

OF
THE RATE OF INTEREST;

AND OF

ITS INFLUENCE ON THE RELATIONS

OF

CAPITAL AND LABOR.

Henry Carey
SPEECH OF H. C. CAREY,

IN THE CONSTITUTIONAL CONVENTION OF PENNSYLVANIA, MAY 15, 1873.

PHILADELPHIA:
COLLINS, PRINTER, 705 JAYNE STREET.
1873.

THE RATE OF INTEREST.

Precisely a century and a half since, in 1723, the General Assembly of Pennsylvania reduced the legal charge for the use of money from eight to six per cent. per annum. This was a great step in the direction of civilization, proving, as it did, that the labor of the present was obtaining increased power over accumulations of the past, the laborer approaching toward equality with the capitalist. At that point it has since remained, with, however, some change in the penalties which had been then prescribed for violations of the law.

Throughout the recent war the financial policy of the National Government so greatly favored the money borrower, and the laborer, as to have afforded reason for believing that the actual rate of interest was about to fall permanently below the legal one, with the effect of speedily causing usury laws to fall into entire disuse. Since its close, however, under a mistaken idea that such was the real road to resumption, all the Treasury operations have tended in the direction of favoring the money lender; the result exhibiting itself in the facts, that combinations are being everywhere formed for raising the price of money; that the long loans of the past are being daily more and more superseded by the call loans of the present; that manufacturer and merchant are more and more fleeced by Shylocks who would gladly take "the pound of flesh nearest the heart" from all over whom they are enabled to obtain control.

Anxious for the perpetuation of this unhappy state of things, these latter now invite their victims to give their aid toward leveling the barriers by which they themselves are even yet to a considerable extent protected; assuring them that further grant of power will be followed by greater moderation in its exercise. Misled thereby, money borrowers, traders and manufacturers, are seen uniting, year after year, with their common enemy in the effort at obtaining a repeal of the laws in regard to money under which the State has so long and so greatly prospered. Happily, our working men, farmers, mechanics, and laborers, fail to see that advantage is likely to accrue to them from a change whose obvious tendency is that of increasing the power of the few who have money to lend over the many who need to borrow; and hence it is that their Representatives at Harrisburg have so steadily closed their ears against the siren song by which it is sought to lead their constituents to give their aid to the work of their own destruction.

Under these circumstances it is that we are now asked to give place in the organic law to a provision by means of which this deplorable system is to be made permanent; the Legislature being thereby prohibited, be the necessity what it may, from placing any restraint upon the few who now control the supply of the most important of all the machinery of commerce, as against the many whose existence, and that of their wives and children, is dependent upon obtaining the use thereof on such terms as shall not from year to year cause them to become more and more mere tools in the hands of the already rich. This being the first time in the world's history that any such idea has been suggested, it may be well, before determining on its adoption, to study what has been elsewhere done in this direction, and what has been the result, as follows:—

Forty years since English money lenders were busily engaged in singing the same siren song that is now being here repeated. Journalists in their pay assured manufacturers and traders that the road toward the cheapening of money lay in the direction of abolishing all restrictions upon the contracts of those who alone could furnish it; and, that the more completely the hands of the rich were freed the lighter would be the blows that would be dealt among the poor and the weak by whom they were everywhere surrounded. As the result of the combined effort thus brought about, Parliament was led to pass the act of 2d Victoria, by which it was provided that—

“from and after the passing of this Act, no Bill of Exchange or Promissory Note made payable at or within twelve months after the date thereof, or not having more than twelve months to run, nor any contract for the loan or forbearance of money above the sum of 10 pounds sterling shall by reason of any interest taken thereon or secured thereby, or any agreement to pay or creating or transferring any such Bill of Exchange or Promissory Note be void, nor shall the liability of any Party to such Bill of Exchange or Promissory Note nor the liability of any person borrowing any sum of money as aforesaid be affected by reason of any statute or law in force for the Prevention of Usury, nor shall any person or persons or body corporate drawing, accepting, endorsing, or signing any such Bill or Note, or lending or advancing or forbearing any money as aforesaid, or taking more than the present rate of interest in Great Britain and Ireland respectively for the loan or forbearance of money as aforesaid be subject to any Penalties under any statute or law relating to Usury or any other law whatsoever in force in any part of the United Kingdom to the contrary notwithstanding: Provided always that nothing herein contained shall extend to the loan or forbearance of any money upon security of any lands, tenements, or hereditaments, or any estate or interest therein.”

For a century previous to the passage of this act, as we are informed by a recent and very able writer, the rate of interest at the Bank of England and in the numerous local banks had never varied to the extent of even one per cent.; and the average rate had been slightly below the legal one—say about $4\frac{1}{2}$ per cent. Set free, however, from all restraint, and vested with power wholly unlimited, we find the Bank at once engaged in causing fluctuations tending so to destroy public confidence as greatly to raise the price at which the use of money might be commanded. At one moment it is raised from four to ten per cent., a rate almost equal to twenty per cent. with us. At another, and without any reasonable cause, it is sent

down to four, five, or six; to be again raised to eight, nine, or ten, and with results such as are here described by the writer above referred to:—

“The other point worthy of attention is that while working this system of incessant variation the Bank has managed greatly to raise the general level of the rate of interest. . . . In the twenty-five years previous to the passing of the Bank Act (from 1819 to 1844) the rate of discount used to be four per cent. when the Bank's stock of specie ranged between £10,000,000 and £7,000,000, rising to six per cent. (as in 1839-40) when the stock of specie fell to £3,000,000. . . . But now it charges four per cent. when it has 15,000,000 of gold, and nine and ten per cent. when its stock of specie still amounts to 13,000,000. In this way the Bank has been steadily working up the rate of interest until it has reached its present high level—that is to say, double what it used to be under similar circumstances in former times. . . . In this way the level—the base line, so to speak—of the Rate of Interest has become permanently raised. Trade of course is proportionately mulcted. The Bank in fact, and all the banks which willingly, as well as of necessity, follow its example, now claims for itself a larger portion of the profits of Trade than before. And thus Industry is mulcted to the advantage of Capital.”*

Following closely in the wake of the leviathan, we find London joint stock banks making dividends among their stockholders to the extent of twenty, thirty, and almost forty per cent., the whole of which has ultimately to be taken from the wages of labor employed in manufactures, or in agriculture.† Looking now to the manufacturing districts, we find loan associations charging a penny a week for the advance of a single shilling, giving an annual rate of nearly five hundred per cent. Turning thence to the courts, we find, in a case involving some £20,000, the judge denying to a plaintiff the verdict for which he had prayed, on the ground that, although the law was with him, the usury had been so monstrous that it could not conscientiously be allowed. At no time in Britain's history have pauperism and usury travelled so closely hand in hand together; the rich growing rich to an extent that till now would have been regarded as fabulous, and the wretchedness of the poor having grown in like proportion.

