LENDING FOR PROFIT: *IS LOAN INTEREST DEFENSIBLE?*

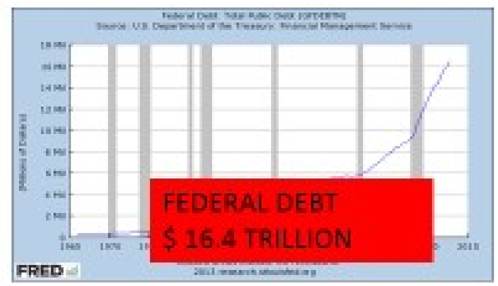
HOW DID OUR WORLD END UP IN SO MUCH DEBT?
ANSWER: USURY

STUDENT DEBT
$ 1 TRILLION +

MORTGAGE DEBT
$ 13 TRILLION

CREDIT CARD DEBT
$ .8 TRILLION

CORPORATE DEBT
$ 8.7 TRILLION

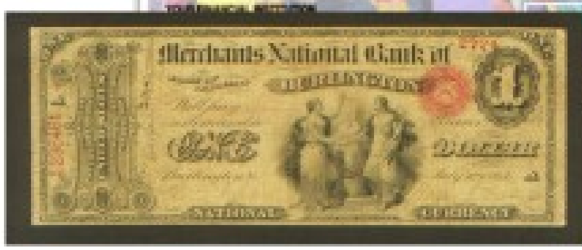


FEDERAL DEBT
$ 16.4 TRILLION

STATE & LOCAL DEBT
$ 3 TRILLION

LENDING FOR PROFIT: *IS LOAN INTEREST DEFENSIBLE?*

Does interest concentrate wealth? Steal the labor of others? Compromise the dignity of the full reward of labor? Cause economic instability? Affect negatively future generations? Destruct nature?



INTEREST: FEE
FROM BORROWER TO LENDER
FOR USE OF MONEY

FIRST -- WHAT IS MONEY?

MONEY IS UNIQUE –

It has the power of life and death
over each and every person

It is **indispensable** for society to function. It is **essential** to the existence of society.

It is an **invention of humans** --A ticket system for the distribution of goods and services.

It is **absolutely necessary:** humans demand a means of exchange and valuation – to meet everyone's needs for life and progress.

<u>FUNCTIONS OF MONEY</u>

Means of exchange – <u>a ticket</u>. Not wealth.

Store of value – an important quality - its steadiness in value. Therefore, it is useless unless its quantity is limited and controlled.

Measure of value – defined in law & marked with stamp of sovereign authority

Means of payment: legal power to pay debts -- public and private

WHAT MONEY IS NOT

MONEY IS NOT WEALTH, NOT A COMMODITY.
MONEY IS A MEDIUM OF EXCHANGE,
SERVING HUMAN NEEDS.

MONEY IS NOT CREDIT (DEBT).
WE PAY OUR DEBTS WITH MONEY.

A SOCIETY DEFINES ITS MONEY IN THE LAW

Aristotle

"it exists not by nature, but **by law**"

Edward Kellogg, 1861, A New Monetary System:

"**The most important fundamental law in any nation** is that which institutes money; for money governs the distribution of property, and thus affects in a thousand ways the relations of man to man."

FOR MOST OF HISTORY,

USURY = LENDING WITH INTEREST

WHEN DID USURY START?

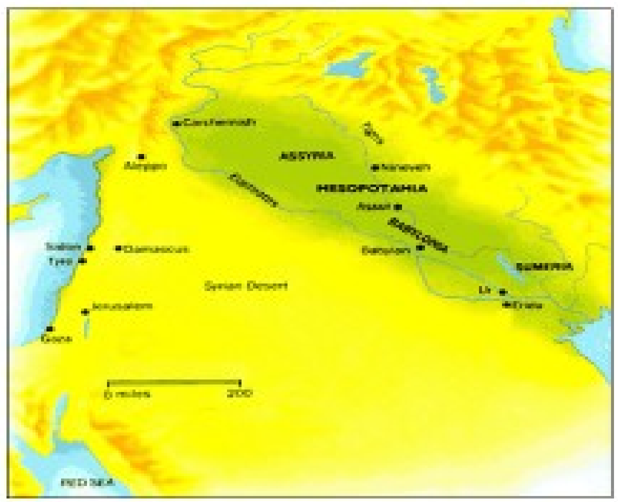
USURY IN THE FIRST CIVILIZATION:
lending with interest

2500 BC Early Urban States:
EGYPT, ASSYRIA, SUMERIA, BABYLONIA

The early money was debt-money:
loans from palace and temple
using farm commodities and
silver by weight

The loan of seeds generated more seeds, but the loan of **silver metal did not generate more silver**.

