
PROBLEMS

The Controversy Over Usury in the Seventeenth Century

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In the controversy over usury in England in the seventeenth century, the argument was made that a reduction in the rate of interest by law would raise the price of land. The premiss of the argument was the capitalization principle: the value of an asset is its net income divided by the interest rate. What is just as interesting is that the principle also was used to argue against usury laws. They would (the argument ran) either cause the rate to increase or reduce the income from assets or both, the effect being to lower, not raise, the price of land.

The debate invites our attention for what it tells us about the development of economic reasoning and also for a clue it offers about economic policy. The debate reveals that the central idea in the theory of asset pricing was understood almost 400 years ago. It was so familiar that when used it did not have to be explained and it was so widely accepted that it was used on both sides of the debate. So also was the idea that a reduction in the rate of interest may bring about an increase of investment, income, and employment.

The clue the debate offers is intriguing. The many efforts that were made to reduce the rate are most often explained as efforts to help English traders in their rivalry with the Dutch and French. This certainly was a purpose of the usury laws, and the advocates of them did make it explicit. But the advocates also promised a benefit of a different kind. It was a redistribution of wealth in favour of land owners. This suggests a hypothesis. It is that usury laws, despite their many and glaring defects, have persisted for centuries because, among other reasons, they are believed to be to the advantage of people who usually have political power and in the seventeenth century had more than anyone else—the land owners. One might go farther. One finds the landed interest at work in many of the controversies over policy in England: quite obviously in

some, like that over the Corn Laws; less obviously but no less truly in others, like that over the Factory Laws. One also finds that in issues in which the interest of the land owners was small, as in the modifying of the Navigation Laws, those who had a large interest appealed to them for support, which was an acknowledgement of the power of land owners. I suggest that in the movement toward the free market in England the landed interest was a major force, usually in opposition to that movement but not invariably so. I offer the suggestion to economic historians and now return to the ideas in the controversy over the usury legislation.

The purpose of this paper is to describe them. They become more understandable if one knows something about the laws themselves. This information comprises the first part of the paper. The second part is a statement of the economic ideas in the language and logical categories, or analytical framework, used by economists today. The statement is made this way not in order to compliment the seventeenth century for knowing so much but to make its ideas quickly recognizable. How they were stated at the time and the logic of the century are described in the third and longest part of the paper. The fourth part is an afterword, and its purpose is admonitory. It calls attention to the fact that while the economic writers of the century were busy about their worldly affairs there was another group of men who addressed themselves to the question of usury from an older and more revered point of view. They were the churchmen. No account of what has been written on the subject would be complete without an acknowledgement of their work.

I. The Historical Setting

There was a usury law in force when the century began. It had been enacted in 1572 in the reign of Elizabeth and prohibited the taking of any interest whatever. The penalty to the lender was his forfeiting of the interest, but not the principal, if he received no more than 10 percent and treble damages if he received more. The effect of the law, although not its intention, was to fix the maximum legal rate at 10 percent. The law was replaced in 1623 by one that permitted lending at any rate no greater than 8. The rate was reduced to 6 in 1651, by a law passed during the Interregnum. The law was validated in 1660, after the Restoration, and the rate remained at 6 until 1714 when under Anne it was reduced to 5. At no time was the legal rate increased. The penalties for violation applied to lenders and scriveners, the former being subject to a fine and the latter to both fine and imprisonment. A lender also could be denied the right to make a will; he could be excommunicated; and he could be denied a Christian burial. Borrowers were not culpable under the law even if they willingly paid more than the legal rate and were not subject to penalties or to religious ostracism.

The law prescribed the rate only on certain kinds of private lending ('bonds, contracts, assurances'). It did not apply to the discount of bills issued in

foreign trade or loans to the Crown or to the state. The legislation appears never to have been enforced completely and at times not to have been enforced at all. But what the actual rate of interest was I have been unable to learn. In the *locus classicus* of historical statistics, Mitchell and Deane report no information at all about the rate in the seventeenth century.¹ McCulloch said that in the sixteenth century the actual rate was as much as 50 percent above the legal rate and in the late eighteenth was 100 percent above; but he offered no information about the seventeenth.² A considerable amount is offered by Sidney Homer but it is implausible because it makes the actual rate equal to or below the legal rate for most of the period.³ That is contrary to what was said by the controversialists themselves on both sides of the question. They said there was lending at rates higher than the legal rate. A curio of the period is handbook of interest tables; the fifth edition was published in 1647 when the legal rate was 8. That is the highest rate for which computations are made in the handbook, the lowest being 6. The compiler, William Webster, wished to stay clear of the controversy but not to appear to disdain it. He said that while he did not approve of usury he would not say which kinds of contracts were usurious. He simply wanted to help borrowers and lenders to get their arithmetic straight. All of this appears in the preface in verse entitled, 'The Authour unto his Book.'⁴

The rates that were specified in the loan contracts were not always the effective rates because the contracts could contain provisions that made the effective rates higher. The borrower might be required to buy something from the lender at a price above the market. The borrower might be loaned debased coin and be required to repay in full-bodied coin. If he bought an asset with the loan he might be required to pay rent on the asset as well as interest on the loan. There were other contrivances to evade the laws and most had been used for centuries. The laws of the seventeenth century expressly made them illegal but did not prevent them.

