

Another French Paradox: Microcredit and usury

Arvind Ashta,
Laurence Attuel-Mendes &
Jean-Guillaume Ditter

Burgundy School of Business (ESC Dijon),
CEREN

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**Table 1: Density and entrepreneurial creation rate compared
between France and its immediate European partners**

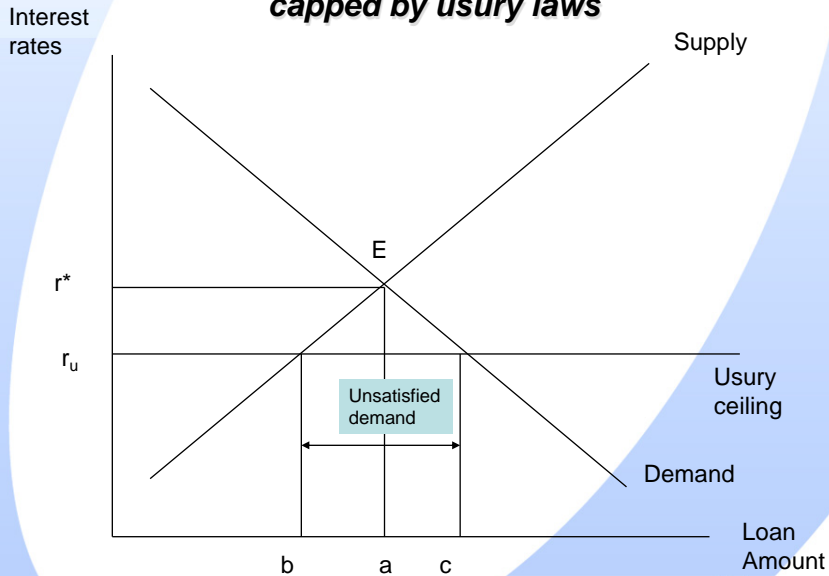
Source: Report Hurel (2000)

	Number of firms	Number of new enterprises created	Rate of creation (for 10,000 inhabitants)	Entrepreneurial density (number of firms for 1 million inhabitants)
Spain	2 650 000	350 000	88	0.067
France	2 400 000	177 000	44	0.041
Italy	4 650 000	370 000	64	0.081
UK	3 500 000	393 000	66	0.059

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The growth of credit may not materialise if credit rates remain capped by usury laws



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Table3: Comparative usury legislation

Source: Information extracted from Hurel (2003).

Countries with no usury laws	Countries having usury laws
US	Germany
Canada	Spain
UK	Italy
Austria	France

Note, the US has no usury limits at the federal level, but individual States may still have limits from time to time.

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France removed usury ceilings

- For loans to enterprises : 2003
- For business loans to individuals : 2005
- Therefore
 - Microcredit should have boomed
 - Interest rates on business loans should have increased

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ADIE: Growth in Microcredit Activity

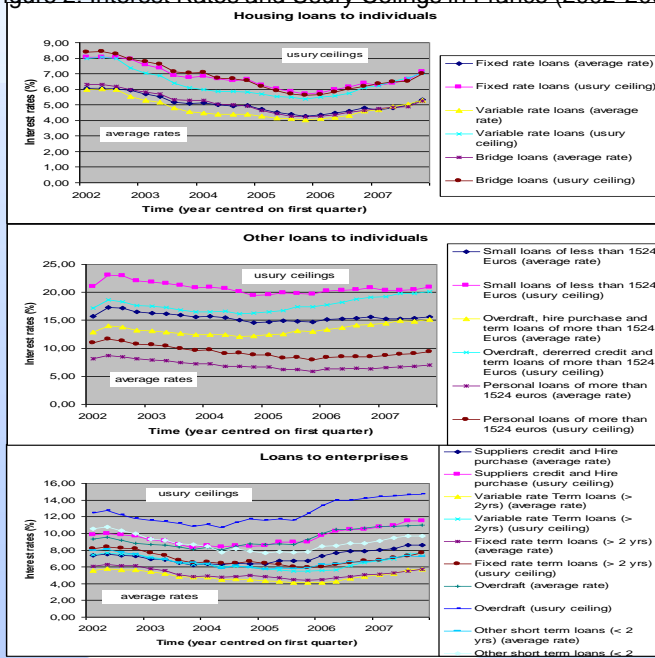
Year	Number of loans	Growth in number	Growth %
1990	34		
1991	91	57	168%
1992	159	68	75%
1993	278	119	75%
1994	388	110	40%
1995	698	310	80%
1996	852	154	22%
1997	1276	424	50%
1998	1492	216	17%
1999	1929	437	29%
2000	2844	915	47%
2001	3563	719	25%
2002	4618	1055	30%
2003	5349	731	16%
2004	5587	238	4%
2005	6740	1153	21%
2006	7570	830	12%
2007	9853	2283	30%

