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Popes and Bankers: A Cultural History of Credit and Debt, from Aristotle to AIG

door Jack Cashill

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Ironically, the growing Jewish trade in usury would only trouble those Gentiles who inherited Jewish law, namely, the Christians. “Nothing more clearly marked the line between Christian and Hebrew during fifteen centuries than this one thing,” argues Elliott, “that the Hebrews exacted usury or interest of the Gentiles while the Christians were unanimous in its denunciation, and forbade its practice.” 5

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There is one other major problem with the Jesus-as-socialist argument: in both the New Testament and the Old, one gave alms not so much to redistribute the wealth as to manage one’s own eternal wealth. The English word creditor derives from the Latin credere—“to believe.” In a very real sense, to extend credit to the poor was to testify to one’s belief in God. As Jesus famously said to the rich young man in Matthew 19:21, “If thou wilt be perfect, go and sell that thou hast, and give to the poor, and thou shalt have treasure in heaven: and come and follow me.” The payoff was to be expected not on earth but in heaven. Usury debased the currency of exchange.

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Augustine asks rhetorically to whom should the money be given. The answer is the same person who “forbade you to be a usurer,” the Lord himself. He now “comes forward [in the form of the poor person] to ask you for a loan.” Augustine insists that Scriptures are clear on this point: “Anyone who gives alms to the poor is lending to the Lord.” 5 This is at the very heart of the Judeo-Christian objection to usury. It also explains why Jews and Christians were asked to lend and not worry about being repaid. The ROI (return on investment) would come in heaven. In

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And yet the socialist attempt to co-opt Christ’s message is not entirely cynical. There is something about what Jesus says and does that intrigues even the most godless communists. There are two nonexclusive reasons why this might be so. One is that Jesus is, in fact, transcendently wise. The second and less subjective reason is that the Christian ethos has so deeply penetrated Western civilization for so long that no one, not even those at the local Ministry of Atheism or the Church of Satan, are immune to its power.

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In the first few hundred years after Christ's birth, usury did not preoccupy many minds. The Romans, whose laws held sway over the Mediterranean world, had had a mixed history on the subject. According to the historian Tacitus, Rome had no usury laws at all for the first three centuries of its existence. 7 Codification came only in 450 BC with the Law of Twelve Tables. This may have been the first attempt by any culture to set a legal interest rate, in this case in the 8 to 10 percent range, depending on how the law is read.

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In Thomas's time, despite the papal edicts of the previous century, lending at interest remained, at the street level at least, a lively subject of debate. The best evidence for its still unsettled nature can be found in the usury chapter in Thomas's masterwork, the unfinished *Summa Theologica*. At the outset he poses the question of "whether it is a sin to take usury for money lent" 15 and then lays out a series of popular objections to that premise. Relentlessly fair, Thomas makes a good case for the opposition. Alluding to Deuteronomy, he wonders how it could be sinful to lend money to one's brother but not to a stranger, or how could it be wrong to follow a civil law if that law allows usury, or how one erred by accepting something that is freely given, or whether the Lord's counsel in Luke 6:35—"lend, hoping for nothing again"—was "binding" or merely just good advice.

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The problem, as orthodox Catholic scholars like Thomas Woods and John Noonan concede, is that Thomas's response to his own objections is not particularly convincing. Here, his fondness for Aristotle seems to betray him. Rather critically for the history of Western commerce, Aristotle deeply disliked the whole practice of usury. But unlike the Jewish and Christian scholars before him who had objected to usury over social justice concerns, Aristotle objected largely on the issue of taste. In the *Nicomachean Ethics*, he compares usurers to "those who ply sordid trades, pimps and all such people" and scolds them all for the "sordid love of gain." 16 This sentiment, to be sure, has lost no currency.

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Aquinas makes the labored argument that commodities such as wine and wheat are, like money itself, sold to be consumed. "Accordingly," he writes, "if a man wanted to sell wine separately from the use of the wine, he would be selling the same thing twice, or he would be selling what does not exist." This, Aquinas reasons unconvincingly, would be "a sin of injustice." A house, on the other hand, is not consumed in the use. "For this reason," says Aquinas, "a man may lawfully make a charge for the use of his house." 22 In his thoughtful book *The Church and the Market*, Catholic historian Thomas Woods can make no more sense out of Aquinas than the reader likely has to this point. As an exasperated Woods asks, when in all of human history has someone attempted to sell wine or wheat a second time separately from its use? 23 Merchants have lent money at interest, however, since the invention of money.