In each of the seventeenth century laws there was a preamble, and it indicated that the improvement of the landed interest was an important reason for the enactment of the law. There were other interests that were to be served, and they too were named. But that of the land owners came first. This is illustrated by the act of 1623, the preamble of which stated:

¹ B.R. MITCHELL and PHYLLIS DEANE, *Abstract of British Historical Statistics* (Cambridge, 1962).

² J.R. McCULLOCH, *The Literature of Political Economy*, etc. (London, 1845), pp. 249, 251.

³ SIDNEY HOMER, *A History of Interest Rates* (New Brunswick, 1963), pp. 126-7. Mr. Homer reports the actual rate on short-term commercial loans was 6-10 per cent between 1600 and 1650 and was 3-6 per cent between 1650 and 1700. The legal rate in former period fell from 10 to 8 and in the latter to 6.

⁴ William Webster, *Webster's Table*, etc. (London, 1647).

Whereas at this time there is a very great abatement in the value of land, and other merchandizes, wares and commodities of this kingdom, both at home, and also in foreign parts where they are transported; (2) and whereas divers subjects of this kingdom, as well as the gentry as merchants, farmers and tradesmen, both for their urgent and necessary occasions for the following their trades, maintenance of their stocks and employments, have borrowed and do borrow divers sums of money, wares, merchandizes and other commodities; (3) but by reason of the said general fall and abatement of the value of land, and the prices of the said merchandize, wares and commodities, and interest in loan continuing at so high a rate as ten in the one hundred pounds for a year, doth not only make men unable to pay their debts, and continue the maintenance of trade, but their debts daily increasing, they are enforced to sell their lands and stocks at very low rates to forsake the use of merchandize and trade, and to give over their leases and farms, and so become unprofitable members of the commonwealth, to the great hurt and hinderance of the same.⁵

The statement makes one wonder if the law was elicited by a general deflation. It was not. Mitchell and Deane provide some information on prices. That of wheat at Eton rose 9 percent between 1660 and 1623 and at Exeter more than 50 percent.⁶ The price of wheat would not of course have governed the rent of land entirely, but certainly one would be surprised to find rents falling in these circumstances.

A noteworthy feature of the controversy is that it was begun and carried forward by the advocates of usury legislation. Unlike some other notable events in the history of policy, such as the controversies over the Corn Laws and over usury itself in the nineteenth century, this in the seventeenth was not the product of people who wanted to free the market of restraints of one kind or another. The opponents of usury laws did take up the challenge but only after the advocates wanted them made more restrictive. The opponents were unsuccessful of course, as the course of the legal rate shows.

They are nevertheless well remembered. Their renown could, if one knew nothing about the laws, make one feel they must have been influential. Petty, Mun, North, and Locke opposed legislation. It was favoured by Child, Barbon, and Robinson who, though also remembered, have not so esteemed a place in the history of economics. In their own day however the weight of opinion was on their side. Of course their triumph was considerably qualified by the laws never being wholly enforced. They rose to the occasion by demanding a still greater reduction of the legal rate. They recall Santayana's definition of a fanatic: one who redoubles his effort after he has forgotten (or lost) his objective. But they were not really fanatics. They believed

⁵ The Statutes of the United Kingdom of Great Britain and Ireland ['Statutes at Large'] (London, v. d.), VII, 275.

⁶ MITCHELL and DEANE, *op. cit.*, p. 486.

legislation would make the actual rate lower than it otherwise would be and they convinced Parliament. The landed interest was by far the most powerful in Parliament and was appealed to by the argument that usury legislation would raise the price of land.

II. *A Modern Restatement of the Ideas*

The advocates of legislation said there were two reasons why it would raise the price of land. (1) The demand for land would increase because (a) its rate of return would rise relative to the reduced rate on loans, and (b) the lower rate on loans would increase investment, aggregate income, and the demand for assets as well as for current output. (2) The net income from land would increase because (a) the interest expense of farming would fall and (b) the increase in aggregate income would increase the demand for agricultural output. The price of land would rise until its rate of return relative to that on loans was what it had been originally. The rates would not be equal because (the advocates said) land being more secure and marketable would yield a lower rate.

The analysis was qualified in two ways. (1) The lower rate on loans would induce investment to improve land (by draining, fencing, etc.), which implies an increase in the supply of land and hence a smaller increase in its price than would occur in the absence of such investment. (2) If the value of money as well as the interest rate decreased, the price of land would rise more than if only the latter decreased.

The opponents said the legislation if enforced would reduce the income from land more than the interest rate and if not enforced would raise the interest rate and again reduce income. Hence the price of land would necessarily fall. With enforcement there would be (a) a decrease in the quantity supplied of loans, (b) disequilibrium in the market for them, and (c) a decrease in the income of creditors that would offset the increase in that of debtors. The effect of (a) would be less investment and income, and that also would be the effect of (b) because the disequilibrium would divert loanable funds from investment to consumption and make the capital stock smaller than it otherwise would be. For these reasons there would be a decrease in the income from the land, and the decrease would be greater than the decrease in the interest rate. The effect of (c) would be to reduce the demand of one group for land by as much as the demand of another group increased.