} Not exceptionally high growth rates

Source: ADIE (2008): Rapport d'Activité 2007

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Figure 2: Interest Rates and Usury Ceilings in France (2002-2007)



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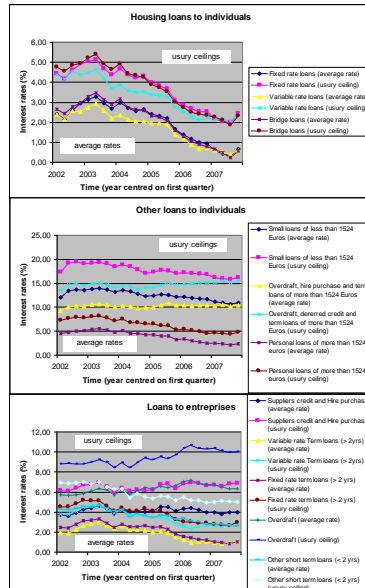
Source: Bank of France data

Interest rates don't seem to have gone up exceptionally.

If they went up, this may be global interest rate rise



Figure 3: Interest spreads and maximum usury spreads in France (2002-2007)



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Spreads seem to be reducing !!!



The Paradox

- Why didn't interest rates increase ?
- The paper discusses possible explanations

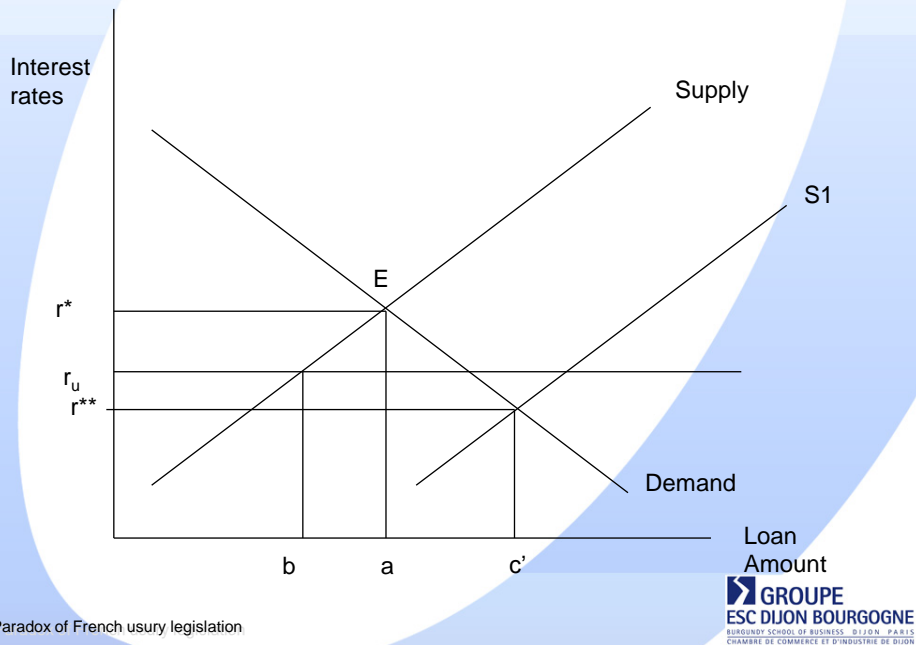
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A. Classical explanations

