The Dangers of Oligarchy

The Moral Hazard of Modern Banking

Brian Patrick Mitchell

Cato likened money lending to murder.

In his *Essay on Duties*, Marcus Tullius Cicero tells a story about Cato the Elder, a wealthy man renowned as a landowner, who lived a century before Cicero. One day Cato was asked, what is the most profitable aspect of property ownership? Cato answered, "Raising livestock with great success." He was then asked about the second most profitable aspect of ownership. "Raising livestock with some success," he answered. And what about the third most profitable aspect? "Raising livestock with little success." And the fourth? "Raising crops." Then his questioner asked, "What about money-lending?" Cato replied, "What about murder?"[1]

It's a telling little story, revealing the West's traditional disdain for money-lending, but also its embarrassed dependence upon the same. Cato, you see, made his fortune through money-lending. His favorite business was investing in ship bottoms. Bottomry, as it's called, was very risky, so to reduce his risk Cato sought out many partners and invested his profits in land, preferring land offering natural resources like minerals, timber, fish ponds, and pasturage—assets that could not be "ruined by Jupiter," as crops and ships could be.[2]

This all sounds innocent enough in the twenty-first century, but,

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[1] Cicero, *An Essay on Duties* 1.42, 2.25, cited by Jo-Ann Shelton, *As the Romans Did: A Sourcebook in Roman Social History* (New York: Oxford University Press, 2nd Ed., 1998), 125-126.

[2] Plutarch, *The Life of Marcus Cato* 21.1, 3, 5-7, cited by Shelton, 139.

as we can see from the story, Cato himself recognized the danger of money-lending and was ashamed to admit his involvement in it. Today, however, even amid the collapse of many of the world's largest banks, few people recognize the inherent danger of money-lending, and no one is ashamed to admit that he does it.

Throughout history, banking has posed a moral hazard to society, but only relatively recently have people lost sight of the dark side of banking and surrendered themselves entirely to debt. Even in the current crisis, criticism of the banking system has focused on the "irrational exuberance" of particular banks, abetted by well-meaning but misguided government policy, rather than on the inherent personal and political dangers of debt. The Marxist anti-capitalist critique of banking survives and is perhaps making a comeback in South America and elsewhere. But here in the United States, at the center of the financial universe, we hear only a popular plea for mortgage relief and an elitist insistence that the government must do whatever necessary to keep banks in business.

Banking essential to society but dangerous.

I won't venture an opinion on what to do about the current mess. I will, however, admit that banking is absolutely essential to our national and international economy. Without debt, we would all be a lot poorer, and not just materially. Our capitalist economy thrives on faith in the future, trust that most debts will be paid, and an optimistic outlook on life that inspires entrepreneurs to risk time and money to create new goods and services and that empowers people to pool their resources for great cooperative ventures that make dramatic improvements in the way we live. This faith, this trust, this optimism depends upon the rule of law and a sophisticated legal system providing secure title to property, so that property can be used as collateral. A sound system of property law is the major difference between the thoroughly capitalist economies of Europe and North America and the merely market economies of much of Asia, Africa, and Latin America, where there is plenty of buying and selling but little accumulation of capital.

Yet this sound legal system protecting both lenders and borrowers evolved over many centuries within a civilization that held usury in suspicion, and for good reason. (By usury, I mean simply lending money at interest, whatever the rate.) The usury of Roman senators was not always as benign as Cato's investments in bottomry. The Roman Republic was a giant protection racket. Conquered territories were made to pay indemnities they could only afford by borrowing from wealthy Romans, and very often the person imposing the indemnity was also the person collecting on the loan.

As governor of Cilicia, Cicero ran afoul of Marcus Junius Brutus by limiting interest on debt in Cilicia to 12 percent per annum. Through middlemen, and unbeknownst to Cicero, Brutus had lent money to the impoverished Cypriot city of Salamis at 48 percent interest per annum. When Cicero refused to collect the excess interest, Brutus, back in Rome, had the Senate issue a decree obliging Cicero to enforce the terms of his loan. Only then did Cicero learn who the real lender was.[3] Truly, as the poet Ezra Pound would later say, "Until you know who owes what to whom, you know nothing about politics."

It wasn't just cities, towns, and provinces that fell victim to predatory lenders, of course; individuals also borrowed money at very high rates—to pay taxes, cover gambling debts, live above their means, or ransom relatives from prison or captivity. Naturally, if you couldn't pay your debt, *you* went to prison, until someone ransomed you. This was the environment in which the Christian condemnation of usury arose. There was no option of easy bankruptcy if the borrower couldn't pay, no prior appraisal of the borrower's assets to ensure that they could cover the loan, and often no limit on the interest lenders could charge.