Result: interest charged on 'barren' metals caused **debt slavery** and **loss of land** to creditors.



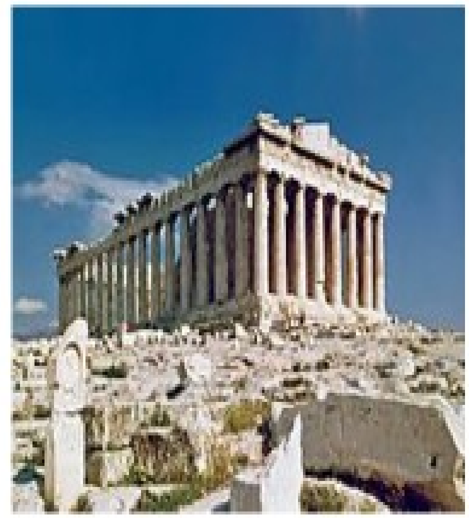
SOLUTION?

Kings issued Debt Jubilees – debt slaves were set free and land returned to them.

Thus, the King restored economic balance.

USURY IN THE GREEK CITY STATES:
lending with interest

800+ BC Greek Cities: ATHENS, SPARTA, CORINTH, MEGARA, ARGOS, ETC.



The money was gold and silver coins,
loaned with interest in metals.

Result: **concentration of wealth**
due to interest on coined metals.
Small farmers were enslaved.
Land concentrated in the hands of few.

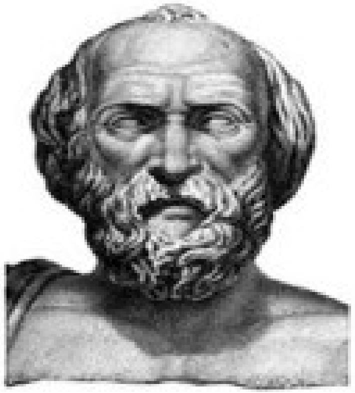
In Athens (594 B.C.) the bulk of the population, who had originally been small proprietors became gradually indebted to the rich to such an extent that they were practically slaves. Those who still kept their property nominally owed more than they could pay, and stone pillars erected on their land showed the amount of the debts and the names of the lenders. Usury had given all the power of the state to a small plutocracy.

A SOLUTION IN SPARTA

As part of massive reforms to the Spartan society, LYCURGUS reformed the money system.

LYCURGUS' REFORM

- Removed gold coins
- Money was iron disks treated to be valueless
- First fiat money: state law regulated volume and thus value
- Lasted for 3 ½ centuries!



820–730 BC?

The PRACTICE OF USURY has repeatedly been
condemned
prohibited
scorned
restricted ....

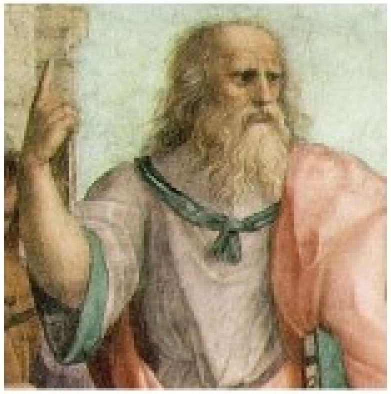
BASED ON THE NATURE OF MONEY

Where does the borrower get the interest?

Does interest concentrate money's power in a few hands?

ANCIENT WESTERN PHILOSOPHERS: PLATO

"…and no one shall deposit money with another whom he does not trust as a friend, nor shall he lend money upon interest" - Laws, by Plato, Book V, 360 BCE



428/7 - 347 B.C.

ANCIENT WESTERN PHILOSOPHERS: ARISTOTLE

"...The most hated sort, and with the greatest reason, is **usury**, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest....

...And this term **interest**,

which means **the birth of money from money...**

this is the most **unnatural**." - Politics, by Aristotle, Book 1

384 BC – 322 BC

BASED ON RELIGION AND MORALITY

How do you treat your brother?

Practically all important ethical teachers -- Moses, Aristotle, Jesus, Mohammed, and Saint Thomas Aquinas, for instance -- have denounced lending at interest as usury and as morally wrong.