Looking now homeward, we see that throughout the period from 1861 to 1866, the energies of the country had been greatly given to the work of fitting out fleets and armies; of feeding and clothing almost millions of men; and of annihilating capital that had accumulated in the past. For accomplishment of these various works large supplies were needed of that machinery of exchange known as money, and for nearly the whole thereof we were required to depend upon the domestic market; Britain, fortunately, having positively refused to lend us even a single dollar. Nevertheless, at

* Blackwood's Magazine, June, 1865. Article, *The Rate of Interest*.

† The *Investor's Monthly Manual*, appendix to *London Economist* of Oct. 26, 1872, gives a table of dividends for 1871 and 1872, of 117 banking companies in the United Kingdom of England, Ireland, and Scotland. The rates vary from 8 to 36 per cent. per annum, including bonus. One only of them declares a semi-annual dividend of 18 per cent.; sixteen declare annual dividends of 20 per cent.; six of 18 per cent.; three of 16 per cent.; ten of 14 per cent.; seventeen of 12 per cent.; twenty-one of 10 per cent.; and so on down, without counting fractions. The reserved surplus of these institutions is not stated.

the close of this scene of war and waste, there were in 1866 but ten States in which the legal rate of interest was more than six per cent. as follows:—

California	10
Florida, Alabama, and Texas	8
New York, Michigan, Minnesota, Wisconsin, Georgia, and South Carolina	7

[In five of these the rate might, by special contract, be carried up to ten per cent. ; in two to eight ; and in two, Minnesota and Texas, to twelve per cent. In California, the power of the usurer is wholly unrestricted, as a consequence of which money-lenders entirely control the State.*]

Why was this? How was it that demands for money so unparalleled, here or elsewhere, had not only caused no movement upward in its price, but had actually been attended by such decline therein

* The following passage from a valuable paper on this subject, just now published by Mr. Nahum Capen, of Boston, exhibits the working of repeal at an earlier period, as tried in some of the Western and Southern States:—

“The experiment of repealing the usury laws was made in Alabama; it was continued eleven months. I was informed in 1850, by U. S. Senator Lewis from that State, that they would not recover from the ruinous consequences under a quarter of a century. Nearly forty years ago it was tried in Indiana. In a letter from Hon. W. W. Wick, dated at Washington, D. C., March 7th, 1849, who was then a member of Congress from that State, he says, ‘In Indiana the usury laws were repealed twelve or fourteen years ago, perhaps more, and were not reinstated for three or four years. The results were frightful.’ . . . ‘If I had time, I would be glad to make a sketch of the desolations left in the track of the usurer, during his brief reign in Hoosier land. I was judge of one of our circuits at the time, and was a *shuddering witness* to the desolations. I have rendered judgment upon contracts for payment of fifty or twenty cents per day for a loan of fifty or a hundred dollars, and in some instances the interest had become more than ten times the amount of the principal.’ . . . ‘I know many men of excellent natural qualities, and much inclined to be moral and gay, who became hopelessly demoralized and misanthropical. The moral desolations created by the absence of usury laws will tell upon any community to an extent almost infinitely beyond the ruin of estate.’ . . . ‘As years pass away, the evil results will develop themselves in a geometrical ratio. Long before they develop their full force and effects, the community will demand usury laws, and the blighting curses of many a withered or aching heart will follow the advocates of their repeal to their graves.’ It is to be regretted that the entire and interesting letter of Judge Wick cannot be given. In 1849, repeal was voted by the Legislature of Wisconsin. In January, 1850, the Hon. J. P. Walker, U. S. Senator from that State, wrote a letter speaking of the fruits of repeal. He says, ‘The argument in favor of this policy was, that the competition in the loan of money—the rate of interest being unrestricted—would produce a great influx of capital to the State. It certainly has produced an influx of *money*, but not of *capital*. The result is (and is to be), that money has been freely taken at an interest of from 20 to 50 per cent. The money loaned was that of non-residents.’ A year later a letter was written and published by R. W. Wright, Esq., of Wakusha, in which he says, ‘The results of the law were so disastrous to the best interests of the State, and so contrary to the expectations of its friends, in increasing instead of diminishing the rates of interest, that the experiment was very readily abandoned. Its bitter fruits were left behind.’ That they were left behind, may be inferred from a remark made by the Governor of that State, in his message in 1856. He said that the State would not recover from the shock for a generation. In Ohio, they removed all penalties for usury in 1851, and allowed an interest by contract of 10 per cent. The experiment proved a sad one. In less than four weeks after the passage of the law, parties from that State were in New England and New York, soliciting large loans on real estate at 10 per cent.”

as to have led to the hope that usury laws would speedily become of no effect whatsoever? The answer to these questions is found in the fact, that for the first time in our history the supply of that machinery of exchange for whose use alone men pay interest, had come to bear a fair proportion to the need for its use. For the first time men paid in cash for almost everything they needed. For the first time commerce ceased to be clogged by the delays incident to a system under which—as before the war—almost everybody was in debt, and almost every one unable to obtain the money required for meeting his engagements. For the first time there was a perfectly healthful rapidity of circulation, giving to the societary body that industrial independence by means of which it was enabled, unaided from abroad, to furnish to the government materials and labor to the extent of thousands of millions of dollars, becoming stronger with each successive year.

Writing two years before the breaking out of the Rebellion, Mr. Edward Everett was led, after careful inquiry, to estimate the purely personal debt of the country, apart from that of trade, manufactures, or agriculture, at 1500 millions of dollars; “a mountain load,” as he described it, “more deadly than fever or plague, more destructive than the frosts of spring, or the blights of summer;” and yet, multifarious as were the evils then so clearly presenting themselves to him as resulting from so sad a state of things, he had evidently failed to appreciate, to even a tithe of its real extent, the power thereby given to capital in its contest with labor, as, for the consideration of the Convention, it will be now exhibited.