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The emergence of the Templars' banking empire flowed naturally from their role as fighting monks. Once experience had shown them that pitched battles against a merciless enemy take an unholy toll on a religious

order, they turned more and more to logistical support. Traditionally, monastic houses had provided safe storage for all manner of goods and documents. (Locals felt that if they could not trust the monks, whom could they trust?) The Templars inherited the good reputation of the monks who preceded them and built on it. The Templars emerged as Europe's principal banking order for several obvious reasons. For starters, they had the equivalent of branch offices stretching from one end of the Mediterranean to the other. They also had major complexes in Paris and London, cities in which decisions about war and peace were often made. Even more usefully, the Templars interacted with kings and popes, and they did so precisely when those leaders needed money, namely, on the way to the battlefield. And finally, the Templars did not need to hire security to protect their money transfers. In the rougher neighborhoods in which they operated, their reputation preceded them, and that helped.

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Rome had assumed this role for one reason: the Catholic Church was headquartered here. In another one of history's great ironies, it was the flow of tithes to Rome that inspired the infrastructure for a continentwide financial network. It was the church's presence that made Italians the world's bankers. It was the church's regulations that made them such creative bankers. And it was the fear of God that kept their activities aboveboard, more or less.

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"I am certain that by no testimony of Scripture is usury wholly condemned," writes Calvin. "For the sense of that saying of Christ, 'Lend hoping for nothing again' (Luke 6:35), has up to this time been perverted." 13 Perverted! One reason Calvin succeeded while so many other breakaway divines failed is the clarity of his thought and language. He may have spoken boldly, but he did not bluster. Nor was he at all intimidated by the cautious thinking on this subject of the church fathers, let alone Luther. Says Calvin of Jesus, "His words ought to be interpreted that while he would command loans to the poor without expectation of repayment or the receipt of interest, he did not mean at the same time to forbid loans to the rich with interest." 14 Touché! Calvin strikes the contemporary reader as the first theologian to assess the usury question in the context of a highly evolved sixteenth-century commerce. "If all usury is condemned," he writes, "tighter fetters are imposed on the conscience than the Lord himself would wish." 15 He worried that an absolutist interpretation could lead to the abandonment not only of the usury ban but also of the spirit behind it. In this regard, he echoes traditional church canon, *Cessante ratione, cessat ipsa lex*: "When the reason for the law ceases, the law itself ceases."

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As Luther saw it, the Jews profaned the Bible by locating their justification for usury within its pages, specifically the "stranger" exemption in Deuteronomy 23:20. "They not only practice usury—not to mention the other vices—but they teach that it is a right which God conferred on them through Moses. Thereby, as in all the other matters, they slander God most infamously." 23 As keen as Luther was on government intervention, he saw no hope of the state solving his Jewish problem. "Our princes and rulers sit there and snore with mouths hanging open," he writes of the compromised German authorities, "and permit the Jews to take, steal, and rob from their open money bags and treasures whatever they want." 24 Meanwhile in England, still another Protestant split-off, rulers were doing a good deal more than snoring. The most notable of them, Henry the VIII,

was on the verge of passing into law the “Act ‘In restraint of usury.’” 25 Although its intent is not easily fathomed in the name, this bill represented the first time a major Christian state gave the green light to usury, albeit with a 10 percent annual limit. In the Muslims’ continued defense of usury, the educational site Mission Islam declares of this time and place in Christian history, “It was now possible for anyone to decide whether something was right or wrong.” 26 One can hardly fault our Muslim friends for thinking so.

