

that voluntary contributions or private munificence ever supplied ; when one contrasts the sanitary arrangements for supplying pure air and pure water to our crowded cities with the condition of things which exists where these matters are left to unofficial action ; he will find occasion to qualify in no small degree his assent to the proposition that, under a well-ordered constitution, government is only a policeman, to keep people from breaking each other's heads or picking each other's pockets.

## PART VI.—SOME APPLICATIONS OF ECONOMIC PRINCIPLES.

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It has seemed best to reserve to this portion of our work the discussion of some topics which involve the application of economic principles to questions of law or governmental policy, into which considerations of political equity or political expediency will intrude themselves so that they can hardly be shut out ; and also to place here some matters of economic detail which might have unduly interrupted the course of our argument, had they been dealt with at the points with which they are logically connected.

Throughout this part, therefore, I may be found to adduce considerations not strictly economic, with a freedom I have not allowed myself heretofore.

The topics to be treated under this title are :

1. Usury Laws.
2. Industrial Co-operation.
3. Political Money.
4. Pauperism.
5. The Doctrine of the Wage-Fund.
6. The Multiple or Tabular Standard.
7. Trade Unions and Strikes.
8. The Knights of Labor.
9. Attacks on the Doctrine of Rent.
10. Nationalization of the Land.
11. The Banking Functions.
12. The National Banking System of the United States.
13. Foreign Exchanges.
14. Bi-Metallism.



15. The Revenue of the State.
16. Taxation.
17. "Protection" vs. Freedom of Production.
18. Socialism.

## I.

## USURY LAWS.

**471. The Prejudice against Taking Interest.**—It has already been said (par. 36) that it is not the province of the economist to justify the existing order of things, or to establish the morality or the political equity of laws or institutions affecting property; yet we shall get so good a side-light upon the economic principles governing the loan of capital, in briefly considering the objections that have been raised against interest, or the taking of usury, as it is invidiously called, that it may be worth our while to step out of the direct path for a moment, at this point.

For many centuries, and even within a comparatively recent period, the Christian Church proscribed the taking of interest as a moral offense, and the laws of nearly all civilized countries made it a crime, while the voice of publicists and of ethical writers, alike, was raised against it as a wicked and pernicious practice. Whence came this general consent in denouncing that which is to-day accepted as right in morals and as practically beneficial, by all except a few fanatics?

The origin of the prejudice against usury is commonly attributed to a mistaken apprehension of a provision of the Mosaic Code forbidding the receipt of interest from any member of the chosen race, and to a passage in the works of Aristotle, those works which once had so profound and pervasive an influence in forming the political philosophy of Europe, to the effect that *as money does not produce money* nothing more than the return of the principal sum lent can equitably be claimed by the lender.

**418. Does Money Produce Money?**—Of the theological argument it is not necessary to say much here. The inhibition

of usury, as between one Hebrew and another, was doubtless a feature in the general policy adopted for keeping the peculiar people apart from their profane neighbors and intensifying their community of feeling. The dictum of Aristotle, claiming no divine authority but professing to found itself on reason, remained unchallenged for ages amid all the political speculations of Europe. Mr. McCulloch attributes to John Calvin the high honor of having first detected the fallacy of this argument against usury, discerning that, while money does not produce money, that which may be purchased with money does produce after its kind, and that herein is a perfect justification for the payment of interest.

Money, does, indeed, not produce money, but capital produce, capital. If a man borrows money he may with it buy grain which, when sown, will bring forth "some thirty, some sixty and some an hundred fold." He may purchase cattle, of which a small herd will in a few years become a mighty one. If he employs it in trade or in manufactures, his production may be so largely increased thereby that he may pay a liberal reward to the lender, and yet be better off than if he had not borrowed.

**407. The Movement Toward Reform.**—England led the movement toward a more enlightened policy. By an act of 1546 \* lenders were allowed to receive interest, though at a rate not to exceed ten per cent. During a brief reaction under Edward VI. this law was repealed, but a statute of Elizabeth restored the right to take interest. Subsequent statutes reduced the rate of legal interest successively to 8, 6 and 5 per

\* 37, Henry VIII. Though thus legalized, public sentiment and particularly the opinions of the clergy remained in a high degree hostile to usury. "I do wish," said Dr. Wilson, in his Discourse upon Usury, published more than twenty years after the act of Henry VIII., "some penal law of death to be made against usurers, as well as against thieves and murderers, for that they deserve death much more than such men do; for these usurers destroy and devour up, not only whole families, but also whole countries, and bring all folks to beggary that have to do with them."



cent. (Queen Anne), at which last point it remained till the present reign, when all restrictions on loans were abolished.

