty imposed on the *Usurer* is three times the amount stolen...although previously as Swabey demonstrates it was much worse than this for the *Usurers*...eternal damnation, no Christian burial and then some. One of the real subtleties in the *Act of 1571* is the manner in which Civil Society is commanded to deal with *Class B Usury*. Here the *Parliament of 1571* takes what constitutes in effect a *Citizen's Arrest* approach. Tawney's understanding of this is spot on in his *Compromise of 1571* essay where he quotes from the author of *The Death of Usurie* (1595)...Page 82 in the full text version.
- <sup>3</sup> The *Grameen* ceiling is twice the sum borrowed...a *Repayment to Principal Ratio* of 2.0. In my 1998 *Canterbury Papers* I suggested a ceiling of 1.3 as a way to compel the financial system to incorporate the period of the loan, the interest and the fees into a single measure. *Grameen's* thinking is along similar lines. Discussion of public policy should be refocused away from interest rates which are bedevilled by the (minor usury induced) problem of inflation, to concentrate instead on the Judaic seven year rule...and mortgages in this country are now stretching out to 50 years and beyond...by combining principal and interest into a single acceptable/unacceptable usury index based on the money received by the *Borrower* and the money returned to the *Lender*. In this country the *Office of Fair Trading* has a *de facto* definition of unacceptable monopoly as in excess of 30% market share. So let's use the same number so that the break point between *Class A* and *Class B Usury* is not ten percent (or 8 or 6 or 5) but the point at which *Repayment to Principal Ratio* exceeds 1.30.
- <sup>4</sup> The *Grameen Home Loan Programme* should be the model for the first *Public Credit* issue in the UK. Instead of turning building societies into unsuccessful bankers which was the effect of the act of vandalism by the *Thatcher Government*, they should have been confederated into a *Freddie Mac* and *Fannie Mae* at the county level and outsourced to *Grameen* for the introduction of *Grameen* principles for one-home owners in the UK.
- <sup>5</sup> The *Grameen Struggling Members Programme* currently lends microcredit to 100 000 beggars. To date the *Beggars Loan Programme* has lent out 95 million taka and had 63 million of it repaid. Meanwhile 10 000 beggars have managed to take themselves off begging.