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By the time Napoleon broke out of exile on St. Helena for his final surge, the brothers Rothschild had positioned themselves all across Europe. Amschel had taken over the Frankfurt Bank. Salomon had launched his operation in Vienna. Nathan had moved to London. Carl set up shop in Naples, and James had made Paris home. Nathan had proved the cleverest of them all. Historians still puzzle over how this obscure merchant banker, not yet forty, who had only recently been a minor textile exporter, came to be the man who rescued Europe from Napoleon. “My brother in London is the commanding general,” Salomon would write at the time, “I am his field marshal.” 12 The

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Yes, Virginia, conspiracy theories predated the Internet, and in the nineteenth century no people attracted more conspiracy chatter than the Rothschilds. They were Jewish by origin, international by design, and richer than Croesus, three triggers then and now. They were the Bilderbergs, the CFR, the Jekyll Island crowd, the neocons, all in one family. That they married largely among themselves—cousins, nothing too kinky here—and entrusted only male heirs with positions of power heightened the intrigue surrounding them. “The Rothschilds are the wonders of modern banking,” an American observer wrote in 1835. “We see the descendants of Judah, after a persecution of two thousand years, peering above kings, rising higher than emperors, and holding a whole continent in the hollow of their hands.

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The Rothschilds govern a Christian world.” 17 Writing his fiction four years after Waterloo, Sir Walter Scott projected the Rothschilds six centuries back into history. “These Gentiles, cruel and oppressive as they are, are in some sort dependent on the dispersed children of Zion,” explains *Ivanhoe*’s fair Rebecca to her money-lending father. “Without the aid of our wealth they could neither furnish forth their hosts in war nor their triumphs in peace; and the gold which we lend them returns with increase to our coffers.” 18

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Given their pivotal role at Waterloo, some sizable cohort of otherwise smart people would accuse the Rothschilds of inciting every military adventure up to and including Pearl Harbor. What the conspiracy-minded overlooked, however, was the Rothschilds’ business model. Waterloo had changed it. They were no longer traders but fund managers, tending to a large and growing portfolio of government bonds. They did not need war. They did not want it. War puts bondholders in jeopardy. If the originator of the bond ended up in the shape, say, of Italy or Germany circa 1945, a whole lot of people were going to be left with a whole lot of useless paper. By mid-century, the Rothschilds had become peacemongers, and this the Confederate States of America would learn the hard way.

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At the American Civil War's commencement, the Confederates had good reason to believe that the Rothschilds would put their financial muscle behind the Southern cause. August Belmont, the Rothschilds' man in New York, served as the Democratic Party's national chairman. He had strenuously opposed Abraham Lincoln's candidacy in 1860 and his "fatal policy of confiscation and forcible emancipation." 19 So outspoken was Belmont that Union sympathizers naturally assumed that the Rothschilds would back the South. Not surprisingly given the time and place, some were less than PC in their response. "Belmont, the Rothschilds and the whole tribe of Jews . . . have been buying up confederate bonds," warned the Chicago Tribune. 20 Others envisioned their enemy as an unholy trinity of "Jews, Jeff Davis, and the devil." 21 The fact that the South had tasked its Jewish secretary of state, Judah Benjamin, with recruiting Britain to the cause did little for interfaith harmony north of the Mason-Dixon Line.

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If politics makes strange bedfellows, war makes stranger ones. When the Rothschilds first staked out a position in American finance in the 1830s, a surprisingly tenuous position at that, Southern pols did not exactly set up the folding chairs and pass out the lemonade. The governor of Mississippi was quick to denounce Nathan, the "Baron Rothschild," with all the cultural clichés at his disposal. Said the governor, "The blood of Judas and Shylock flows in his veins . . . and unites the qualities of both his countrymen." 22 The Rothschilds proved coy in this unlikely courtship. Whether they had qualms about slavery is unknown, but they most certainly had qualms about underwriting a nation unlikely to meet its debt obligations. The South had money problems from Fort Sumter on. Although its citizens responded eagerly to the Confederacy's first two bond offerings, foreign investors balked. Without an international assist, there were very real limits to the South's ability to finance itself. The semifudal nature of southern society did not do wonders for regional liquidity.

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The Rothschilds "would help decide the outcome of the American Civil War," writes the clan's definitive historian, Niall Ferguson, "by choosing to sit on the sidelines." 24 That choice proved prescient. Those loyal enough or reckless enough to invest in Confederate bonds paid for their loyalty and/or their imprudence with their life savings. The North refused to honor the South's debts. And its banks were not about to redeem the "greybacks" with anything, even cotton. As the Rothschilds well understood, and would come to experience firsthand, a lost cause inevitably results in lost fortunes.