1. Global interest rates decreased
 - **Not borne by reality**
2. Expansion in Money supply
3. Increased competition

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Figure 4: The impact of an increase in supply of microcredit

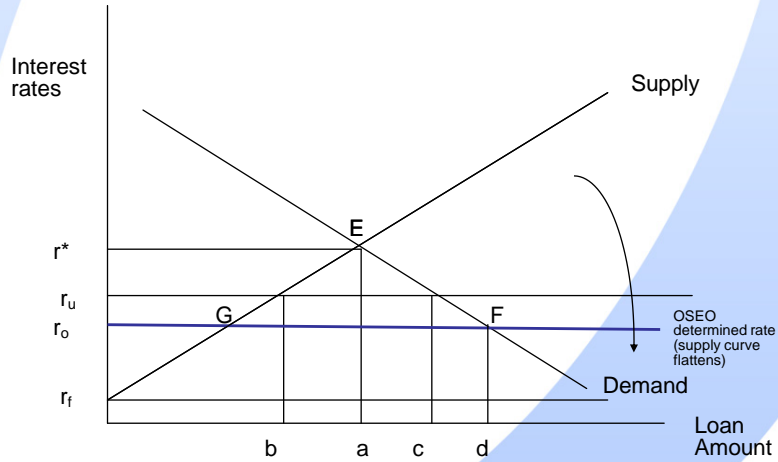


B. Behavioral and Formal Institutional Explanations

1. Behavioral explanations linked to OSEO guarantees
2. Effect of Basel 2: Bankers take less risk
3. The doctrine of "abusive support" deters bankers
4. Protection of Over-indebtedness
5. Information Asymmetry and Limited Liability of Borrower

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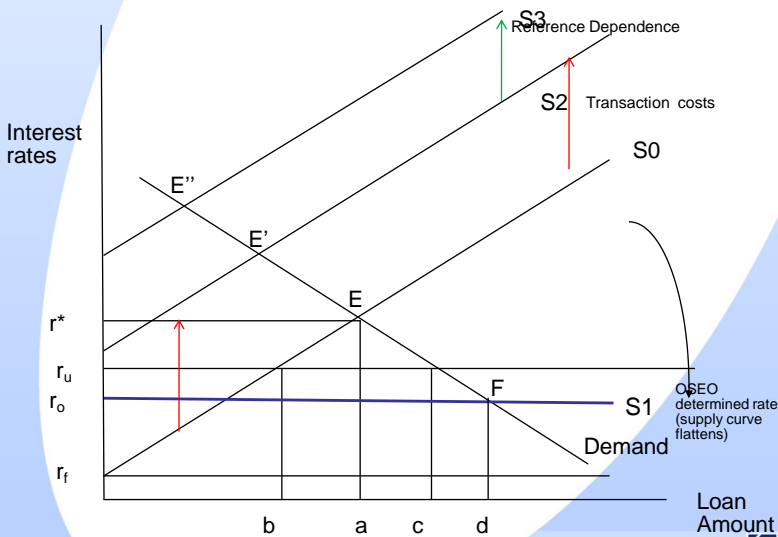
Step 1 in establishing OSEO guarantee effect