Every one who parts with property payment for which is to be made at any future time, by so doing constitutes himself a money-lender to the extent of the amount whose payment is thus postponed. If the property be purely personal, he adds to what would otherwise be the price so much as will cover the charge for the time and for the risk to be incurred. The borrower being regarded as a thoroughly responsible man, the interest thus charged may not exceed ten or twelve per cent. per annum; but passing downward in the societary scale the charge rises in the direct ratio of the poverty of the party borrowing, until at length we find the very poor, and the very weak, paying interest at the rate of sixty, eighty, a hundred, and perhaps even, as now in England, almost five hundred per cent. At the date at which Mr. Everett wrote there were here more than 16,000,000 of persons capable, more or less, of contracting debts, large or small; nine-tenths of whom, as there is reason for believing, were paying interest at rates varying from ten to two hundred per cent. Had each one of these been required, daily or weekly, to give his note for the debt thus incurred, there would have been exhibited, to an amount greatly exceeding two thousand millions, uncurrent money as perfectly dead, so far as regarded all performance of exchanges, as if it had been buried in the earth. As a consequence of this the societary

movement, in the first year of the war, was paralyzed to a degree greatly exceeding anything the country before had ever known. What then was needed was live money to take the place of the dead that was then being hourly created. To the end that this might be supplied, the Nation, through its finance minister, proclaimed to all its members that it needed labor and labor's products in their various forms, and would give in exchange live money to the extent of \$400,000,000; or, in other words, money of such character as fitted it to be used for effecting exchanges of any and every kind whatsoever. At once the scene was changed, the employer being now enabled to pay cash for all the service, and all the materials, of which he stood in need; and the workman, in like manner, enabled to pay in cash for the food and clothing required by his family and himself. The farmer, now selling his crops for live money, was thus enabled to place the storekeeper in a position to buy for cash in the distant cities. Almost at once, and as if by magic, the usurious charges disappeared, thereby lightening the burdens of workingmen, farmers, mechanics, and laborers, to an annual extent thrice, if not even more than thrice, exceeding the amount of greenbacks issued. Of all financial measures on record there has been none which has so much tended toward elevation of the laborer, and toward establishing harmony in the relations of labor and capital, as has been the case with that by which \$400,000,000 of live money, free of interest, was made to take the place of thousands of millions of dead money for whose use our people had been paying interest at twice, thrice, and even twenty times, the legal rates. Had the war given us nothing but this, it would be well worth to the nation, leaving out of view the waste of life, far more than all its cost. Nevertheless, we have among us financiers, so called, busily engaged in denouncing, as "a forced loan," the admirable machinery that thus has been given to our people, and insisting that we shall now discard it with the certainty before us of being thereby compelled to return to the dead-money system with its usurious rates. To a considerable extent this has been already done, the consequences exhibiting themselves in the money grievances in regard to which there is now so much and so just complaint.

With the close of the war, the work of destruction ceased. The soldier resumed his work in the factory and the field. The sailor, ceasing to aid in blockading southern ports, engaged himself in aiding the transport of southern cotton. Under such circumstances, production rapidly and largely increased, and with every step in that direction labor should have grown in power to command the use of machinery of exchange. Directly the reverse, however, from year to year the price of money has risen, and with such increase in the power of those who control the sources of supply that they are now being everywhere enabled to command the aid of traders, manufacturers, miners, and stock gamblers, in their effort

at obtaining the passage of laws legalizing contracts at rates by means of which the burdens of laborers in the factory and the field must be much increased. Inquiring now of these men, or of their victims, the cause of the extraordinary change thus exhibited, we find ourselves assured that it is due to the immense extent to which circulating capital is becoming fixed in buildings, factories, railroads, bridges, and other of the machinery required for the maintenance of commerce, and for the comfort and convenience of those engaged in the work. We are thus presented with the extraordinary fact that, while waste of labor and materials—to the extent of thousands of millions—had been attended by an actual decline in the price of money, an application of other thousands of millions to the work of production has caused, and is causing, such an increase in the power of money monopolists as to threaten ruin to some of the most important industries for which so many and so important works have been constructed.

That the cause thus alleged for the existence of the present extraordinary state of things has no foundation in fact will be obvious to those who reflect that, whatever may be the uses to which it is applied, money never diminishes in quantity by reason of such application. Let a railroad company call for a million of dollars to-day, and let it forthwith distribute the same among laborers, mechanics, landowners, and rolling-mill proprietors, it will at once again present itself in the pockets of the former, and in the bank accounts of the latter, no change in the quantity having taken place. The more instant the exchange of money for labor and materials the less is the quantity of money used; and hence it is that with every stage of growth in the rapidity of the societary circulation, the need for it in any material form, whether that of notes or coin, tends to diminish with diminution in the power of the money lender to compel payment for its use. This, precisely, is what took place throughout the war, and hence it was that the rate of interest declined at the moment when national bonds were being issued to the extent of thousands of millions of dollars.

With the close of the war there came, however, a culmination of that monopoly system established under the national banking laws, by means of which the nation is required, in all the future, to accommodate itself to the procrustean bed thereby created. A decade has now elapsed since its author determined that the nation might be allowed, on certain conditions, to have, in addition to \$400,000,000 of greenbacks, the use of \$300,000,000 of circulating notes. Since that time our population has increased in numbers twenty-five per cent; our manufactures have grown from 2000 to 5000 millions; our railroads from 33 to 70 thousand miles; our internal commerce, as well as the space over which it is to be maintained, has probably quintupled; and yet, so far have his successors been from allowing the machinery of exchange to increase in fair proportion to the daily growing necessity for its use, that there has

been, and still is, a constant effort at compelling diminution of its quantity; the result being seen in the fact that half a dozen individuals have now acquired power, by means of lock-ups and other contrivances, so to disturb the commercial operations of the whole nation as to compel those who have anything to lose to hesitate about engaging in any productive operations whatsoever requiring the use of credit. This, however, as we are told, is the road to resumption, however objectionable the results that thus far have been obtained. Were those who so instruct us to give to this great question a little more attention, they would probably be led to the conclusion that the present sad state of things is consequent upon a policy which is daily compelling a substitution of dead for living money; and that the high rates of interest which thus are caused tend to the destruction of that productive power to which alone can we look for the force required for enabling us ever again to witness a return to specie payments.