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As Paul Johnson observes, "It is true to say that Marx's theory of communism was the end-product of his theoretical anti-Semitism." 21 In truth, his anti-Semitism reads like a toxic mix of cultural self-hatred and warmed-over Luther. One senses here a passing of the torch. Having transcended their animus against usury, the popes had passed it on to Luther, and his followers bequeathed it to Marx. From *Das Kapital* onward, Marx's disciples would wage the most relentless attack on the larger usurious enterprise and, when it served their purposes, the "fanatically bent" usurers themselves.

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Even before the panic, academia had been quietly militating for a solution to future crises that did not involve Morgan or any other independent agent. Leading the charge was a professor of economics at Columbia University, E. R. A.—as in Edwin Robert Anderson—Seligman. The American-born Seligman had studied in Europe and picked up a little Marx along the way. He would not be the last academic economist so influenced. Over the winter of 1907–1908, he presided at three conferences, each of which called for the creation of that ultimate fix-all, a central bank. Seligman disdained “the horde of small competitors”⁵ that made American commerce, banking in particular, so difficult to manage by experts like himself.

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Also speaking at the Columbia conference of 1907 was one Frank Vanderlip, a banker and former assistant secretary of treasury. He, too, argued that a competitive, decentralized banking system caused the panic, “one of the great calamities in history.” Vanderlip saw central control along scientific principles as a solution to a free and competitive market. His outspokenness on this issue earned him a round trip to Jekyll Island.

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Following Vanderlip at Columbia was Paul Warburg. Born into a Jewish banking family in Hamburg, Germany, Warburg married into the American Loeb family and moved to the United States in 1902 as a thirty-four-year-old partner in the investment banking house of his in-laws, Kuhn, Loeb & Company. No one in America knew central banking better than Warburg did. “Small banks constitute a danger,”⁶ he told those gathered at Columbia in arguing for the benefits of European-style banking. Warburg, in fact, had a problem with the whole idea of a free, self-regulating market. He hoped to replace Adam Smith’s “invisible hand” with the “best judgment of experts,” himself high among them. In 1910, Warburg, too, took up duck hunting on Jekyll Island. Aldrich

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kept the reform ball rolling in the Senate. He managed to get a minor banking bill, the Aldrich-Vreeland Act, passed in 1908. The reformers took note of a seemingly minor amendment to the bill that Aldrich’s fellow senators paid little heed to: the creation of a National Monetary Commission (NMC) to study proposals for restructuring the banking system. Wrote one reformer in the Wall Street Journal, “In no other way can such education be effected more thoroughly and rapidly than by means of a commission . . . [that] would make an international study of the subject and present an exhaustive report, which could be made the basis for an intelligent agitation.”⁷ Aldrich

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Aldrich had recommended a straightforward central bank on the European model, but the nonpoliticians knew better than he that a central bank could be more readily sold to the public if packaged as a decentralized bank.¹² That sell was complicated by the fact that the Democrats had taken Congress in 1910 and would take the White House in 1912. The marketing campaign for the Aldrich Plan kicked off at a National Board of Trade meeting in

January 1911. After a rousing speech in its favor by Andrew, delegates voted to back the plan. The group's chairman then appointed a seven-person committee to market the plan, headed by none other than Warburg. The delegates, of course, had no knowledge that Andrew and Warburg had helped draft the document they were about to promote.

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To give the illusion of a grass-roots effort, the committee of seven launched a National Citizens League for the Creation of a Sound Banking System and headquartered it in Chicago, rather than New York. 13 While the Citizens League drummed up enthusiasm on Main Street, a parallel campaign was launched to win over Wall Street. Congress would prove more difficult. A three-time presidential loser by 1910, William Jennings Bryan still held sway over much of Congress. His soft-money supporters saw the hard-money hand of Morgan behind a central bank and resisted. To win over Congress, supporters of the plan would have to lose the Aldrich name and find a Democratic sponsor. Happily for them, Carter Glass, the head of the Banking Committee in the House, stepped up to champion the cause in the House.