Without enforcement the supply of loans would decrease because the supply price of a given quantity would increase in order to compensate lenders for the risk of prosecution. For a given demand for loans, the effective interest rate would rise. Investment, income, and the price of land then would fall.

Another argument against legislation was that it would redistribute income unfairly. The creditors of land owners would, by the forced reduction of the

loan rate, have shifted onto them a part of the tax on land. Widows and orphans who lived on the income from legacies would suffer because they would receive only the legal rate while the bankers with whom they placed their money would re-lend it at a high though illegal rate.

In the controversy, the advocates and opponents of legislation employed ideas that are a part of economic theory today. Some were known before the seventeenth century. Some left economics after 1700 and returned later. Some have been a part of economics since then. They have all been noted in the course of this descriptions. Nevertheless, a restatement of them in summary form is informative.

— The price of an asset is the present value of its future income and (for an asset held to perpetuity) is computed by dividing its annual net income by the interest rate appropriate to assets of its class.

— Investment in a real, as distinct from a financial, asset yields a profit which is the real, as distinct from the money, rate of interest.

— Investment will increase if, *ceteris paribus*, the real rate is above the money rate.

— An increase of investment leads to an increase of aggregate income by a process that later was described as income velocity, still later as the multiplier, and now again as income velocity.

— Assets differ in their rate of return if they differ in risk and marketability.

— Their prices will change — even if their own income and interest rate is constant — if there is a change in aggregate income, the reason being what today is called portfolio adjustment.

— Their prices will change, even if their own income, interest rate, and aggregate income are constant, if the value of money changes.

At the basis of these ideas is an understanding of how men act on the market in order to maximize their returns. It is an idea that is as important as any other of the time and one which often is said to have been properly understood only with the coming of classical economics. It was in fact understood in the seventeenth century and still earlier.

III. *The Historical Record*

The plainest statement of the capitalization principle was made by Thomas Culpeper in 1670.⁷ He said 'the abatement of usury hath a natural and Mathematical Energy to raise land, and augment Trade.' The 'mathematical energy' is the effect on the price of land, p , of a decrease in the rate of interest, r , for a given income, y , in the relation, $p = y/r$. The 'natural'

⁷ THOMAS CULPEPER, *The Necessity of Abating Usury Re-Asserted*; etc. (London, 1670), preface.

energy is the expansionary effect of a decrease in the rate of interest, namely, the increase of investment, aggregate income, and the income of land. The augmentation of trade is the increase of aggregate income. The word 'trade' was used in the seventeenth century to mean (literally) foreign trade and usually exports, and the belief was common that exports were the principal, if not the exclusive, determinant of aggregate income, either nominal or real. Sometimes the word was synonymous with aggregate income, as in 'the distress of trade' which meant what today is called a recession.

The manner in which Culpeper stated the capitalization principle is noteworthy. It appears in a pamphlet that was a reply to Thomas Manley who was opposed to usury laws.⁸ Culpeper's pamphlet was not meant to set down the economic ideas by which the laws could be justified. He had done that (he believed) in a pamphlet he had published two years before. There the capitalization principle was alluded to but was not explicitly stated. He returned to it in 1670 in the manner of a man who has been told that while most of his readers understood him there may have been a few who did not. Very well. He would make himself quite plain for the benefit of the few who did not know as much as the many.

There is reason to believe the principle had been understood for a long while. It was implied in 1612 by Bacon in 'Of Usury' (which for brevity and clarity excels even the economic essays of Hume). Bacon said that if the interest rate was 6 percent the price of land would be 16 times its annual income, i.e., if $y = 1$ and $n = .06$, then $p = 1.00/.06 \sim 16$. If the rate was reduced to 5, the price would rise and there also would be investment in the improvement of land. Bacon, in five pages, clearly stated most of the argument that were to be made in the next 90 years on both sides of the debate. He concluded by coming down on both sides (as he is said to have done about other public issues) and he did so with an ingenious proposal. It is in keeping with the love of contrivance one finds in the history of British economic policy (or what the late Harry G. Johnson called the gimmick-tradition). There would be two legal rates: one at 5 at which anyone might borrow or lend at any place for any purpose, and the other at more than 5 (9 is indicated) at which only licensed lenders could make loans, only in trading cities and only to merchants who were unable to borrow all they wanted at 5 percent.⁹

Bacon's essay does not appear to have had as much influence on Parliament as did the writings of others despite his greater stature and his ingenuity. A work that was influential was the *Tract Against Usurie* by the father of Culpeper (whose name was Thomas also). It was published in 1621 and

⁸ THOMAS MANLEY, *Usury at Six per Cent examined*, etc. (London, 1669).