Closing their eyes to this, and failing to see that it is to increase in that power they are to look for permanent prosperity for themselves, railroad and other corporations are perpetually tormenting legislative bodies for permission to pay high rates of interest. Farmers and manufacturers, as a consequence, find it daily more and more difficult to obtain the aid of which they stand so much in need; and now, all are asked to ignore the great fact that the trouble is one that must increase from year to year so long as we shall persist in requiring that the man shall wear the shoe that had been fitted to the foot of the half-grown boy. Let them follow the advice that thus is given and the result must be, that call loans, and interest calculated by the day, will become from hour to hour more general, with daily increase of power on the part of Shylock to claim his "pound of flesh," and daily diminishing power on the part of both individuals and corporations to set limits to his exactions. Let them, on the contrary, set themselves diligently to work to make our legislators comprehend that the road thus indicated is the road to ruin; that the remedy for existing difficulties is to be found in allowing the machinery of exchange to grow with the growth of population and production; and the day will not then be distant when usury laws will pass from existence by reason of a reduction of the charge for the use of money to a rate below that fixed by law even in that State in which it now is lowest. Then, and not till then, shall we enter on the road leading to a resumption of specie payments.

We may be told, however, that at times money is abundant, and that even so late as last summer it was difficult to obtain legal interest. Such certainly was the case with those who desired to put it out on call; but at that very moment those who needed to obtain the use of money for long periods were being taxed, even on securities of unexceptionable character, at double, or more than double, the legal rates. The whole tendency of the existing system

is in the direction of annihilating the disposition for making those permanent loans of money by means of which the people of other countries are enabled to carry into effect operations tending to secure to themselves control of the world's commerce. Under that system there is, and there can be, none of that stability in the price of money required for carrying out such operations.

Leaving out of view the recent great combination for the maintenance and perpetuation of slavery, there has been none so powerful, none so dangerous, as that which now exists among those who, having obtained a complete control of the money power, are laboring to obtain legal recognition of the right of capital to perfect freedom as regards all the measures to which it may be pleased to resort for the purpose of obtaining more perfect control over labor. Already, several of the States have to some extent yielded to the pressure that has been brought to bear upon them. Chief among these is Massachusetts, the usury laws having there been totally repealed, and with the effect, says a distinguished citizen of that State, that "all the savings institutions of the city at once raised the rate from six to seven per cent.; those out of the city to seven and a half and eight per cent.; and there was no rate too high for the greedy. The consequence," as he continues, "has been disastrous to industrial pursuits. Of farming towns in my county, more than one-quarter have diminished in population." Rates per day have now to a great extent, as I am assured, superseded the old rates per month or year; two cents per day, or \$7 30 per annum, having become the charge for securities of the highest order. What, under such circumstances, must be the rate for paper of those who, sound and solvent as they may be, cannot furnish such security, may readily be imagined. Let the monopoly system be maintained and the rate, even at its headquarters, New England, will attain a far higher point than any that has yet been reached; this, too, in despite of the fact that her people had so promptly secured to themselves a third of the whole circulation allowed to the 40,000,000 of the population of the Union scattered throughout almost a continent. How greatly they value the power that has been thus obtained is proved by the fact that every effort at inducing them to surrender, for advantage of the west or south, any portion thereof has met with resistance so determined that nothing has been yet accomplished.

Abandonment of our present policy is strongly urged upon us for the reason that mortgages bear in New York a higher rate of interest. A Pennsylvanian in any of the northern counties has, as we are told, but to cross the line to obtain the best security and seven per cent. Why, however, is it that his neighbors find themselves compelled to go abroad when desirous of obtaining money on such security? The answer to this question is found in the fact that the taxation of mortgages is there so great as to absorb from half to two-thirds of the interest promised to be paid. "The result of this," say the Tax Commissioners in their recent report—

“is exactly what might have been expected. Capital which formerly found its way into real estate is now directed into other channels; and to such an extent that, were it not for the provisions of law which exempt the mortgage investments of savings banks and life insurance companies from taxation, and compel these institutions to invest a part of their capital in such securities, money could now hardly be obtained in New York for the improvement of real estate on pledge of the property. Again, it was formerly a very general custom to embody in wills a provision that property bequeathed or to be held in trust should be invested in mortgages; but this custom, the commissioners are informed, is now almost entirely done away with, while executors and trustees are continually importuned by legatees to change the character of such investments, on the ground that they no longer continue to afford a fair interest.”

Is there in the state of things thus exhibited anything to induce our people to adopt the New York system in lieu of that under which they have so long and so greatly prospered? For answer to this question we may turn to the report just now made, by the late Revenue Commissioner Wells, on state taxation, in which he points to “Pennsylvania under her system of taxation advancing with giant strides in wealth and population, while New York, under the influence of old and exploded ideas, moves onward in development comparatively at a snail’s pace.”

Again, we are told that Ohio legalizes “special contracts” up to eight per cent.; and, that if we would prevent the efflux of capital we must follow in the same direction. Is there, however, in the exhibit now made by that State, anything to warrant us in so doing? Like Pennsylvania, she has abundant coal and ore. She has two large cities, the one fronting on the Ohio, and the other on the lakes, giving her more natural facilities for maintaining commerce than are possessed by Pennsylvania; and yet, while the addition to her population in the last decade was but 306,000, that of Pennsylvania was 615,000. In that time she added 900 to her railroad mileage, Pennsylvania meantime adding 2500. While her capital engaged in manufactures rose from 57 to 141 millions, that of Pennsylvania grew from 190 to 406, the mere increase of the one being more than fifty per cent. in excess of the total of the other. May we find in these figures any evidence that capital has been attracted to Ohio by a higher rate of interest, or repelled from our State by a lower one? Assuredly not!

