

The price of money through the centuries

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The five per cent that the councils of Basel and Geneva fixed as the normal rate for rents and loans in the sixteenth century was the price of money in a world of scarce capital, high risk and limited alternatives for investment. In the following centuries, the price of money fell in the most developed economies of Europe. In the Dutch Republic of the seventeenth century, the leading commercial economy of the time, the rate on public debt fell to three or four per cent. Similar levels were reached in England after the financial revolution of the late seventeenth century.¹ The Swiss cities, with their accumulated capital and their limited opportunities for domestic investment, also experienced low rates, and their merchants and patricians invested abroad in search of higher returns, in foreign public debt, in the French and English funds, in the Dutch East India Company and in other ventures. Part C examines these foreign investments, which prepared the development of Swiss private banking.

The low level of Swiss interest rates has remained a characteristic of the Swiss economy. In the twentieth century, Switzerland was known for interest rates that were among the lowest in the world, a reflection of its high savings rate, its stable currency and its role as a safe haven. The phenomenon reached its extreme in the period from January 2015 to September 2022, when the Swiss National Bank applied a negative policy rate of minus 0.75 per cent to defend the franc against appreciation. During those years banks charged negative interest on large deposits.² For the first time in history, savers paid to hold money in a bank, and the ancient question whether money could produce offspring received a paradoxical answer: in a world of abundant capital and deflationary pressure, money could shrink.

The history of the price of money, from the five per cent of the sixteenth century to the negative rates of the early twenty-first century, is a reminder that the moral debates on interest took place in specific economic

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conditions. When capital was scarce and borrowers were poor, the prohibition of usury protected the weak. When capital became abundant and borrowers were merchants and states, the legitimization of interest allowed capital to flow to productive uses. When capital is overabundant and rates fall below zero, new questions arise about the fairness of charging savers and the distribution of the costs of monetary policy. Each period has its own ethics of credit. The Reformed ethics of moderation and fairness has proved adaptable to changing conditions.

1 Notes

1. On the decline of interest rates in the Dutch Republic and England in the seventeenth and eighteenth centuries, see Homer/Sylla, A History of Interest Rates, 4th ed., 2005. To be verified. ↩
2. The Swiss National Bank applied a policy rate (SNB policy rate) of minus 0.75 per cent from 15 January 2015 (as target range, formally the SNB policy rate from June 2019) until 22 September 2022, when it raised the rate to plus 0.5 per cent; later adjustments to be verified. ↩

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