⁹ 'Of Usury' *Bacon's Essays with Annotations by Richard Whately* (London, 1857), pp. 390-94.

implied the capitalization principle. He said that if the rate was 5, the price of land would be 'twenty years purchase,' meaning the price would be 20 times the annual rent or net income. This was a common way of stating the price of land (and was the way Bacon had stated it). It is analogous to the price-earnings or capitalization ratio of an equity. (An engaging question is whether the latter is a lineal descendant on the former.) The price when stated this way, not as p but p/y , is the reciprocal of the rate of interest. A reduction of the rate implies an increase in the number of years' purchase. The elder Culpeper said that if the rate in England was the same as that abroad land would be as much of a bargain at 20 years' purchase as it actually was at 16, which implies the English rate for land was a little over 6 and that abroad was 5.¹⁰ He did not elaborate on the capitalization ratio, did not even state it explicitly, and only implied it in his reference to prices. He used it in his argument in the way of a man who is reminding his readers of what every schoolboy knows.

His tract was much read in its day and had some effect on Parliament which two years later reduced the legal rate to 8. The tract was taken note of by writers of the period who are better remembered than he. Misselden and Malynes referred to it in pamphlets they published the year after it was published, and Child reprinted it as an appendix to a pamphlet he published about 40 years later.¹¹ It went through at least five editions, down to 1708 when there was published *Sir Thomas Colepeper's Tracts Concerning Usury Reprinted, etc.* It included a commentary by the anonymous editor who was an admirer of the author and an able one. That he did not place his name on the edition is regrettable because he deserves to be remembered for his observations about the pricing of assets. He said the income from land is not to be capitalized by the interest rate on loans but by something less. He was at one with his mentor and said more plainly than he that, 'land must rise, according to the degree that Money [the loan rate] Falls.' But because land offers more security and more 'Convenient Settlement,' men will 'give 2 Years Purchase for Land above its Rate, according to the Rate of Interest.' When the loan rate is 6, he said, land instead of selling at 17 or 18 years' purchase will sell at 20 or 22.¹² This may be understood to mean (after setting aside the slapdash arithmetic) that if the return on loans is 6 percent that on land will be 4.5 or 5. Thus our anonymous predecessor stated not only the idea of a risk premium but computed it as well: between 1 and 1.5

¹⁰ [Thomas Culpeper], *A Tract Against Usurie*. Presented to the High Court of Parliament (London, 1621), p. 13.

¹¹ EDWARD MISSELDEN, *Free Trade, or the Meanes to Make Trade Flourish* (London, 1622), p. 29; GERARD MALYNES, *The Maintenance of Trade* (London, 1622), p. 39. J.C., *Brief Observations Concerning Trade, And Interest of Money* (London, 1668), pp. 21-38.

¹² *Sir Thomas Colpeper's Tracts Concerning Usury Reprinted With some Animadversions on the Writings of Dr. Lock on that Subject. Etc.* (London, 1708), p. 17.

percent. In doing this he probably was not ahead of his time. Had he been, he would not have expressed himself in the casual way he did. No one would have understood him.

There is another passage in the work that is noteworthy, and it too is empirical. He estimated the annual income from land to be 10 million pounds and said that if the interest rate was so reduced as to raise the price of land by four years' purchase the result would be an increase of 40 million in the assets of 'the Landed Men.'¹³ Such an increase could have occurred a few years later when in 1715 the loan rate was reduced from 6 to 5. By his estimate of the risk premium this would have reduced the rate of return to land from between 4.5 and 5 to between 3.5 and 4. A change of this order would increase the number of years' purchase by about four.

The elder Culpeper was served well by this edition. He was no longer living when it was published nor was his son who in this own lifetime kept his father's ideas before the country and gave something of his own that deserves to be remembered. But it has been the fate of these men and of the anonymous editor to be overlooked except by a few scholars. In their own day, the Culpepers engaged the attention of the public and of Parliament more than did any other writer in the usury controversy including those who have come down to us as the principals of the period like Locke. He did indeed enter the controversy and did so to refute the Culpepers. They once were remembered — by Palgrave in 1894 and by Cassel in his classic study of interest. They are in the original (but not the present) edition of the *Encyclopedia of Social Sciences*. The writer there properly notes the influence of the father but wrongly says the son's work was of no consequence. Schumpeter noted their work in his *History* in a chapter that was not however completed and does not mention the capitalization principle. William Letwin does not refer to it in writing about the father but does handsomely acknowledge his influence.¹⁴

The inattention to the Culpepers could explain why historians have written so little about the landed interest and so much about the rivalry with the Dutch as the reason for the usury laws. The son remarked on Holland but not its interest rate. The father said its being low enabled the Dutch to escape the greatest of 'sins', a low price of land.¹⁵

Another advocate of influence was Henry Robinson. He too has been given less than his due except by scholars like Mr. Letwin. Robinson, in

¹³ *Idem*.

¹⁴ GUSTAV CASSEL, *The Nature and Necessity of Interest* [1903] (New York, 1957), pp. 10, 13, 16; JOSEPH A. SCHUMPETER, *History of Economic Analysis* (New York, 1954), pp. 328n, 329; WILLIAM LETWIN, *The Origins of Scientific Economic* (London, 1963), pp. 18n., 82, 148.

¹⁵ CULPEPER (1670), p. 21; CULPEPER (1621), p. 3.