What in this direction is proposed to be done among ourselves is shown in the section now presented for our consideration. By it the legal rate in the absence of “special contracts” is to be raised to seven per cent.; such “contracts,” however ruinous in their character, and whatsoever the nature of the security, are to be legalized; the only exception to these sweeping changes being that national banks issuing circulating notes are to be limited to seven per cent. Shylock asked only “the due and forfeit of his bond.” Let this section be adopted, and let him then present himself in any of our

courts; can its judge do other than decide that "the law allows it and the court awards it," monstrous as may have been the usury, and discreditable as may have been the arts by means of which the unfortunate debtor had been entrapped? Assuredly not. Shylock, happily, was outwitted, the bond having made no provision for taking even "one jot of blood." Here, the unfortunate debtor, forced by his flinty-hearted creditor into a "special contract" utterly ruinous, may, in view of the destruction of all hope for the future of his wife and children, shed almost tears of blood, but they will be of no avail; yet do we claim to live under a system whose foundation-stone exhibits itself in the great precept from which we learn that duty requires of us to do to others as we would that others should do unto ourselves.

By the English law the little landowner, the mechanic who owns the house in which he lives, is protected against his wealthy mortgagee. Here, on the contrary, the farmer, suffering under the effects of blight or drought, and thus deprived of power to meet with punctuality the demands of his mortgagee, is to have no protection whatsoever. So, too, with the poor mechanic suffering temporarily by reason of accidental incapacity for work, and, with the sheriff full in view before him, compelled to enter into a "special contract" doubling, if not even trebling, the previous rate of interest. Infamous as may be its extortion, the court may not deny the aid required for its enforcement.

The amount now loaned on mortgage security in this State, at six per cent., is certainly not less than 400, and probably extends to 500 millions of dollars, a large portion of which is liable to be called for at any moment. Let this section be adopted, and we shall almost at once witness a combined movement among mortgagees for raising the rate of interest. Notices demanding payment will fly thick as hail throughout the State, every holder of such security knowing well that the greater the alarm that can be produced, and the more utter the impossibility of obtaining other moneys, the larger may be made the future rate of interest. The unfortunate mortgagor must then accept the terms, hard as they may be, dictated to him, be they eight, ten, twelve, or twenty per cent. Such, as I am assured, has been the course of things in Connecticut, where distress the most severe has been produced by a recent abandonment by the State of the policy under which it has in the past so greatly prospered. At this moment her savings banks are engaged in compelling mortgagors to accept 8 per cent. as the present rate. How long it will be before they will carry it up to 10 or 12, or what will be the effect, remains to be seen. Already among ourselves the effects of the sad blunders of our great financiers exhibit themselves in the very unpleasant fact, that sheriffs' sales are six times more numerous than they were in the period from 1864 to 1867, when the country was so severely suffering under the waste of property, labor, and life which had but then

occurred. Let this section be adopted, giving perfect freedom to the Shylocks of the day, and the next half dozen years will witness the transfer, under the sheriff's hammer, of the larger portion of the real property of both the city and the State. Of all the devices yet invented for the subjugation of labor by capital, there is none that can claim to be entitled to take precedence of that which has been now proposed for our consideration.

To the general free trade movement there is, however, to be one exception, to wit, those national banks which issue circulating notes. In consideration of the supposed great profit thence resulting, they are to be limited to a charge of seven per cent. Nevertheless, the utmost they thus can make scarcely exceeds one per cent.; enabling them with circulation to make eight per cent., where without it they would make but seven.* Under existing arrangements they will continue to furnish to the community that machinery in whose absence commerce would almost die away; but will they, can they, continue so to do under the new one that is now proposed? Let us inquire. The National Bank system having now become an absolute monopoly, enabling stockholders to make large profits, other persons anxious to participate in some degree therein have obtained State charters under which they do a business precisely similar to that of those English joint-stock banks which now make dividends to the extent of twenty and thirty per cent. Trading almost entirely on the capital of others they offer to depositors large interest, to provide for whose payment loans are made on the most usurious terms. Here, as there, the business is profitable, but the risks are great; it being carried on in utter defiance of the law which limits banks to six per cent. as the legal rate of interest. Real capitalists fear connection with them and, as a consequence, their progress thus far has not been great. Let the usury laws be repealed, and let usury in all its forms be legalized, and we shall see such banks organized on a scale so large as to compel the national banks to follow in the same direction, abandoning the idea of furnishing circulation. Let it once be shown that State banks without it can make larger dividends than national banks with it, and the way will have been prepared for having these latter, subject as they are to the infinite and absurd restrictions and responsibilities of the banking law, to pass gradually from existence. Will that tend to lower the rate of interest? Most certainly not.

Why, however, we are asked, should there be any limit whatsoever thereto? As well might the question be put as to why there

* A bank being instituted with a capital of \$100,000, that amount is required to be loaned to the Treasury at an interest of five per cent., yielding \$5000. The bank now receives \$90,000 of notes, three-fourths of which it is to be authorized to lend at seven per cent., yielding \$4725, the two combined yielding \$9725. Deducting now the federal taxes, say \$2000, we have \$7725 as the total profit, leaving less than one per cent. as the profit of circulation.

should be any limit to railroad fares. Money and the road are both alike mere machinery of exchange, the one aiding in the transfer of property from hand to hand as the other aids in changing it in place. The charge for the use of one is called interest. That for the other is denominated tolls. The farmer, anxious to be enabled cheaply to go to market, demands that there be established a limit to the power of railroad managers, and to some extent that has everywhere been done. That such regulations have to a great extent been set at naught we know, but have we thus been led to the belief that their managers should at once be set free from all restriction? Has it not, on the contrary, produced throughout the community a feeling that there exists an absolute necessity for providing more effectually against abuses of the power that had been granted; and has not the Committee just now adopted rules to that effect far more stringent than had before existed? Has not your Committee on Agriculture, Manufactures, and Commerce moved in the same direction, giving us that section of the chapter now before us which reads as follows:—

SEC. 3. No combinations of employers or employed to enable the one to control the business operations of the other, or combinations to maintain arbitrary prices for manufactures, merchandise, or the products of labor of any description, or for labor itself (including professional services) shall be allowed. Nor shall any combination of individuals, associations, or corporations to obstruct the free course of trade, or to make or maintain arbitrary rates for freight or passage on rivers, railways, or canals be permitted; and the Legislature shall pass laws to prevent and punish such corporations.