Among the States of the American Union, Massachusetts has made contracts of loans as free as those of purchase and sale.

Interest is now allowed to be paid on loans in all civilized countries, the prohibition of usury having fallen utterly out of the sympathies of this age. Money-lending, or the taking of interest when payment for goods or lands is forborne, has passed beyond all stigma; and the profession of the banker, who organizes and conducts the borrowing and the lending of whole communities, is among the most honorable known to modern society. Yet there still survives an opinion, very widely spread, that the taking of interest should be under the regulation of the State, to prevent the abuses which are apprehended from the power of the money-lender over the needy and necessitous borrower: that, to use Bacon's phrase, "the tooth of usury be grinded, that it bite not too much."

This opinion finds expression in the statutes of nearly all nations and of almost every State of the American Union, and even the general banking law of the United States provides that the associations (National Banks) to be organized thereunder may receive interest at the rate allowed by the laws of the State, Territory or District where they are located, and no more, and that, where no local rate is fixed by law, the rate of interest shall not exceed seven per cent., to be, however, taken in advance (discounted).

**420. Laws Regulating Interest.**—All civilized nations having legalized the taking of interest on loans, the term, usury laws, as applied to existing legislation, has reference, not to the prohibition of interest but to its regulation, generally through the means of a prescribed maximum rate which it is made unlawful to exceed. As has been stated, such laws still stand on the statute books of highly civilized states. What shall be said of them? As a substitute for the laws that forbade the taking of interest they must be regarded as in the nature of enlightened legislation, and I am not sure that, even when considered without comparison with pre-existing legislation,

these laws were, in an earlier time, wholly without justification. They were enacted in the interest of the would-be borrower, who was regarded as unable to sustain, without grave injury, which might also work injury to the community, the competition to which he was subjected in his efforts to secure the loan of capital. And in the ages in which these laws were enacted, this assumption was not without reason.

**421. Usury Laws in Early Ages.**—Borrowers were, then, generally persons embarrassed or distressed, whether by their own fault or by misfortune. Trade and manufactures were not, as so largely now, carried on by means of borrowed capital. The man who asked a loan was presumably in circumstances which put him very much at the mercy of the money lender, just as a man in times of famine is at the mercy of the dealer in food, who may make unreasonable, extortionate and cruel terms.

And the money lender in those days was not, in general, a nice sort of person. The recent outbreaks in Roumelia, Roumania and Russia testify to the natural feelings of a simple-minded, ignorant, passive, and more or less stupid people, who see houses and lands and cattle and goods and even standing crops pass with fatal certainty out of the hands of the many into the hands of a class in whom the faculty of acquisition is developed to such a degree as to make them, in comparison with a peasantry like that of the Slavonic States, as wolves among sheep.

We allow all men to walk our streets indifferently, because men are so constituted physically as to be substantially equal, so far as contact is concerned. We brush each other and sometimes run full against each other, and yet give and take no harm. But suppose one-half the people of our cities were as fragile and brittle as glass, while the other half, divided on the line of sex, or otherwise, were as heavy and as hard as iron, would not the law require the latter to go by separate streets, and protect the weaker part of the community from a contact that would be fatal?

I am not at all sure that economic reasons would not justify the legislature in interfering to save by any practicable means



one class in the community from the effects of such one-sided competition as existed between borrower and lender in the ages referred to ; nor am I sure that the kind of laws referred to were wholly without the beneficent effects they were intended to have.

**422. Evasion of Usury Laws.**—Even in the ages when the taking of interest, in any form, was strictly prohibited under the most cruel penalties, usury laws were very frequently evaded, through a great variety of artifices and contrivances. In modern times, the laws prescribing a maximum rate of interest, generally under penalties of moderate severity, are, it may be said as a rule, violated or evaded, whenever the use of capital\* becomes more valuable than the consideration allowed by law to be paid, be that five per cent., or six, or seven, or more.