England's Safety in Trades Increase, 1641, urged Parliament to reduce the rate from 8 to 6 (which it did in 1651). The reduction, he said, would raise the price of land. That however was not the centre of his argument. The increase of exports was. He seemed to think his readers would be troubled by the fact that the price of land would rise also and he tried to reassure them by saying that as it became more expensive farmers would become more efficient.¹⁶ That is odd. If they can become more efficient after the price of land rises, why not before? What Robinson may have had in mind was that ways of farming which are unprofitable at a lower price of land become profitable at a higher. They could not offset the price increase but could minimize it. When taken together with the increase of exports, the country on balance could be better off. The reasoning is not convincing but neither is it absurd.

Mr. Letwin has described the influence of Robinson on his contemporaries.¹⁷ His pamphlet was culled for arguments by the author of *The Advocate* (1651) who is believed to have been Benjamin Worsley. He in turn influenced Samuel Lambe who published *Seasonable Observation* in 1657. The arguments there were taken up by Josiah Child and appeared in his *Brief Observation* in 1668.

Child referred several times to the inverse relation of the price of land to the interest rate but seems not to have understood it. He said that when the price of land increases so does rent, as if the former caused the latter. The capitalization principle says just the opposite. It also says that if rent and price rise in the same proportion, the interest rate will be constant. Child began his argument by assuming a reduction in the rate. As he went on he stumbled while trying to answer the objection (as he stated it) that, 'If interest be abated, Land must rise in purchase, and consequently rents; ...'¹⁸ If such an objection actually was made, it was mistaken. What was said — and it was said by those who favoured, not opposed, usury laws — was that a lower rate would increase rents because it would increase investment and aggregate income. The higher rents would in themselves raise the value of land just as the decrease in the rate would in itself raise the value. Could Child have so misunderstood the statement that he thought it was made by the opposition rather than by his own party? If so, he was not only confused about the argument but on which side of the debate it belonged.

The pamphlet is jumbled in other ways also and as a piece of economic reasoning is a poor thing. But it is no poor thing if it is looked on as a plea for a policy that would benefit merchants who traded on borrowed money as Child did. He did not get the rate reduced to 3 percent but nei-

¹⁶ H. ROBINSON, *England's Safety in Trades Increase* (London, 1641), p. 7.

¹⁷ LETWIN, *op. cit.*, pp. 14-18.

¹⁸ CHILD, *op. cit.*, p. 11.

ther did it increase as better minds of the time wanted it to do. Moreover the position of Child in the development of economics should not be judged by this pamphlet alone. Much better is *A New Discourse of Trade* which was published in 1693. It contains the *Brief Observations* but much more, such as a description of self-interest, an explanation of how the market operates, and other ideas that came to harvest in classical economics. Mr. Letwin does not think they were meant because they were qualified by Child's advocating restraints on the market. Yet Smith did just that himself. What he gave with one hand, he took away in part with the other, not as much as Child did but enough to make Smith's advocacy of a free market a qualified thing.

Nicholas Barbon was another man of business who favoured usury laws. In *A Discourse of Trade* (1690), he used the capitalization principle and, unlike Child, used it correctly. 'If interest (Barbon wrote) were at Three percent, the Land of England would be worth Thirty Six, to Forty Years Purchase; for Interest, sets the Price in the Buying and Selling of Land.' The statement implies that if the yield on loans is 3%, that on land may be as low as 2.5%. He used the principle ingeniously to measure the reduction in the burden of the tax on land that would follow from reducing the rate. He said the tax on the income from land was 3 shillings on the pound or 15 percent. Land sold for 20 years' purchase, implying a yield of 5 percent (the legal rate on loans then being 6). He said the tax was to the value of land as 1 was 133.5 (or, as we would say, $1/133.5 \sim 0.0075 = .15 \times .05$). If the value of land doubled, as it would if the yield was reduced to 2.5 percent, the tax would be 'the 226 Part of the Land.'¹⁹ The number 226 is probably a slip for 266 which is the reciprocal of $.15 \times .025$. His reasoning, though not his language, was this: Let y be the income that is taxed at the rate t , and r be the return to land of the value p . The amount of tax is $T = ty$. Since $y = rp$, $T = trp$, and the ratio of the tax to the value of the land is $T/p = tr$. At $r = .05$, $tr = .0075 \sim 1/133.5$; and at $r = .025$, $tr = .0375 \sim 1/266$.

There was another instance of the capitalization principle being used ingeniously. It is in a tract published in 1737. That is considerably after the period which this paper surveys, but its ingenuity calls for its being included. The work is *An Essay To ascertain the Value of Leases and Annuities. etc.* and is signed by Wayman Lee. It may actually have been written by Samuel Burroughs. The author measured the effect on the price of assets of all kinds (not only of land) of changes in the value of money as well as of the rate of interest. Suppose, he wrote, that at one time an asset is worth 100 l. and the interest rate is 10 percent. At a later time the rate is 5 and the value of the pound (which he measured by its silver content) is 1/3 of what it was — the two changes having independent causes. The asset now will be worth

¹⁹ NICHOLAS BARBON, *A Discourse of Trade* [1690]. A Reprint of Economic Tracts, ed. JACOB H. HOLLANDER (Baltimore, 1905), pp. 41, 42.