But let me correct one common misconception: The prohibition of usury by Christians was never universal. The Church in the East forbade clergymen from lending at interest but not laymen, and Christians in the East continued to practice usury throughout Byzantine history, regulated by civil law limiting interest to between 4 and 12 percent, depending upon the lender and the purpose.[4] The Byzantine Empire was, after all, a commercial commonwealth, dependent for its existence upon investment and trade.[5]

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[3] Cicero, *Letters to Atticus* 5.21.10-12; 6.1.3-6, 16, cited by Shelton, 273-275.

[4] Usury was forbidden to clergy but not laity by canon 44 of the 85 Apostolic Canons, canon 17 of the First Ecumenical Council, canon 10 of the Sixth Ecumenical Council, canon 4 of Laodicea, and canon 14 of Basil the Great. See *The Rudder*, trans. D. Cummings (Chicago: Orthodox Christian Educational Society, 1957), 65-67, 189-190, 302, 553, 802. On civil regulation of usury, see Steven Runciman, *Byzantine Civilization* (New York: Barnes & Noble, 1994, first published in 1933), 138-139.

[5] Two emperors (Nicephorus I and Basil I) did attempt to ban usury by private citizens, but their intent was to monopolize money-lending by the imperial treasury, not to proscribe it entirely. See George Ostrogorsky, *History of the Byzantine State* (New Brunswick, N.J.: Rutgers University Press, 1969), 189-190. The only emperor to

In contrast, the Church in the West, with its typically more cut-and-dried approach to ethics, forbade all Christians from lending at interest as early as 418 at the Council of Carthage. Later Western councils, popes, and princes reinforced the ban.[6] In making their case against usury, Western theologians were not content to complain of usury's ill effects and went so far as to argue that the taking of interest was inherently illicit because it did not involve any labor on the part of the lender. We recognize such thinking now as the discredited "labor theory of value" used by Karl Marx to condemn capitalism. For the sake of contrast, it is worth noting that the Greek word for interest is *tokos*, which also means birthing, evidence that the concept of interest derives innocently from the natural increase to a herd of livestock over time.

The Church's ban on usury abandoned banking to those outside Christian norms.

The unfortunate consequence of the West's prohibition on usury was that the quickest and easiest way to amass wealth and power was abandoned to the unbelieving, the unaccountable, and the unscrupulous. Just as the Nineteenth Amendment abandoned the market for alcohol to organized crime, the excommunication of usurers abandoned banking to people living outside the norms of Christian society, to loan sharks and pawnbrokers who made their living off the pitiful, profligate, and predatory.

The first to fill this niche were, of course, the Jews, who were forbidden by the Law of Moses to lend money at interest to other Jews, but expressly permitted to lend money at interest to Gentiles (Deut. 23:20). Profits from usury provided a powerful incentive for Jews to resist conversion to Christianity. Usury was the reason for their welcome in the courts of Western Europe during the Middle Ages. It was also the reason they were so sorely resented. When resentment boiled in the First Crusade, Western rulers saw a need to begin regulating Jewish money-lending. The Fourth Lateran Council in 1215 barred Jews from exacting excessive interest. In the same year, England's Magna Carta freed widows from having

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proscribe the taking of interest entirely was Leo III, whom contemporaries labeled the "Saracen-minded" (σαρακηνοφρων) because of his Muslim affinities. Muslims were iconoclasts, and so was Leo; Muslims were forbidden to lend at interest, and so were Christians under Leo. Yet even Leo allowed lenders to charge a flat fee for loans, to be counted as principal. See *The Rudder*, 65, and Ostrogorsky, 161.

[6] One early Western council at Arles in 314 followed the East in forbidding only clergymen from lending at interest. Following the example of Carthage were the Council of Aix in 789, the Third Lateran Council in 1179, the Council of Lyons in 1274, and the Council of Vienne in 1311, which not only banned usury but condemned arguments for usury as heretical.

to repay their husbands' debts owed to Jews.

As the Jews were expelled from much of Europe, their place as pawnbrokers and money-lenders was taken by the Italians. Christian faith was then in retreat in Italy on account of the Italian Renaissance, which was in many ways a rebirth of paganism—pagan learning, pagan aesthetics, pagan politics, and pagan ethics. The Italians or Lombards, as they were then known, soon earned the same resentment as the Jews and suffered the same abuses at the hands of irate debtors, being periodically robbed, murdered, and expelled.