The most important means of evading the usury laws are the following :

First. *Fictitious Deposits in Bank.*—Every successful merchant and manufacturer will, of course, keep a considerable deposit to his credit in the bank or banks with which he habitually deals. He will do this to protect himself against the failure of remittances from his own correspondents, to enable him to meet unanticipated demands, perhaps to take advantage of exceptionally good bargains suddenly offering.

What we have now in mind is the keeping of deposits in bank, in excess of what the merchant or manufacturer would naturally maintain for his own purposes, as an inducement to the bank to loan him capital in emergencies.† Thus, we

\* The reader is referred to par. 286 for the demonstration that interest is paid for the use of capital, not always, not generally, not often, for the use of money, as such. In the present article, however, in writing of usury laws and the means of evading them, I shall use the phrases of the so-called Money Market, more properly the market for the loan of capital ; and shall speak of money being scarce, money being worth such a per cent., etc., meaning always thereby, capital.

† Samuel Jones Lloyd, afterwards Lord Overstone, in his testimony before the British Commons Committee of 1841, said : “ The compensation to the banker for his loss in advancing money upon discount, at a

might suppose that a certain merchant or manufacturer finds it for his interest to keep “ a line of deposits,” in a certain bank, averaging twenty thousand dollars. This he might deem sufficient for all his own purposes. In order, however, to make sure that the bank will discount his notes when “ money is scarce,” he may think it worth while to maintain an average deposit of fifty thousand dollars. He gives the bank the use, all the time, of thirty thousand dollars, with the implied understanding that the bank, on its part, will loan him all it possibly can, in periods of financial difficulty. This course is pursued to a very great extent. It is natural that wealthy merchants and manufacturers should in this way protect themselves against emergencies ; but this only makes it all the harder for those who can not afford to keep large deposits in ordinary times to borrow what they may absolutely require in periods of pressure or distress.

Second. *Commissions.*—Suppose the law to prescribe that interest shall not be taken above six per cent. per annum. A merchant has occasion to borrow ten thousand dollars for two months. On this the maximum legal interest would be one hundred dollars. But the demand for capital, at the time, is so great, or the supply of it so small, owing to the prevalence of speculation or to the existence of commercial distrust, that no one is willing to lend ten thousand dollars, two months, for so little as one hundred dollars. Our merchant goes to a broker and says : “ I wish to borrow so-and-so, and I will give you one per cent. for negotiating the loan.” Now, one per cent. commission on ten thousand dollars is one hundred dollars : so that the would-be borrower really promises to pay at the rate of twelve per cent. per annum. Since he is in this frame of mind, there is no longer any difficulty about getting the loan. The probabilities are that the broker divides his commission with the lender.

Third. *Fictitious or “ Dry ” Exchange.\**—Let us suppose rate below its real value, would be found in the value of the accounts kept with him by the parties to whom such advances were made.”

\*In his standard work on usury, Plowden states that “ Dry Exchange ” was sometimes carried, in his day, to a very great extent. The borrower



the would-be borrower, in the case referred to, goes to his bank and offers his note for ten thousand dollars, payable in sixty days. The cashier says, "We can not discount this note; but if you will make it payable in New York, we will try to put it through for you." This is done. At maturity, the note is paid in New York. The bank charges one-half per cent. "exchange," theoretically for bringing the money home, though it may be that the bank would at the time rather have its money in New York than in Boston. Now, one-half per cent. exchange on ten thousand dollars is fifty dollars, which is three per cent. on a loan of that amount for two months. This added to the six per cent. interest which the bank is authorized to charge, makes nine per cent. received by the bank in this transaction.

Both the first and the third of these modes of evading usury laws are completely within the law. A man has a right to keep as large deposits as he pleases in his bank; the bank has a right to charge whatever rate of exchange may be mutually agreed upon for bringing money from a foreign country or a distant city. Dividing the commission between the broker and the lender is unlawful; but it can be so easily and secretly done as to be practically beyond any danger of incurring penalties.

Fourth. *Loans for Unnecessarily Long Periods.*—To illustrate this mode of defeating the intention of usury laws, let us return to the case of the merchant, who, in time of commercial trouble, has occasion to borrow ten thousand dollars for two months. He offers his note for that amount, on that time, to a bill broker, who replies: "I can not get this discounted for you; but, if you will make out your note for a year\* I

"draws" on an imaginary person in a foreign country. After the expiration of the time the bill is to run, comes a "protest" from that country for the non-payment of the bill, with the re-exchange of the money thence to the place where the money was drawn, the paper having, in fact, never been out of the country. "The borrower," says this writer, "being thus charged with exchange, re-exchange, protest and incidental expense, pays in all, some twenty or thirty per cent."