Studying this carefully, its readers cannot fail to feel surprised to see that no mention is here made of combinations for controlling the supply of money and for raising its price. That such combinations exist we certainly know. Year after year we see some half dozen men in the Bank of England combining for raising the price of the commodity they have to sell, and thus producing crises each more ruinous than the one by which it had been preceded. Week after week we witness such combinations among ourselves, and with results tenfold more ruinous than any which can result from those having for their object the maintenance of "arbitrary prices for manufactures, merchandise, or the products of labor:" yet does provision for punishment of those so engaged find no place in the section just now read. Year after year is there an increase in the number of persons who need to use the circulating note; in the space over which they are scattered; in the quantity of "manufactures, merchandise, or the products of labor" needing to be exchanged; with steady contraction of the machinery by means of which exchanges may be made, and corresponding increase of the power of combination among the few who now control the movements of the money market: yet is there here no suggestion of punishment for those who are thus from hour to hour increasing

the dangers attendant upon engaging in any enterprise requiring an extended use of credit. So far, indeed, is it the reverse of this, that by the section now under consideration they are expressly told, that, combine as they may for cramping the money market, for producing distrust, and for compelling holders of merchandise, owners of ships, houses, or land, with bankruptcy staring them in the face as a consequence of failure of submission to the "special contract" system, they may safely do so, free from all danger of interference by the courts.

Of what importance is a combination for raising the price of pork, beef, or cotton, compared with the one now in operation, and that has for months maintained money at so high a price as to have in a great degree paralyzed the whole domestic trade of the Union? Of none whatsoever! Can, then, any benefit result from adoption of even this third section? Assuredly not. It is but an attempt at cutting away decayed branches of a sickly tree, leaving the root in a state of disease which threatens to result in death.

Every purchase and sale involves a contract for the delivery and receipt of money, and as a consequence the amount of these latter is equal to the total of the former, from the purchase of a penny whistle to that of the thousands of millions of bonds that pass annually from hand to hand in our various money markets. The great trade of all is, therefore, that of money; its amount being such as would require for its expression a row of figures whose length would create astonishment in all who saw it. For the carrying on of this wonderful trade, and for supplying the machinery by whose aid alone can circulation be maintained, the Federal government has instituted a monopoly by means of which a few thousand persons are enabled to control at pleasure the monetary movement, and to raise at will the price of the commodity in which they deal. That this may be done with perfect safety to themselves it has now become essential to have the usury laws repealed, giving to the monopolists power unlimited over the price of a commodity the supply of which has been by law confined to them. How this has operated in England the Committee has already seen. How it must operate here, freed from all the restrictions by which real estate is there protected, may readily be imagined. As well might the great railroad companies which are now so rapidly monopolizing the means of transportation, ask to be relieved from the few restrictions to which they are already subject; alleging that further grant of power had become essential for enabling them cheaply to carry to market the products of the land.

Travelling onward in the direction thus proposed, shall we find ourselves on the road to civilization, or even on that which leads to resumption of specie payments? For answer to this question I would refer the Committee to the following paragraph, now a century old, from Turgot, one of the most distinguished economists that Europe has yet produced, to wit:—

“We may regard the rate of interest as a sort of level below which all labor, all cultivation, all manufactures, and all commerce cease. It is like a sea spread over a great country of which the mountain summits rise above the waters, forming fertile and cultivated islands. The sea flowing out, the hill-slopes and the plains and valleys gradually appear, covering themselves with products of every kind. To inundate the land and destroy the cultivation, or to restore to agriculture extensive territories, it is sufficient that the water should rise or fall a single foot. It is the abundance of capital that animates to effort; and the low rate of interest is at once the effect and the indication of that abundance.”

Than the view thus presented nothing could be more accurate. Reduction in the rate of interest indicates a growing power of labor over capital, and it follows as necessarily consequent upon increase in the variety of demands for human service. Interest is low in England, France, Germany, Holland, and Belgium; high in Russia, Turkey, Australia, and South America. The tendency of the precious metals is toward those countries where interest is low, and from those in which it is high, as is now shown in these United States. That it may be here reduced we need that a proper supply of the machinery of exchange be allowed to our people, increasing the rapidity of circulation and offering new inducements for the application of capital to the work of developing the enormous mineral and metallic resources of the Union. With every step in this direction there must be a growing tendency toward becoming exporters of cloth and iron, with growing power to retain the precious metals, and to command their use for all the purposes of exchange.

The Pennsylvania capital engaged in manufactures and mining in 1860 was \$190,000,000 as against \$256,000,000 in New England. By the last census that in the former is shown to have grown to 491; the latter meantime having arrived at 495. The New England product is given at \$994,000,000; that of Pennsylvania being but \$790,000,000; but between the two there is this essential difference, that nearly all the raw material, and very much of the food, of the former come from abroad, the contribution of New England herself being but little beyond the wages of labor and the profits of conversion; whereas, in the latter by far the largest share is produced from the soil of the State itself. Pennsylvania produces coal and iron, and feeds her people mainly with the products of her soil. She supplies the world with oil. New England buys her oil to sell it again in the thousand forms in which it presents itself among the commodities into which she converts the food, the coal, the iron, the hides, and the wool, drawn from abroad. How greatly this affects the question under consideration exhibits itself in the fact, that the average proportion borne by raw material to finished products is shown by the census of 1860 to be more than fifty per cent. Such being the case, it is difficult, as it seems to me, to avoid

arriving at the conclusion that the production, and consequent commerce, of our people are much greater than those of all New England; and, that our claim to be put on an equal footing with these latter in regard to the money power is founded in reason and in justice. Nevertheless, when Pennsylvania complains that New England, not her equal in productive power, has been allowed thrice as much as has been allowed to her; that New York, not more, certainly, than her equal, has been allowed twice as much; that the two combined have nearly five times as much; she is met, and that invariably, by a combined vote by means of which it has thus far been decided that this monstrous inequality that has been established shall continue to be maintained. As a consequence of this it is, that her farmers and her manufacturers are being subjected to demands of the most usurious kind; and, that the money lender is being more and more encouraged to require of his victims to aid in perpetuating the mischief by means of an amendment to the Constitution that shall place it wholly beyond the power of the Legislature to give relief, however great the oppression which may be perpetrated.