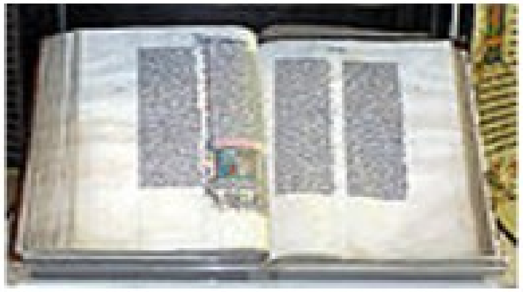
JEWISH RELIGION: OLD TESTAMENT

Deuteronomy 23:19

Thou shalt not lend upon interest to thy brother.

Leviticus 25:36-37

Take thou no interest from him or increase; but fear thy God, that thy brother may live with thee. Thou shalt not give him thy money upon interest, nor lend him thy victuals for increase.



CHRISTIANITY

JESUS – ALL MEN ARE BROTHERS

Luke 6:34-35

But love ye your enemies, and do good, and lend, hoping for nothing again; and your reward shall be great, and ye shall be the children of the Highest: for he is kind unto the unthankful and to the evil.

CATHOLIC CHURCH

4TH century AD – First Council of Nicaea (325) – church prohibited taking of usury by clergy under pain of expulsion from clergy

5th century AD – church prohibited taking of usury by laity

8th century AD – church declared usury to be a general criminal offence

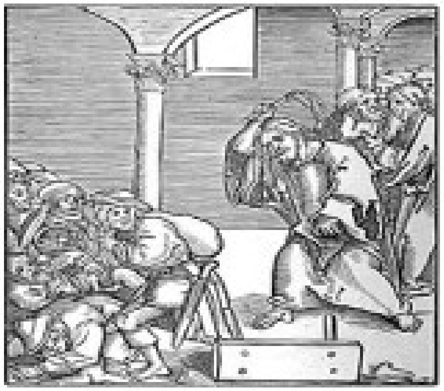
850 – Synod of Paris **– excommunicated all usurers**

1179 – Third Lateran Council - **excommunicated those who engage in usury** – "notorious usurers should not be admitted to communion of the altar or receive Christian burial if they die in this sin."

1311 – ban on usury absolute – Pope Clement V declared all secular legislation in its favor null and void

1515 – Lateran Council – "gain is sought from use of a thing not itself fruitful (='barren') **without labour, expense, risk on part of lender**"

1586 - Pope Sixtus V would call the practice of usury, "most detestable to God and man, damned by the sacred canons and **contrary to Christian charity."**



Christ drives the Usurers out of the Temple, a woodcut by Lucas Cranach the Elder

Catholic Scholastics (1100-1500 AD)
Church scholars – first moral economists

"Money is medium in exchange, and not terminus." Money is not an end in itself.

A loan has no risk to the lender; therefore usury is unearned income.

The lender cannot gain from the advantage accruing to the borrower.

Is the contract between lender and borrower equal?
Is money the same as merchandise or is the borrower a slave to the lender?

But the Scholastics allowed 2 types of loans.

1. 'SOCIETAS'
   The lender could earn interest if **actually taking some risk**, without a guaranteed gain. Partnerships could be formed if profitable investment opportunities existed. There was no objection to seeking profit. One partner could supply labor and the other money. Venice, the 'first capitalistic city' used **partnerships** in this category for their banking activities.

2. 'CENSUS'
   The obligation to pay an annual return based on some 'fruitful' property. **The lender took a risk**, since if the crop was destroyed by weather, the borrower had no obligation that year.

THOMAS AQUINAS
1225 - 1274

ISLAM

MOHAMMAD – ALL MEN ARE BROTHERS

Mohammed forbade… the acceptance of interest on loans…'RIBA'. This is unearned income.

'God has permitted trade but forbidden usury. Profit is the result of initiative, enterprise and efficiency – value creation. Not so with usury… interest is fixed, profit fluctuates'

570-632 AD

ISLAMIC BANKING TODAY

The basic principle of Islamic banking is based on risk-sharing which is a component of trade rather than risk-transfer which is seen in conventional banking.

EXAMPLE: In an Islamic mortgage transaction, instead of lending the buyer money to purchase the item, **a bank might buy the item itself from the seller, and re-sell it to the buyer at a profit**, while allowing the buyer to pay the bank in installments. However, the bank's profit cannot be made explicit and therefore there are no additional penalties for late payment.