\*A witness before the Commons Committee of 1841. testified that he once

will get you the money, at the legal rate." This is done. The lender sacrifices his chance of getting his eight or ten per cent. through some roundabout method, during two months, for the sake of placing his capital, at the maximum legal rate, for an entire year. He believes that the stringency in the market, which now makes "money" really worth eight or ten per cent. will soon be over. In that case, interest will probably fall below the legal rate; perhaps during a greater part of the year capital may be "a drug," at three or four per cent. The lender may thus be better off in making the borrower pay six per cent. for twelve months, than if he had taken from him eight or ten per cent. for two months, to have his capital thrown back on his hands at the expiration of that time.

**423. Economic Effects of Laws Prescribing a Maximum Rate of Interest.**—Such are the most important of the means resorted to for evading the laws establishing a maximum rate of interest. It must not be thought that, because usury laws may thus be evaded, they have, therefore, no economic effect. On the contrary, they exert a very considerable influence.

(a.) These underhand or roundabout modes of doing business must cost somebody something.

Now, the person on whom this charge is likely to rest is he who, in the time and place, occupies the position of relative economic disadvantage. This, it is needless to say, is, in times of financial trouble, the borrower, who must have the money or submit to great loss, perhaps to ruin.

(b.) More important, still, among the effects of usury laws, is the destruction of an open market for the loan of capital, and the preventing of a quotable rate of interest. When the actual rate goes above the legal rate, and borrowers and lenders are driven to roundabout and underhand methods of making up the difference, nobody knows "what money is worth." The borrower, under a terrible necessity to secure

negotiated in a period of stringency a loan of £100,000 to a mercantile house, for the term of seven years, although the borrowers only wanted the use of the capital for a few months, and would have been glad to take it for that time, at a high rate of interest, had this been permitted by the law.



a loan, lest his notes should "go to protest," and he be financially dishonored and perhaps ruined, is practically blindfolded, at the moment of his greatest weakness and need. The more anxious he is, the more completely is he at the mercy of the lenders, who, in such a case, have a common interest in creating the impression that "money" is very scarce and fast growing scarcer. Every borrower who becomes frightened spreads fear on every side around him, until perchance a panic prevails, and borrowers submit to every degree of extortion.

(c.) Even more important than the loss to the borrowing class through the most exorbitant rates of interest, is the sacrifice of stocks of goods, securities, bonds, etc., to which many merchants are driven, in times of commercial distress, through the difficulties and delays interposed by the laws regulating the loan of capital.\* Many a man in such a case, either because he has not the time to negotiate a loan by artifice, or because his credit is not of the best, or because he is driven to desperation, will sell goods consciously at a great disadvantage. Oftentimes, such a man has to submit to a sacrifice of five, ten, or fifteen per cent. of the value which the goods had a week before, and which they perhaps will have a month later. Now, to sacrifice only five per cent. on a body of goods, in order to get through one month of financial stringency, is equivalent to borrowing capital for that length of time, at the rate of sixty per cent., per annum! How much more would it have been for this man's advantage, had the law permitted him to go into an open market for the loan of capital, and there pay whatever its use was, at the time, worth, were that nine, or twelve, or fifteen, or eighteen per cent.!

**424. Usury Laws in Communities Mainly Non-Commercial.**—We have spoken of the relations of the borrower to the

\* It is to this Lord Bacon alludes when he says, "Were it not for this easy borrowing upon interest, men's necessities would draw upon them a most sudden undoing, in that they would be forced to sell their means (be it lands or goods) far underfoot; and so *whereas usury doth but gnaw upon them, bad markets would swallow them quite up.*"

lender of capital, in a primitive condition of industrial society, before business has come to be carried on by loans of capital, and while borrowers are generally distressed persons. We have, also, referred to the relations of the borrower and the lender, in communities having a high commercial and financial organization. Intermediate between these two conditions is a state of society, such as characterizes extensive regions of the United States, to-day, where agriculture is prosperous, where industry has made some progress, yet where the community still remains mainly non-commercial. This state of society is commonly left out of account by writers who oppose usury laws. I do not, however, deem it candid to omit communities of this character altogether from consideration, or to assume that conclusions which we may have drawn from the study of a highly advanced commercial society will apply to these, without qualification.