600].²⁰ What he said, though not in this way, was, $p_n = p_0 [(r_0/r_n) (v_0/v_n)]$ where p_n is the price of the asset in the given period; p_0 , the price in the initial period; r_n and r_0 , the respective interest rates; and v_0 and v_n , the respective measures of the value of money. The author seems to have employed the commodity theory of the value of money but the same results would follow from the quantity theory on the assumption that the quantity of goods was the same in the two periods.

The capitalization principle was held to be valid by all but one of the writers who referred to it. It was not referred to in everything that was written about usury, but in that in which it was (with the single exception) accepted as much by the writers who opposed the laws as by those who favoured them. The exception was John Locke (his admirers will be pained to learn), and why he did so is explained below where his view of the laws is described. There appears to be another exception in the pamphlet of Thomas Manley but it is more apparent than real. In *Usury at Six Percent Examined and Found Unjustly Charged by Sir Tho. Culpeper and J. C.* (1669), he said the principle was something that land owners might comfort themselves with on a sleepless night.²¹ What he probably meant was not that the idea was illogical but was unrealistic. While a reduction in the effective rate would indeed raise the price of land a reduction in the legal rate would not: a land owner nonetheless could console himself with the thought that theory was right even if the practice was a failure, as Manley, an opponent of legislation, believed it to be.

His piece of drollery touched on one of the two leading questions of the controversy. It was, Would the price of land rise if the legal rate on loans was reduced? The other was, Would the reduction cause trade to increase? If one may judge by the attention given each of the questions, the former was thought to be the more important.

The Culpepers, who among the advocates stood first, said the price of land would increase because the demand for it would increase since its rate of return would rise relative to that on loans. Simply put, their argument was that money instead of being loaned would be used to buy land. 'To the usurers Land for their Money,' the father said.²² He also said a reduction in the loan rate would lead to investment in the improvement of land, the return from which investment was (he continued) 10 per cent just as it was on capital of all kinds whether in agriculture or trade, whether at home or abroad, while the rate of interest unfortunately differed among countries. He did not say, or did his critics, that if money was used to improve instead

²⁰ [WEYMAN LEE], *An Essay To ascertain the Value of Leases and Annuities for Years and Lives*, etc. (London, 1737), p. 118.

²¹ MANLEY, *op. cit.*, p. 4.

²² CULPEPER (1621), p. 19.

of to buy land the price of land would rise less. That is because the demand for it would rise less and the supply would increase. However, he and his son did forestall another objection that might have been made, which is that if money is used to buy land it cannot very well also be used to increase trade. He avoided this difficulty, or at least reduced the force of it, by saying a lower rate on loans would induce men to turn from lending to trade (i.e., to increase the demand for assets in the form of merchants' capital as well as in the form of land). Admittedly, the argument does imply the price of land will rise less than it otherwise would do but is not inconsistent with an increase of some amount. The case made by the Culpepers raises another question. What would the landowners do with their money after the increase in price induced them to part with their land? Would they hold a larger portion of their assets in the form of money? Or would they increase their consumption? A Keynesian would say the former; a Classicist, the latter. Or would they do neither but offer it for lending and move to the other side of the controversy to join those who wanted to raise the legal rate on loans! The possibility would have appealed to Manley's taste for drollery.

The change in asset holdings, which the advocates said would occur, implies a change in the distribution of wealth. The change however would not be of the familiar kind in which what one group gains another group loses. If legislation could reduce the effective rate of interest, the value of real assets would rise because their given income would be capitalized at a lower rate; but the value of money assets (such as the funds of money-lenders) would not change because their income would fall in the same proportion as the rate. Hence the amount and proportion of the nation's wealth held by owners of real assets would rise while the proportion but not the amount held by owners of monetary assets would fall. An interesting question is how the increase would be 'financed.' Velocity, if it changed at all, would decrease because the interest rate would have fallen. The money stock conceivably could increase and would if the lower rate caused foreign trade to increase and exports to rise more than imports.

The effect on the distribution of wealth, as described here, was not commented on in the writings I have seen. However they did notice the effect on the distribution of income which, had the legislation been effective, would have been of the familiar kind. What debtors gained would equal what creditors lost (setting aside the costs of enforcing the law). The advocates said little about it. It weakened the positive or analytical side of their case. The opponents said much. What they said was, in summary, that the increase in the demand of debtors for land and its output would be cancelled by the decrease of the demand of creditors. One should note the demand for land here is that which is a function of income and not of the rate of interest. There would be no increase in the demand for land to the extent

that it was affected by total income, because total income would not change, but there would be an increase in the demand for land to the extent that it was affected by a lower interest rate.

The advocates were not troubled by the normative side of the redistribution of income which their legislation, if effective, would bring about. They were unmoved by the prospect of usurers in distress — those ‘caterpillars and cutworms’ which long had bitten and gnawed at the public. Actually to say the advocates were unmoved by the prospect is less accurate than to say it pleased them. The money lenders should be gotten at in whatever way was possible. One advocate proposed, in addition to a lowering of the rate, that the tax on land be paid in part by the creditor of the land owner, the part being determined by the proportion of the land that was encumbered. The idea was opposed in a remonstrance of merchants in the East India trade.²³

That the distress of the money lenders might bring no relief to the owners of land and to debtors, the advocates of legislation could not believe. They were confident a reduction of the rate would not reduce the funds available for lending. Their state of mind was described by a legal scholar in the nineteenth century who writing about the arguments for usury legislation said: ‘It is manifest how all these observations take it for granted, that there is a certain quantity of money which must necessarily be lent out at interest and which borrowers would certainly obtain at lower interest, if the lenders were restricted from advancing it at a higher.’²⁴ Actually what the advocacy took for granted was even more mistaken. In claiming that a reduction of the rate would increase borrowing, it implied the quantity supplied of loans would not only not decrease but would increase (i.e., a downward sloping supply curve).