IN SUMMARY, CODES THROUGHOUT HISTORY HAVE RESTRICTED USURY

2130-2088 BC	CODE OF HAMMURABI	LIMIT TO 33%
2000-1400 BC	VEDIC TEXTS OF ANCIENT INDIA - HINDU LAW	BANNED USURY
600- 400 BC	BUDDHIST JATAKAS: 'USURERS..FOUL-TOOTHED...'	CONTEMPT FOR USURY
342 BC	REPUBLICAN ROME	BANNED USURY
49-44 BC	rule of JULIUS CAESAR, ROMAN EMPIRE	LIMIT TO 12 ½ %
306–337 AD	rule of CONSTANTINE, THE GREAT	LIMIT FROM 4-8%, interest could not be greater than principal
7th century AD	Muslim Koran	BANNED USURY
806 AD	Charlemagne	BANNED USURY
1981 AD	United States	Individual state usury laws were sidestepped.

BANKING, TRADE AND CAPITALISM:

Weakening of the Usury Laws

- **GROWTH OF TRADE AND FINANCE (BANKING) forced change upon a society.** This push came first from the city of Venice (1100-1600) and other Italian cities with their banking companies. The profits of trade finance brought rapid wealth accumulation.

- **The ecclesiastical doctrine of interest was the greatest obstacle to modern banking**, but now the pro-usury counter-movement began to grow. The new demands for goods from all across the globe created an environment that was simply too rich for the practice of usury not to flourish.

- **The 16th century Protestant Reformation**, initiated by Martin Luther, John Calvin, and other early Protestants, allowed the split between secular society (the laws of the Princes) and the religious society (the law of the church), weakening the usury laws.

BANKING – MONEY OF ACCOUNT:

BANKING'S SECRET

- Early banking had developed a money of account, based on handwritten entries.

- The Knights Templars brought back to Europe from the Crusades the knowledge of double-entry bookkeeping. This method was implemented by the banks.

- "It must have soon become apparent to the Templars, the Italian merchant bankers and the great German lending houses that they possessed the power to **CREATE MONEY** in the form of bookkeeping credits on their books." Stephen Zarlenga, THE LOST SCIENCE OF MONEY

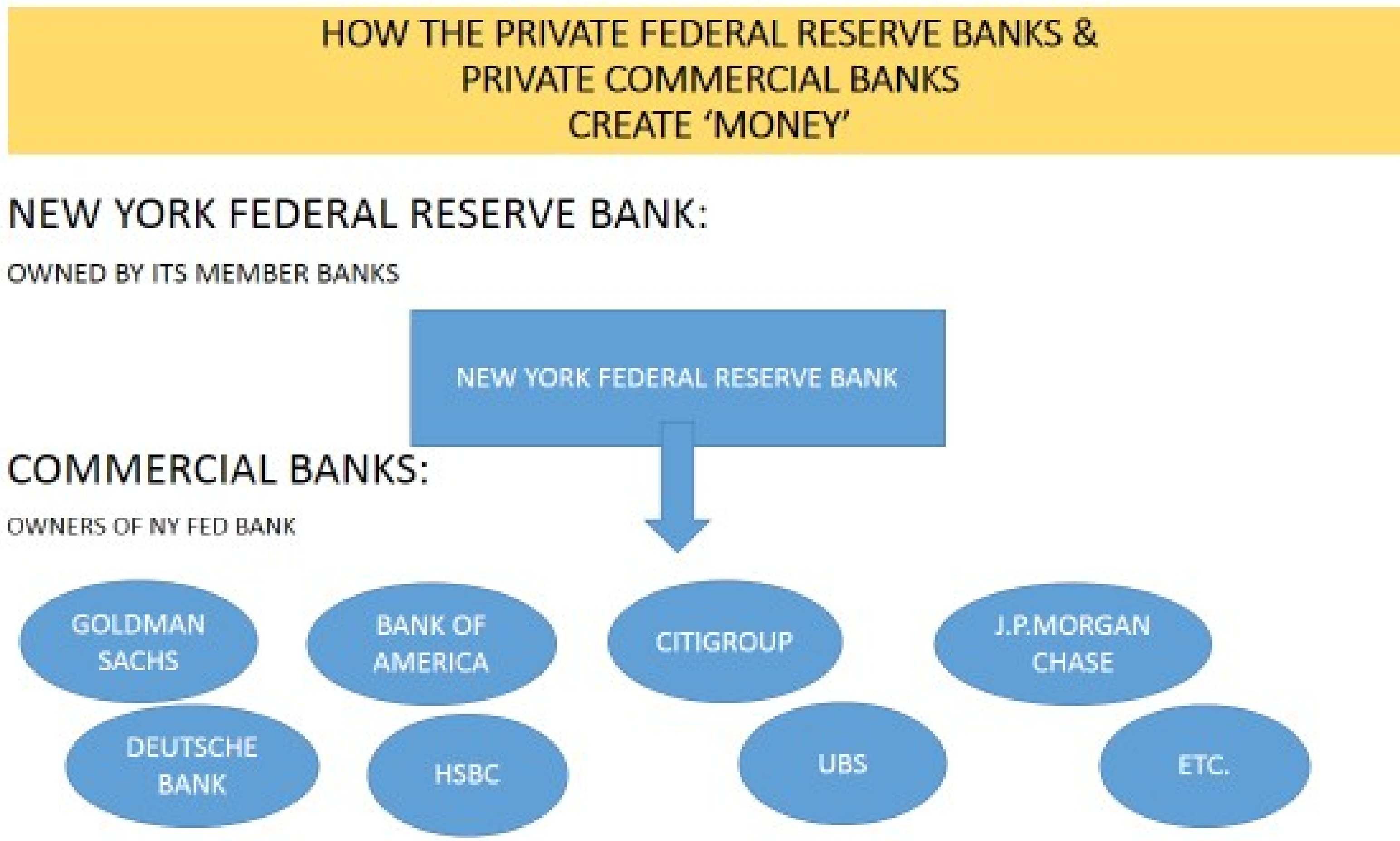
BANKING – MONEY OF ACCOUNT:

