Review of Charles R. Geist, *Beggar Thy Neigbor; A History of Usury and Debt*, Philadelphia: University of Pennsylvania Press, 2013; 400 pages Cloth ISBN 978-0-8122-4462-5 $39.95 £26.00, Ebook ISBN 978-0-8122-0750-7 $39.95 £26.00.

by Hans Visser\*

Through the ages, there have been numerous attempts to restrict or ban the practice of charging interest on loans. Charles R. Geisst, a professor of finance at Manhattan College, wrote a very readable and well-researched study of two millennia of grappling with this persistent vice, if vice it was, by worldly authorities and the clergy .

Geisst starts his journey through history with the Romans. He is not content to tell the familiar story of papal encyclicals and church council resolutions, but chronicles what both canon law and civil law had to say on the subject and explores the market forces and the economic interests behind their failure to eradicate the interest phenomenon or keep it in check. This started already with the Romans, who proved as eager to profit from regulatory arbitrage as 20th and 21st century financiers. Geisst apparently is no less conversant with Roman and Byzantine law than with 20th century legal battles on interest ceilings and also has a keen eye for the political battles behind church council decisions. His narrative explains where pressure to ease or abolish usury laws came from, up till the present. For instance, individual US states liberalized interest ceilings on small loans in the late 1920s in order to draw the commercial banks into consumer loans, making small borrowers less dependent on loan sharks.

Geisst pays special attention to compound interest, noting right on page 1 that Roman law did not permit it. Adding interest to outstanding principal was deemed immoral, and Geisst is sympathetic to the case of those who opposed it. He is inclined to take a rather negative view of the potential damage of interest burdens and sees a move toward higher interest ceilings as a contributing factor to the crash of 1929 and the Depression, as it reduced consumption. That is too simple, and it neglects the vast literature that has been published over the years on the causes of the Great Depression. One important strand in this literature is the role of illiquidity, of credit not being available at any price.[[1]](#endnote-1) But Geisst is a finance man, not a macroeconomist, and it would perhaps be a bit unfair to expect him to keep abreast of this literature. Indeed, that would amount to carping, as one of the distinguishing features of the book is Geisst’s impressive use of pre-20th century sources, including, for instance, a translation of Fibonacci’s *Liber Abaci*, or Book of the Abacus, from 1202 that showed how all kinds of mathematical problems, including the calculation of compound interest, could be solved with the help of using Arabic numbers instead of Roman ones. Geisst tells us how this kind of calculations was more or less kept secret by the Italian and Dutch bankers (he probably means bankers from the Southern Netherlands, that is, Flemish bankers), in order not to provoke the church authorities, until the Dutch polymath Simon Stevin published his *Tables of Interest* in 1582, which also introduced decimals. He awards a major role to the Dutch in the dismantling of the prohibitions against interest, with Hugo de Groot (Grotius) succeeding in making people look at interest from a more secular perspective.

Compound interest could keep individuals in perpetual debt and thus at the mercy of creditors. One easily sees a link with sumptuary laws, designed to keep individuals away from incurring debt to indulge in luxuries. Geisst notes the connection and argues that the traditional notion that incurring debt for consumptive spending is somehow sinful made way for The American Dream, inextricably bound up with the consumer society of the 20th century and totally dependent on installment credit. On the producer side, Geisst explores the interaction between theoretical developments such as Modigliani-Miller, Markovitz’s portfolio approach and Sharpe’s CAPM on the one side and changing attitudes toward incurring debt on the other. The natural law strictures against usury that Geisst discerns behind interest ceilings were not strong enough to counteract the pressure to liberalize the credit market, though consumer protection is still very much on the table. Indeed, he concludes his book by highlighting the value of understanding interest and borrowing as part of the natural law tradition.

It should be noted that Geisst’s description of the crumbling of usury prohibitions in the 19th and 20th centuries is concentrated on the United States and, as far as the 19th century is concerned, also on the United Kingdom. Continental Europe gets scant attention, though a special chapter is devoted to Islamic finance and microlending. Geisst appears to have missed out on the numerous activities of, primarily, NGOs to develop alternatives to interest-bearing credit. Admittedly, these alternatives still don’t come to much, with the possible exception of the Swiss *Wirtschaftsring*.[[2]](#endnote-2) Further, there are a couple of minor mistakes in the book, such as the reference to 12 percent monthly interest rates in Matthew 16:28 in the New Testament. The verse is on something completely different. Then, the Dutch bank established in 1609 (Wisselbank) was not a national bank but a strictly Amsterdam one, and was not meant to grant credit but to create a reliable payment mechanism and reduce transaction costs. All this hardly detracts from what can seen as an excellent study.

How does it shape up against other studies on interest and debt? Diana Wood’s fine *Medieval Economic Thought* of course is not exclusively about loans and interest and covers a more restricted period than Geisst, though she, like Geisst, goes deep into the Roman law roots of medieval civil law.[[3]](#endnote-3) The Geisst volume distinguishes itself by paying special attention to compound interest and to the role of annuities as a permitted way of borrowing. The closest thing to Geisst’s book is perhaps Gelpi and Julien-Labruyère’s *The History of Consumer Credit*, though they leave out business finance.[[4]](#endnote-4) Unlike Geisst, Gelpi and Julien-Labruyère depend entirely on secondary literature, as far as the period before the 18th century is concerned, though the result is still most interesting. More seriously, it is difficult to see them as impartial observers. They are, or were at the time of writing, closely connected with Cetelem, a French consumer credit institution, now part of BNP Paribas and go out of their way to emphasize the value of consumer credit as a means to promote social integration and social mobility. They tend to play any possible negative effects down. For another thing, they are not on the same level as Geisst as regards *Ideengeschichte*. Though Gelpi and Julien-Labruyère’s book is a very useful one and discusses some subjects not covered by Geisst, such as the persistent difference in attitudes toward debt between Protestant and Catholic countries, Geisst’s volume is definitely the more impartial and scholarly one.

Notes

1. “Manias and How to Prevent Them: Interview with Charles P. Kindleberger”, *Challenge* 40:6, 1997, 21-31; [Michael Bordo](http://oxrep.oxfordjournals.org/search?author1=Michael+Bordo&sortspec=date&submit=Submit) and [John Landon-Lane](http://oxrep.oxfordjournals.org/search?author1=John+Landon-Lane&sortspec=date&submit=Submit), “The banking panics in the United States in the 1930s: some lessons for today”, [*Oxford Review of Economic Policy*](http://oxrep.oxfordjournals.org/) [26:3](http://oxrep.oxfordjournals.org/content/26/3.toc), 2010, 486-509. [↑](#endnote-ref-1)
2. James Stodder, “Complementary credit networks and macroeconomic stability: Switzerland's Wirtschaftsring”, *Journal of Economic Behavior & Organization* 72:1, 2009, 79-95. [↑](#endnote-ref-2)
3. Cambridge University Press, Cambridge 2002. [↑](#endnote-ref-3)
4. Rosa-Maria Gelpi and François Julien-Labruyère, *The History of Consumer Credit; Doctrines and Practices*, London: Macmillan 2000.

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