This weakness did not escape the opponents of legislation nor did other weaknesses including the effect on the distribution of income. Thomas Manley said that if the laws were enforced they would shift a part of the tax burden on land from its owners to their creditors. Mun, in his celebrated *England's Treasure by Forraign Trade* (1626-28), said the laws would reduce the income of usurers among whom there were prospective buyers of land. North, in the first of his *Discourses Upon Trade* (1691), which concerned interest, said land owners would not be able to borrow all they wanted and would be forced to sell some of their holdings.²⁵ The idea is odd. Did he mean that

²³ The Petition and Remonstrance of the Governour and Company of Merchants of London Trading to the East-Indies, etc. (London, 1641).

²⁴ WILLIAM DAVID EVANS, *A Collection of Statutes ... with Notes* 3rd ed., ANTHONY HAMMOND, ed. (London, 1829), II, pt. 3, class 5, 265-66.

²⁵ MANLEY, *op. cit.*, p. 2; THOMAS MUN, *England's Treasure by Forraign Trade. Etc.* [1664], in J.R. McCULLOCH, ed., *Early English Tracts on Commerce* [1856] (Cambridge, 1970), pp. 178, 179; [DUDLEY NORTH] *Discourses upon Trade; etc.* [1691], in McCULLOCH, *op. cit.*, p. 522.

their loans were payable on demand and would not be continued if the rate was reduced? He believed as other opponents did that if the effective rate was reduced there would be a decrease in the quantity supplied of loans, a decrease in the amount of trade, in aggregate income, and in the income from land. If the income from land fell more than the interest rate, which they believed it would do, the price of land would fall.

Many opponents however denied the effective rate would fall. Petty, in *Quantulumcunque* (1682), another gem of brevity, concludes with this colloquy: 'Qu. 32. What do you think of our laws for limiting interest? Answ. The same as of limiting the Exportation of Money, and there may be as well Laws for limiting Exchange also.' He said interest is a payment 'for forbearing the use of your own Money' and 'always carrieth with it an Insurance premium.' He illustrated the premium by saying there was a time in Ireland when land, the most secure of assets, sold for only two years' purchase. It had since risen to eight, implying a reduction in the rate of return from 50 to 12.5 percent, presumably caused by a lessening of unrest. He (and North also) connected these rates, which are relative rents, to the rate on loans and, in his *Treatise* on taxes, said they must be the same except if they differ in 'security' (risk). About the capitalization principle, however, he was unclear. He certainly was familiar with it, as the *Treatise* makes evident, but he related it to life expectancy in a puzzling way. He may have meant that the supply-price of loans is influenced by the life expectancy of the lender (or saver) and varies inversely with it. If he did mean this he was on the way to the idea of time preference. On the other hand, he may have meant something different.²⁶

Other opponents of legislation took the idea of security farther. They said a usury law itself increases the risk of lending and, instead of lowering the effective rate, increases it. To the customary risks are added the risk of prosecution, of forfeiture, and of religious and social ostracism. By this reasoning, a usury law that is not enforced has some of the effects of one that is, namely, a reduction in the amount of lending, trade, and income, and has at least one effect which a law that is enforced does not have. That is an increase in the effective rate. The increase will lower the price of land and will do so even if the income from it is constant which however, in the view of the opponents, it will not be. The income from land will fall, thereby reducing the price of land even more.

This argument invites the question of whether a usury law that is not enforced also redistributes income. If a law that is enforced redistributes income from creditors to debtors, will a law that is not enforced and that

²⁶ WILLIAM PETTY, *Quantulumcunque Concerning Money* [1682], in McCULLOCH, *op. cit.*, pp. 166-7 and *A treatise of Taxes and Contribution* [1662], in *Economic Writings*, ed. Charles Henry Hull, I, 48.

raises the effective rate redistribute income from debtors to creditors? The answer is no.

The increase in the rate is not a net gain to the creditor but an increase in his costs. This question was not raised by the controversialists themselves, at least not in this way. In a different way, it was intimated by Locke. His arguments are interesting because of his eminence as a philosopher. They also are interesting for their intrinsic merit. They are best understood when set against the claims they were meant to refute.

The advocates of legislation claimed that a reduction in the legal rate would raise the income from land as well as the demand for it and that both increases would cause the price of land to rise. Why they believed the demand would increase has been explained together with the reasons the opponents said it would not. Why the advocates believed the income from land would rise, they explained in three ways.