BANKING'S SECRET

- Loans would not have to be made in coinage.
- **Loans** could be made by **WRITING IN CREDITS TO THE BORROWER'S ACCOUNT**. The borrower would have the ability to write checks on that account.
- Once the borrowers got in the habit of using checks (back then, called bills of exchange), the banker could increase the money supply with these credits. The credits would be used as a means of exchange, as money. But the new accounting money came with **usury – these were loans**. **The Church scholars, the Scholastics, had not known about this sleight of hand – and thus could not shine the sin of usury on it!**
- Today it is legal and the basis of our banking system. But it is a well-kept secret.

BANKING – MONEY OF ACCOUNT:

HOW IT WORKS TODAY


HOW THE PRIVATE FEDERAL RESERVE BANKS &
PRIVATE COMMERCIAL BANKS
CREATE 'MONEY'
NEW YORK FEDERAL RESERVE BANK:
OWNED BY ITS MEMBER BANKS
NEW YORK FEDERAL RESERVE BANK
COMMERCIAL BANKS:
OWNERS OF NY FED BANK
GOLDMAN SACHS
BANK OF AMERICA
CITIGROUP
J.P.MORGAN CHASE
DEUTSCHE BANK
HSBC
UBS
ETC.

PRIVATE COMMERCIAL BANKS

CREATE BANK CREDIT -- USED AS 'MONEY' BY NEGOTIATING LOANS

BALANCE SHEET OF COMMERCIAL BANK:
ITS FINANCIAL WORTH

OWNS, OWED	OWES
$20,000 STUDENT **LOAN CONTRACT**	$20,000 **DEPOSIT** INTO BORROWER'S ACCOUNT
(ASSET)	(LIABILITY)

These accounting entries came into existence only when the loan document was signed by the borrowers.

Today, according to the 1913 Federal Reserve Act and subsequent laws, the following is the working of our monetary system –

* The U.S. Government must borrow to have money. It does not issue money for the American people.

The U.S. Government mints coins and prints money, but does not spend them to pay expenses. It sells them at cost to the private Federal Reserve Banks, who spend them.

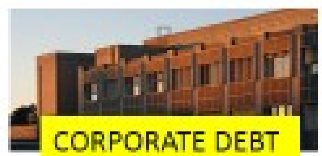
* Our entire money supply is created when private commercial banks makes loans and create the credits in the borrower's account. This has been described as creating money 'out of thin air'. **It is creating money 'out of loans' – all with interest to the banks!**

THIS IS USURY OVER THE ENTIRE ECONOMY

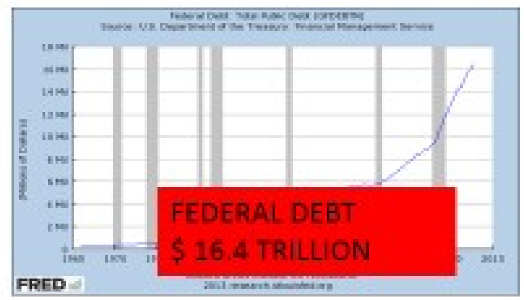
STUDENT DEBT
$ 1 TRILLION +

MORTGAGE DEBT
$ 13 TRILLION

CREDIT CARD DEBT
$ .8 TRILLION



CORPORATE DEBT
$ 8.7 TRILLION



FEDERAL DEBT
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STATE & LOCAL DEBT
$ 3 TRILLION

<u>THE END</u>