The most successful Italian usurers were the Medici, who got their start in Florence much the way the Corleones got their start in Sicily. Between 1343 and 1360, at least five Medici men were sentenced to death for capital crimes.[7] These were the men who gave us the word *bank*, from *banca*, meaning the portable bench they sat behind in the marketplace. In a few years, the Medici *banchieri* would figure out how to make extraordinary amounts of money through foreign exchange, thanks to recent advances in accounting. Within a century, the Medici godfather, Cosimo de Medici, had effectively taken over the Florentine state. As Pope Pius II himself observed: "Political questions are settled at his house. The man he chooses holds office . . . . He it is who decides peace and war and controls the laws . . . . He is King in everything but name."[8]

Nathan Rothschild earned a similar renown in the nineteenth century. Rothschild made his fortune as a world-class smuggler, spymaster, and speculator during the Napoleonic wars. His greatest coup followed the battle of Waterloo. He learned of Napoleon's defeat from his own agents nearly two days before Wellington's official dispatch reached London. He used the time to buy up British government bonds, knowing their value would soar with news of the British victory. The precise way in which he did this is disputed. In the nineteenth century, several published accounts claimed that Rothschild first dumped bonds to create a panic, then bought them all back at fire-sale prices. The Rothschilds themselves have denied this and condemned the published accounts as anti-Semitic.

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[7] Niall Ferguson, *The Ascent of Money: A Financial History of the World* (New York: Penguin Press, 2008), 42.

[8] Ferguson, 45-46.

What is not disputed is that, in a very short time, Rothschild came to dominate the finances of Europe, so that kings and princes bowed to him financially if not physically. In 1841, the French historian Jules Michelet wrote in his journal that Nathan's son Lionel "knows Europe prince by prince . . . . He has all their accounts in his head . . . he talks to them without even consulting his books. To one such he says: 'Your account will go into the red if you appoint such a minister.'"[9] Not content to work behind the scenes, Lionel got himself elected to Parliament, then got Parliament to change its oath of office to let him in. Previously, members of Parliament had been required to swear Christian faith upon the Christian Bible.

A predatory regard for outsiders.

In the Medici and the Rothschilds, we can see very clearly the outlines of the banking mentality. It has been said that the psychology of cops is not much different from the psychology of robbers: both see themselves as above other men, both personify the law they live by, and both like to shove people around. Likewise, I would say that the psychology of investment bankers is not much different from the psychology of gangsters. Both are members of an exclusive group with a predatory regard for outsiders; both take pride in their possession of a secret knowledge, which they use to get the better of others; and both are in it mostly for the money, for which they will do almost anything.

Historically, bankers have been anti-liberal because their principal clients are governments, but also anti-traditional because money is their bottom line. In pursuit of profits, they have financed many great evils: slavery, drug addiction, gambling, pornography, and, of course, war. They have made war both possible and necessary, as in the case of the Opium Wars and American interventions in both Latin America and Europe. And they have made usury the basis of their new world order, using taxpayer-supported loans both to bail out failing banks and businesses and to bribe foreign countries into going along with their "global democratic revolution."

Massive debt an instrument of political manipulation.

In his 2004 bestseller *Confessions of an Economic Hit Man*, John Perkins writes of his time as chief economist with a Boston-based investment bank. "My real job," he told a reporter, "was giving loans to other countries, huge loans, much bigger than they could possibly repay." Sound familiar? He goes on: "So we make this

[9] Bertrand Gille, *Histoire de la Maison Rothschild*, vol. 1 (Geneva, 1965), 487, cited by Ferguson, 90.

big loan, most of it comes back to the United States, the country is left with debt plus lots of interest, and they basically become our servants, our slaves."[10]

But Perkins is behind the times, for as Niall Ferguson warns in his latest book, *The Ascent of Money*, the John Perkinses of the world have been replaced by the George Soroses. The differences between them, says Ferguson, are twofold: "first, the cold, calculating absence of loyalty to any particular country . . . second, the sheer scale of the money the new men have to play with."[11]

If the reader is not alarmed and thinks I am seeing bankers under the bed, let me conclude with one personal observation. My own forefathers were humble farmers from around Nashville, Tennessee, but I have a friend in Nashville whose forefathers were bankers. My friend once related to me a lesson I never learned from my father. He said, "In every room of ten Southern gentlemen, eight of them are as dumb as dirt, and two of them want you to think they are." That's the kind of lesson bankers teach their sons, and that's why every civilization except our present one has kept a close eye on them.

[10] Amy Goodman, "Confessions of an Economic Hit Man: How the U.S. Uses Globalization to Cheat Poor Countries Out of Trillions," Democracy Now!, http://www.democracynow.org/2004/11/9/confessions_of_an_economic_hit_man, accessed May 23, 2009.

[11] Ferguson, 319.