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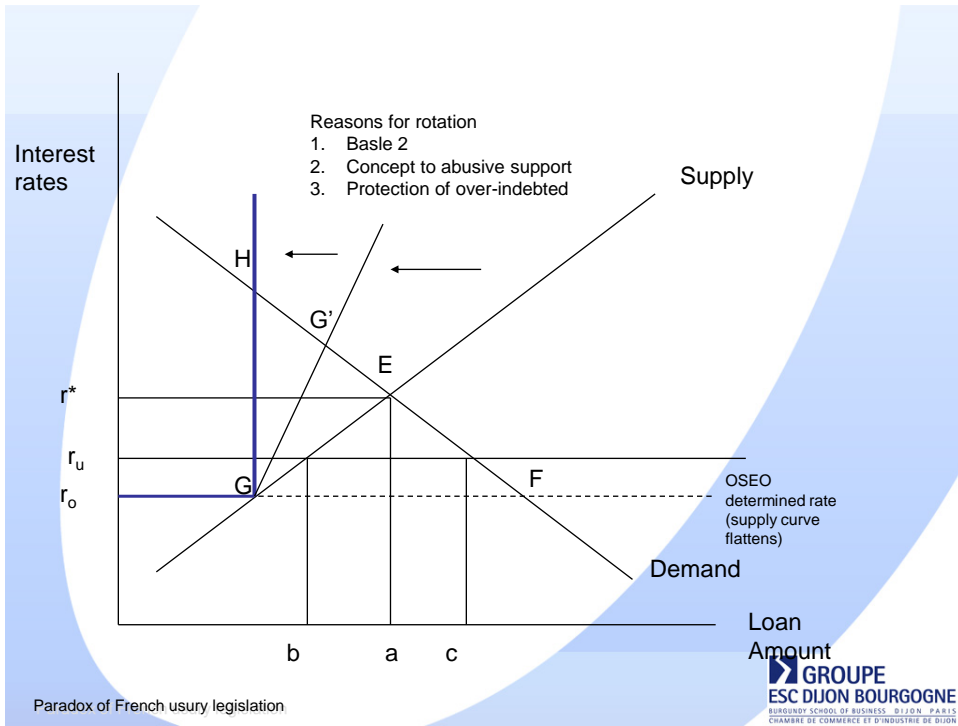


Figure 5: The effects of OSEO guarantees, transaction costs and reference dependence on supply and interest rates



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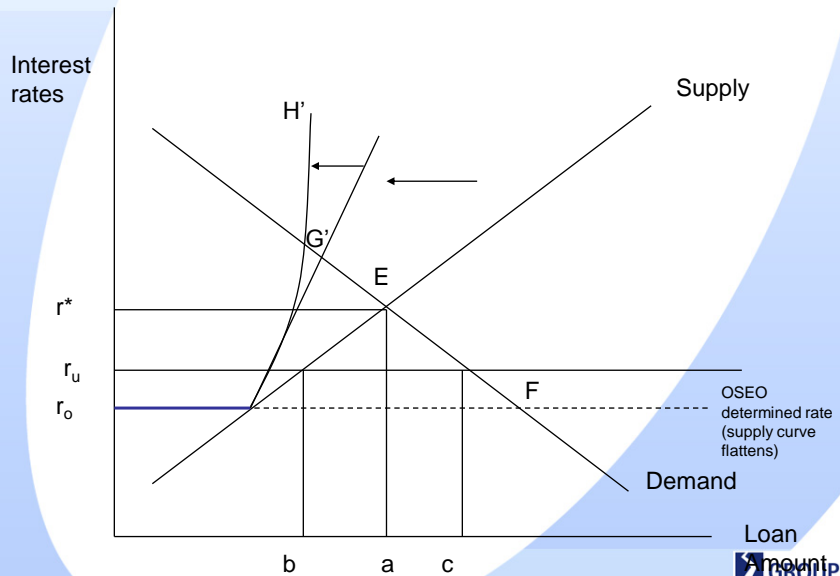


Problem

- Interest rates should have increased to G, but this did not happen
- See Cofinoga, Sofinco etc for diversion of consumption loans to business and the fungibility problem

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Figure 7: High interest rates increase default risk: supply curve becomes steeper and later vertical



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Problem

- There is no equilibrium ?
- Multiple equilibriums

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C. Softer institutional reasons

1. Religious factors lead to informal usury ceilings
2. The French bankers (like other French entrepreneurs) are low on risk taking
 1. Therefore prefer not to lend
3. The French social security system encourages low risk taking and therefore the demand curve may be more elastic

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Feedback

Please provide feedback to

arvind.ashta@escdijon.eu

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