Pennsylvania has been, and most properly, described as "a blind old giant." Blind she has always been to the magnitude of her powers, and to the slight recognition, by both North and East, of her claims to their consideration. Spoken of, and often treated, as a sort of modern Bœotia, she rarely suggests such claims without meeting a rebuff; and yet it is safe, as I think, to say that no community of whose history we have any knowledge, presents a brighter record. Never having had a witch upon her soil, she has never either burned or hanged one. Never having had a State religion, no man within her limits has ever suffered because of his religious belief. On her soil, and by her people, was commenced that crusade against human slavery whose result is now about to exhibit itself in its abolition throughout the continent and its adjacent islands. Travelling southward, her sons, or their descendants, were first, at Mecklenburg in 1775, to give to the world a declaration of national independence. Throughout the troubled years which followed she performed her entire duty as regarded supplies of men, or of material with which to maintain the contest. In that day of gloom when Washington was about to make, at Trenton and Princeton, a last effort at resistance to the British arms, Philadelphia men, with Morris at their head, furnished, on the instant, all the money needed; and Pennsylvania men were largely conspicuous among the forces which followed him across the Delaware. The war closed, and a Federal Constitution agreed upon in Convention, she—first among the great States and by a two-thirds majority—set the example of its ratification; thus exhibiting a magnanimity which found but tardy followers among the larger States. But for her, it may be doubted if ratification could ever

have been secured.* In the recent war she was first to raise a real army—those Reserves which saved Washington in July, 1861, and of which not ten per cent., as I am assured, returned to their families and their homes unharmed. In the dark days of the autumn of 1862, when apathy reigned throughout the land, she established that Union League which was to the then almost despairing Lincoln and Stanton, as has been since most emphatically stated by the latter, a “Star in the East,” harbinger of ultimate success. That League gave to the country more than ten full regiments; simultaneously uniting with its fellow-citizens in feeding and caring for every soldier who passed either south or north, and stimulating the city corporation to those contributions for which, to the amount of \$11,000,000, the people of Philadelphia are now paying interest. Following closely in the footsteps of those admirable Philadelphia women who, in the darkest days of the Revolution, raised among themselves the moneys required for relief of Washington’s suffering companions in arms, their successors, in the dark days of the recent war, gave to works of patriotism and of charity an amount of energy, both physical and mental, that has never been exceeded, and but very rarely equalled.† With the exception of Rhode Island and Kansas, Pennsylvania sent to the field a larger proportion of her population than any other State. Her coal and her iron furnished the force required for maintaining the blockade, and for constructing and running the machinery by aid of which our whole people were enabled to bear the terrific taxation of the war. Last, but not least, we have the fact that she stands alone in having provided abundantly for the maintenance and education of every soldier’s orphan within her limits.

Rightly styled the Keystone of the Union, one duty yet remains to her to be performed, to wit: that of bringing about equality in the distribution of power over that machinery for whose use men

* The Constitution was signed Sept. 17, 1787, and was to go into operation so soon as nine States should have ratified it. Pennsylvania did so on the 12th of December, the Convention for that purpose having been called by the Legislature on the very day on which advice had been received of its submission to the States by Congress. Massachusetts followed nearly two months later; but Virginia and New York hesitated until after New Hampshire had, on the 21st of June, 1788, furnished the ninth vote, thereby establishing a Union from which neither of those States desired to remain excluded.

† “It was the women of Philadelphia who in that dark hour of peril and sorrow (the autumn of 1780) raised by voluntary contribution among themselves a large fund—singularly large in view of everything—for the relief of Washington’s suffering soldiers at camp. The honored list of these noble women is part of Philadelphia’s recorded and traditional story, and yet every one seems now to have forgotten it.

“It lies before us as we write, and there we find names still proudly borne by living descendants, which ought to be remembered now—the names of Esther Reed, of Bache, of Francis, McKean, Rush, Hutchinson, Morris, Shippen, Gratz, McCall, Montgomery, Willing, Sergeant, and others still surviving. There, too, we find the gift of a thousand dollars in coin from the Countess of Luzerne, and the humble 7s. 6d. of the colored woman Phillis! The fund raised amounted to \$300,000 in the only currency then available—equivalent to about \$10,000 in gold. Now that precedents for generosity are sought for, our Philadelphia friends will pardon us for reminding them of this forgotten one.”—*New York Tribune*.

pay interest, and which is known as money. New England, being rich and having her people concentrated within very narrow limits, has been allowed to absorb a portion of that power fully equal to her needs, while this State, richer still, has been so "cabined, cribbed, confined," that her mine and furnace operators find it difficult to obtain that circulating medium by whose aid alone can they distribute among their workmen their shares of the things produced. New York, already rich, has been allowed to absorb a fourth of the permitted circulation to the almost entire exclusion of the States south of Pennsylvania and west of the Mississippi; and hence it is that her people are enabled to levy upon those of all these latter such enormous taxes. To the work of correcting this enormous evil Pennsylvania should now address herself. Instead of following in the wake of New Jersey and Connecticut, thereby giving to the monopoly an increase of strength, let her place herself side by side with the suffering States of the West, the South, and the Southwest, demanding that what has been made free to New York and New England shall be made equally free to her and them. Let her do this, and the remedy will be secured, with such increase in the general power for developing the wonderful resources of the Union as will speedily make of it an iron and cloth exporting State, with such power for retaining and controlling the precious metals as will place it on a surer footing in that respect than any of the powers of the Eastern world. The more rapid the societary circulation and the greater the facility of making exchanges from hand to hand, and from place to place, the greater is the tendency toward reduction in the rate of interest, toward equality in the condition of laborer and employer, and toward growth of power to command the services of all the metals, gold and silver included.

It will be said, however, that adoption of such measures as have been indicated would tend to produce general rise of prices; or, in the words of our self-styled economists, would cause "inflation." The vulgar error here involved was examined some thirty years since by an eminent British economist, and with a thoroughness never before exhibited in reference to any other economic question whatsoever; the result exhibiting itself in the following brief words of a highly distinguished American one, published some twelve or fifteen years since, to wit:—

"Among the innumerable influences which go to determine the general rate of prices, the quantity of money, or currency, is one of the least effective."*

Since then, we have had a great war in the course of which there have been numerous and extensive changes in the prices of commodities, every one of which is clearly traceable to causes widely different from those to which they so generally are attributed. Be

* Colwell: *Ways and Means of Payment*. Philad. 1859.

that, however, as it may, the question now before us is one of right and justice, and not of mere expediency. North and east of Pennsylvania, eight millions of people have been allowed a greater share of the most important of all powers, the money one, than has been allotted to the thirty-two millions south and west of New York; and have thus been granted a power of taxation that should be no longer tolerated. The basis of our whole system is to be found in equality before the law, each and every man, each and every State, being entitled to exercise the same powers that are permitted to other people, or other States. If the Union is to be maintained, it can be so on no terms other than those of recognition of that equality of rights which has here been indicated. To the work of compelling that recognition Pennsylvania should give herself, inscribing on her shield the brief words, *fiat justitia, ruat cælum*—let justice be done, though the heavens fall!