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On March 31, 1913, J. P. Morgan died. On December 23, 1913, President Wilson smiled and signed into law the hybrid concoction that was to replace Morgan, the Federal Reserve. The Jekyll Island men smiled too, and they knew what they were smiling about. In analyzing the beast, they had figured out that the control of it could very well reside with the presidency of the Federal Reserve Bank of New York if that first president were shrewd and resourceful. They had just the man in mind. From 1914 until his death in 1928, their own Benjamin Strong would preside over the New York Federal Reserve and set the monetary policy for the nation. The Federal Reserve Act had not reduced the power of the duck hunters and their backers. It had merely reduced their responsibility. twenty-one

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Ironically, however, it was bankers like the Morgans who were diversified enough to weather the Depression and protect their depositors. 26 It was not economic royalism that led to the great majority of bank failures, but myopic legislation designed to protect local monopolies. Some 90 percent of failures occurred in states whose "unit" banking laws forbade banks from branching out beyond their base. Canada, which had no such laws, had no such problems. Those one-office banks that hung on clamored for federal deposit insurance to protect them against the self-defeating regulation that was making survival difficult.

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In June 1933, Roosevelt signed into law the Glass-Steagall Act. In the apt words of author Michael Lewis, the act "cleaved mankind in two." 27 Banks now had to choose between investment and deposit banking. They could not do both. A classic in political scapegoating, the act rewarded those banks that had done the worst and punished the banks that had done the best. It provided deposit insurance for the struggling banks and forced the successful ones to divest their investment banking operations. As Morgan biographer Ron Chernow observes, "The Glass-Steagall Act took dead aim at the House of Morgan." 28

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In 1935, forced to choose between deposit banking and investment banking, the house of Morgan shocked Wall Street by abandoning the side of the business that had made them rich and famous. Leffingwell explained his decision in a letter to Roosevelt, asking him to repeal Glass-Steagall: "Nobody can afford to be in the business unless he has a good bread and butter business to live on. A house exclusively in the underwriting business is under too much pressure to pay overhead and living issues to pick and choose the issues it will underwrite." 32

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Rudy Giuliani did not see it that way. Then the U.S. attorney for the Southern District of New York, he had, writes Stewart, "a Catholic, even Jesuitical view of the world, one marked by clear divisions between right and wrong, friend and enemy." 31 The chief of the fraud unit, Charles Carberry, like Giuliani a product of Catholic schooling, shared his worldview, as did their collaborators at the SEC. They were also a good deal more competent than Boesky and Milken ever suspected. When Levine was arrested, writes Stewart, "it suggested a level of securities enforcement that neither had previously believed existed." 32 These Reagan appointees also belied the notion that his administration had turned a blind eye to securities fraud. None of the conspirators was a hard guy. "Wall Street types weren't strong in a criminal sense," Carberry concluded. "They cared too much about respectability." 33 As George Gilder might have phrased it, in an increasingly secular environment, the Jewish "need for achievement" had persisted while the culture's "rigorous moral framework" had been set aside. 34 Still, the conspirators were all just one generation removed from leading lawful, respectful, traditional lives. When finally brought to justice, Milken "emitted bloodcurdling screams." 35 Reich "began sobbing"; 36 Siegel "put his head in his hands and began to weep." 37 This was the way the greed decade ended: not with a bang, but a whimper. Though a decade lasts for only ten years, greed is both forever and universal. "The avarice of mankind is insatiable," 38 Aristotle observed some 2,300 years ago, and little has happened in the years since to disprove him. The notion that the 1980s was distinctively greedy can be seen in retrospect for what it was: mischievous anti-Reagan agitprop.

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For Bernie Madoff, now serving 150 or so years in prison for defrauding thousands of investors out of billions of dollars, the 1980s was merely the third decade out of five in which he spun his impressively sticky web. In fact, he was arguably less greedy in the 1980s than he was in the 1990s and in the 2000s, when his Ponzi scheme was cranking full throttle. And unlike Milken, whose genius revolutionized Wall Street, Madoff did nothing more constructive than steal other people's money and spend it.
