

## **Against usury: solving the financial, ecological and welfare crises**

*by Robert Van de Weyer*

In economic and political matters Christians often find themselves adopting the views of secular thinkers and campaigners, usually left-of-centre in their bias. Yet prior to the seventeenth century Christians had their own distinct economic outlook, arising from the Bible: that usury is the fundamental cause of economic crises and injustices, and that its prohibition, or at least reduction, is the only means to sustainable prosperity for all. Islam, which continues to prohibit usury, adopted its antipathy from Christianity.

Sadly, owing in part to a misunderstanding of the nature of usury by the great reformer John Calvin, amongst others, the Christian churches lifted their prohibition; and many devout Christians became ardent usurers, accumulating great fortunes in the process. However, usury lies at the heart not only of the current economic and financial crisis, but also of two other much deeper and longer-term crises: the degradation of our natural environment, with the acute danger of disastrous climate change; and our failure to devote sufficient resources to social welfare, especially education and healthcare.

Usury is often defined as the charging of interest on loans; and it is this that the Bible specifically outlaws. Scholars in medieval times reflected on what was wrong with charging interest, and they concluded that it was the unequal sharing of risk; indeed, the Fifth Lateran Council in 1512 adopted this as its definition. We may seek to eliminate risk by quantifying it and then spreading it, such as through insurance. But, as the medieval writers understood clearly, this assumes that the past is a reliable guide to the future, which it is not. It also assumes that there are no hidden factors linking apparently disparate risks – the problem of ‘systemic risk’, in modern jargon. In fact, to our Christian forbears human efforts to quantify and spread risk would have seemed like idolatry, since God alone can know the future.

The medieval scholars thus argued that usury is intrinsically unjust. It is obvious that a transaction is unjust when one party benefits far more than others, such as when the seller exploits monopoly power. Similarly it is unjust when one party carries far more risk than others – although, since risks may be ‘upside’ as well as ‘downside’, it is impossible to know in advance who will win or lose.

There are three main forms of usury in modern society, which are the causes respectively of our economic recession, the chronic under-funding of welfare services, and the long-term ecological crisis.

Modern banking is founded on usury in the primary sense of charging interest: banks take deposits from the public, and then lend that money at interest to individuals and businesses. In normal times the borrowers carry the risk, since, regardless of changes in their financial circumstances, they must still pay the interest and repay the loan itself. At the same time the banks promise depositors – who in effect are lenders – that they can withdraw their loans on demand; and this has enabled bank deposits to become the main form of money.

But in abnormal times – such as occurred in 2008 – when large numbers of borrowers start to default, the banks are unable to honour their promise to depositors, thereby threatening the entire economic system. Governments thus have no choice but to guarantee the deposits with taxpayers’ money – so the risk is transferred in its entirety to

the public. The implicit knowledge of this taxpayers' guarantee has encouraged banks to lend recklessly at high interest, enabling bankers to pay themselves large bonuses.

The usurious nature of banking has, however, had a much deeper and more damaging effect on the global economy than provoking a brief financial meltdown. By providing a safe place for people to keep their money, banking encourages very high levels of saving, especially in Asia. During the long boom prior to 2008 people in the West were willing to borrow those savings to fuel a housing bubble and excess consumption. But now Asian savings remain very high, while western savings return to normal levels. As a result there is chronic lack of demand in the global economy. Governments are currently disguising this by huge levels of public borrowing and spending. But this cannot continue; and sooner or later the global economy will find itself mired in a chronic recession, with high levels of unemployment – just as the great economist Keynes predicted.

The second main form of usury is taxation. Most western governments now take over 40% of people's income in various forms of taxation. But a major effect of high taxation is to skew the risks taken by those starting and expanding businesses, on whom our prosperity ultimately depends. If a small business fails, as many do, the entrepreneurs bear all the losses; but if it succeeds, the state takes a large share of the profits. This inevitably discourages new business, especially those engaged in developing new technologies where the risks are highest.

This, however, is only half the problem. Most of our taxes are spent on healthcare, education and social security. And these are areas where the costs tend to rise, and where demand increases; indeed, even now we are undoubtedly spending too little. Yet if we to raise taxes even higher to pay for expansion, the damage to our economy would be so great that tax revenues would actually fall. So we are caught in a trap: we need and want better social welfare; but while it is financed through usury – in the form of taxes – we cannot have it. In fact, if we had some other means of meeting our demand for social welfare, we would eliminate unemployment at a stroke.

The final and worst form of usury is pollution. Through our emissions of greenhouse gases and other pollutants, we are imposing incalculable risks on future generations. Even those inclined to disbelieve predictions of climate change must agree that rapid rises in temperatures are a possibility – and that the consequences to our descendents could be appalling.

Just as usury is the common cause of these profound crises, so we can only resolve them by tackling them together.

In the first place we must take the provision of social welfare out of the hands of government, and create social trusts of various kinds to which we contribute directly. Just as historically the extended family acted as the means by which the able-bodied looked after the young, sick and elderly, so we must each be required to subscribe to entities that finance education and healthcare. Such trusts could compete with one another to provide the best service, with the government having inspectors to ensure minimum standards. Taxation should be confined to subsidising the subscriptions of the poor. By this means we would find ourselves choosing to spend far more on social welfare, with far higher standards, and less on material goods.

Once people are confident of good social welfare, they will have no need to save without risk through banks. So we can divide the banks into two, eliminating financial

usury. There should be deposit banks that purely protect and administer our money, charging a fee for their services. And there should be capital banks providing capital for businesses, mortgages and so on, where we invest our money at risk, receiving income from what the banks earn. Taxpayers would thus no longer have to underwrite the banking system.

This in turn would at last embolden us to tackle pollution. It is now three decades since we became aware of the dangers of climate change; yet investment in the development of clean energy technologies has been meagre, and the results pitiful. The reason is such development projects are highly risky, so banks typically refuse to fund them. But if the only means of accumulating wealth were to invest at risk, funds would become plentiful. Governments could then announce that in, say, 15 years' time greenhouse gas emission would be illegal. This would hugely increase the potential returns on clean energy technology, multiplying the funds invested. Just as a similar policy eliminated CFCs within a few years, this policy alone can accelerate the changes necessary to save our planet. And if a single major country, such as Britain, pioneered it, the result would be an economic boom that would induce other countries to follow.

Christians hold in their Bible the key to all humanity enjoying a prosperous, just and secure future. Are they willing to take that key, and invite the rest of the world to help them turn it?