Such being the facts, they are recommended to the careful consideration of the Committee in the event of its being determined that the question involved in this first section is entitled to a place in the organic law. Well convinced myself that it has no such claim, and that it should be left to the Legislature, I now move that the section itself be stricken out.

NOTE.—“But it is said, and in fact truly, that usury laws are vestiges of the times when the principles of commercial polity were wholly unknown; when the Legislature extended its interference with the rights of individuals to almost every act of private life; when the prices of bread, cloth, leather, wine, and other necessaries of life were fixed by statutes. It does not follow, however, that because these laws first originated in the days of political darkness, when numberless legal abuses also had their origin, they should therefore be expunged from the statute book. On the contrary, it is contended by many great and good men that because the usury laws have been hallowed by the wisdom and experience of our ancestors they ought not to be abolished.

“The venerable and learned commentator upon American Law, the late Chancellor Kent, in a very lucid opinion which he gave in a usury case then before the Court of Errors of the State of New York, an able extract from which is given in a previous chapter, after examining the subject at considerable length and referring to the history of the laws against usury from the earliest periods, asks: ‘Can we suppose that a principle of moral restraint of such uniform and universal adoption has no good sense in it? Is it altogether the result of monkish prejudice? Ought we not rather to conclude that the provision is adapted to the necessities and the wants of our species, and grows out of the natural infirmity of men, and the temptation to abuse inherent in pecuniary loans?’ He then proceeds: ‘The question of interest arises constantly and intrudes itself into almost every transaction. It stimulates the cupidity for gain and sensibly affects the heart, and gradually presses upon the relation of debtor and creditor. Civil government is continually placing guards over the weaknesses, and checks upon the passions of men; and many cases might be mentioned in which there is, equally with usury laws, an interference of the lawgiver with the natural liberty of mankind to deal as they please with each other. But no person doubts of the necessity and salutary efficacy of such checks. On the same principle that unlimited usury may be permitted, the law ought to allow the creditor to insert in his bond a provision for compound interest whenever the stipulated interest becomes due and is not paid. Nay, parties ought to be allowed to agree that if the condition of a bond be not performed at the day, the penalty shall not only be nominally forfeited, but literally exacted. I should apprehend that if these things were to be permitted there would not be strength enough in the government to support the administration of justice. It is an idle dream to suppose that we are wiser and better than the rest of mankind. Such doctrines may be taught by those who find it convenient to

flatter popular prejudice; but the records of our courts are daily teaching us a lesson of more humility. And I apprehend it would be perilous in the extreme to throw aside all the existing checks upon usurious extortion, and abolish and traduce a law which is founded on the accumulated experience of every age.'

"The Roman commonwealth, if we may place reliance upon its entire history, tried every experiment on this interesting subject. The Romans had no law regulating the interest of money, and left parties to their own contracts until the law of the Twelve Tables, according to Tacitus, or the law of the Tribunes in the year of Rome 398, according to Montesquieu. The consequence was unending quarrels between the patricians and plebeians, and popular secessions to the *mons sacer*, in which one party pleaded the obligation, and the other the severity of their contracts. Interest was then reduced to the smallest allowance, and finally abolished, which led to a still more frightful usury, until at last the emperors were obliged to allow, but regulate and limit the charge of usury. So true it is, according to the President Montesquieu (*Esprit des Loix*, liv. xxii., ch. 21, 22), who has discussed this subject at large, that extreme laws produce extreme evil: *les loix extrêmes dans le bien font naître le mal extrême*. The Romans at one time had no laws against usury, and at another time they allowed no interest; and these are the extreme laws which this celebrated civilian condemns.

"Lord Redesdale said in 1808 (1 *Sch. & Lef.* 195, 312), many years after Jeremy Bentham, to whom the learned counsel referred for an able defence of usury, had first published his letters, that the statute of usury was founded on great principles of public policy. It was intended, he said, to protect distressed men by facilitating the means of procuring money on reasonable terms, and by refusing to men who sit idle as high a rate of interest, without hazard, as those can procure who employ money in hazardous undertakings, or trade and manufactures. I trust that theoretic reformers have not yet attained on this subject any decided victory over public opinion. Mr. Bentham contends that we ought not so much as to wish to see the spirit of project in any degree repressed. It may be so; but I hope I may be permitted to wish that the first experiments of his projects may not be made within these walls. The statute of usury is constantly interposing its warning voice between the creditor and the debtor, and teaches a lesson of moderation to the one, and offers its protecting arm to the other. I am not willing to withdraw such a sentinel. I have been called to witness, in the course of my official life, too many victims to the weakness and to the inflamed passions of men. (Dunham v. Gould, 16 *Johns. R.* 367, 378-380.)

"The venerable Chancellor is regarded as very competent authority upon the question here discussed. His sagacity and great learning particularly fitted him not only to give a true exposition of any given enactment, but to judge of the necessity and propriety of the enactment itself. From this opinion it is quite clear that in the judgment of this eminent jurist the same necessity existed in his day for usury laws as that which called for them in earlier times, and that he did not sympathize with the sentiment that such checks are prejudicial to the exercise of enterprise, or stumbling-blocks in the way of commercial advancement. And it may be added that in most cases the objections to these laws emanate from money-lenders themselves, and they are usually most prominent in making efforts to obtain their repeal; and further, that it is the daily observation of every discerning business man that no person can continue for any considerable length of time in any legitimate calling who is in the constant habit of borrowing money at exorbitant interest; his failure is a foregone conclusion, and it is only a question of time. The probabilities, therefore, are that these legal restraints will still be continued in many or most of the American States, and that the time is at least far distant when the system will be permanently abandoned."—*Tyler on Usury*, Albany, 1873.