On the whole, I do not think that the question of the effect of usury laws in a mainly agricultural community, in modern times, is quite so simple as most writers have treated it as being.\* On the one hand, I have no doubt that the fixing of a legal rate of interest has a certain effect upon the disposition of owners of capital in lending that capital. We have seen (par. 147) that the moral and intellectual elements of supply and demand are very potential in exchange. I have no doubt whatever, that the current rate of interest, in a country where a rate is fixed by law, sometimes affords an example of the operation of this force.

Again, I have no doubt that the influence of penalties threatened for exceeding a certain rate of interest, in a community chiefly non-commercial and of simple industrial organization and where the element of personal acquaintance largely enters into all relations of man with man, is distinctly felt in inducing some persons to accept the legal rate, if that be

\* "It is in vain," says John Locke, "to go about effectually to reduce the price of interest by a law; and you may as rationally hope to set a fixed rate upon the hire of houses, or ships, as of money." And elsewhere this eminent philosopher calls a law to regulate the rate of interest "a law to hedge-in the cuckoo."



fixed tolerably near the ordinary market rate, so that the temptation to evade the law is not overwhelming. On the other hand, it is equally clear that such provisions of law may be evaded by the various means recited, and probably will be evaded whenever the inducement offered is very great; and that, so far as borrowers are driven to shifts to disguise excess of usury, they are likely to find themselves worse off than they would be in an open market.

Just where the balance would be, in such a community as has been described, so far as the interests of the ordinary agricultural borrower, or small country trader or mechanic, are concerned, I confess I do not feel confident; and I doubt if any man knows enough to say rightly even to which side the balance might incline in a community composed of men of different race, or of different traditions and social habits, from those whom he has been accustomed personally to observe.

**425. Usury Laws in Highly Commercial Communities.**—But in any modern commercial community of large and varied and complicated industrial concerns, the case is a simple one.

In an advanced state of industrial society, where borrowing is no longer the resort of the embarrassed and distressed, alone, or mainly, but, on the contrary, the most flourishing trade and manufactures are carried on chiefly by means of borrowed capital; where, in the usual course of prosperous business, notes are made and are paid by the thousands, every day, usury laws become purely mischievous.

First, because the vastly greater interests of trade and industry would properly outweigh, were society called to choose between them, the interests of distressed and embarrassed individuals; and,

Secondly, because such persons will, in fact, benefit by the greater plentifulness of capital, the greater ease of borrowing, and the consequently lower rate of interest, which, in general, result from freedom regarding contracts for loan. The business classes, active, alert, aggressive in competition, make rates of interest by which the less fortunate profit.

## II.

## INDUSTRIAL CO-OPERATION.

**427. The Objects of Co-operation.**—In Part IV. we have shown the place in the scheme of distribution that is to be occupied by what is termed co-operation, should that project be, in any appreciable degree, realized. We said that the object of co-operation, in the technical sense in which that word has been used by economic writers, and even popularly used, since the Revolution of 1848, is to get rid of the "entrepreneur," or employer, as an industrial agent.

It is evident that if the parties to production, other than the landlord, are to be thus reduced to two, that function may be performed either by the capitalist class or by the laboring class. The capitalists may, as such, become employers of labor: that is, each capitalist may become an employer because he is a capitalist, and in the degree in which he possesses capital. Whereas, now, only a small fraction of the owners of capital are also employers of labor. In this case, interest and profits would be united. In the other case, the laborers may become self-employed, taking all the responsibilities of production, borrowing capital according to their occasions for its productive use, and paying a remuneration therefor on the principles heretofore determined. In this case, wages and profits would be united.

The latter is the change in industrial organization which is in contemplation when co-operation is urged. It is in the interest of the laboring classes, not of the owners of capital, that the employer is to be extruded from the industrial system and his profits brought to re-enforce wages. The whole significance of co-operation, as a scheme of industrial reform, lies in this: that the laboring classes expect to divide among themselves the large amount of wealth which they now see going, day by day, into the possession of their employers, as profits.

**427. Mistaken Conception of the Economists.**—But, although the laboring classes fully understand this, and know