One was that a lower rate would reduce the interest expense of farming. This was said by the editor of the Culpeper tract. A second was that a lower rate would bring about a more productive use of capital, or an increase in the quantity of capital, or both. The elder Culpeper said a lower rate would increase investment in land. His son said a lower rate would make usurers turn to trade, much to its benefit because among them were some of 'the best heads' in the country. He also said a usury law would exclude wastrels from the market and thus direct loans from consumption to investment with a resulting increase in the national wealth. He said a usury law was a more effective and a more just way to control consumption than was a sumptuary law.²⁷ That a free market in lending directs capital to unproductive uses was said by other writers also. It was said in the anonymous *Usurie Araigned and Condemned* (1625).²⁸ Again one is reminded of Adam Smith and again warned that his ideas were anticipated. He was opposed to sumptuary laws and he was in favour of usury legislation.²⁹ His argument for it avoided the gross mistakes of his predecessors but in the end was no more right.

The third reason was that a reduction in the rate would increase the amount of trade and hence aggregate income including of course land rent. The reduction would do this because it either would lower the interest cost of trade or would turn more capital to it or would increase the money supply. One or the other of these explanations was made by Bacon in 1612, the elder Culpeper in 1621, Child in 1668, by the younger Culpeper in 1670, by Fortrey in 1673, in *Britannia Languens* in 1680, by Barbon in 1690, and by the Culpeper's editor in 1708.³⁰ These writings, with two exceptions, have been

²⁷ CULPEPER (1670), pp. 37, 38.

²⁸ *Usurie Araigned and Condemned. Etc.* (London, 1625), p. 5.

²⁹ ADAM SMITH, *The Wealth of Nations* (New York, 1937), pp. 329, 829-339-40.

³⁰ BACON, *op. cit.*; CULPEPER (1621), p. 1; *Usurie Araigned and Condemned*, p. 14;

noticed in connection with other arguments made in the controversy. One which has not is Samuel Fortrey's *England's Interest and Improvement*. He asked for measures that would attract skilled immigrants and said their coming would raise the price of land. To those who objected, he said 'it might be wished, nothing were cheap amongst us but only money.' He also put forward the novel idea that a lowering of the rate in England would reduce the amount of lending by foreigners and increase borrowing by them, thereby increasing 'the profit' to England. He presumably meant the amount of specie would increase. Such an increase would raise land rents, according to the anonymous *Britannia Languens*, the other work that has not already been mentioned. It did not however propose to increase the money supply by Fortrey's means. The increase would be obtained by increasing the export of goods, and that in turn would be accomplished by lowering the interest rate. France was cited with approval: it prohibited usury. The greater trade, the author said, 'will advance... the value of lands in England.'

To refute these arguments Locke wrote *Some Considerations of the Consequences of Interest and Raising the Value of Money*. It is best remembered for its statement of the quantity theory of money. Its intention however was to defeat a bill to fix the loan rate at four per cent. His argument against the proposal became general as he developed it — so general that an incautious reader could infer Locke was opposed to usury laws of any kind. He was not, but he had so little to say for them that he must be ranked among those who opposed them. About that proposed in 1690, he said it could not be enforced because men cannot be prevented from using their property as they wish. Bacon had said as much 80 years earlier. One ought to note that the statement has nothing to do with *laissez faire* as an *ethical* principle as distinct from a rule of prudence. It does not say men ought to be free to do with their own as they wish because freedom is a natural right or is an end in itself. The statement says men will do with their own as they wish because the power of self-interest is greater than the power of law. They will follow their interest however only at a cost. The effective rate of interest will rise by the 'Risque of transgressing the Law.' Trade then will decline, and aggregate income will fall. The land owner 'who thinks perhaps by the fall of Interest to raise the Value of his Land, will find himself cruelly mistaken, when the Money being gone (as it will be if our trade be not kept up) he can get neither Farmer to rent, nor Purchaser to buy his Land.'³¹

ROBINSON, *op. cit.*, p. 6; CHILD, *op. cit.*, p. 13; CULPEPER (1670), p. 21; SAMUEL FORTREY, *England's Interest and Improvement, Etc.* [1673], in McCULLOCH, *op. cit.*, pp. 226, 246; *Britannia Languens, or A Discourse of Trade; etc.* [1680], in McCULLOCH, *op. cit.*, pp. 374, 462, 345, 291; BARLON, *op. cit.*, p. 38; *Sir Thomas Colpeper's Tracts, etc.*, p. 18.

³¹ [JOHN LOCKE] *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* (2nd ed.; London, 1696), pp. 1, 9, 17-18.

Locke also objected to the effect of the laws on the distribution of income. He said they harmed widows and orphans who lived on the income from legacies. Their income would be reduced because they would obey the law. Not so, the bankers with whom the legacies were placed and re-loaned illegally at the market rate.³² Locke meant to show the laws really do not help the weak or check the greedy. Actually the argument weakened another part of his case which was that legislation could not reduce the effective or market rate. If a banker could borrow at the legal rate and re-lend at a higher to merchants, would not they borrow directly from the widows and orphans and pocket the difference themselves?

The main argument is not ruined, by any means, but the objection does imply that because some loans will be made at the legal rate the (average) effective rate will not be as high as it otherwise would be, the curtailment of trade not as great, and the decline in the price of land not as much. Locke seems not to have noticed this.

His case has another weakness. He said a reduction in the legal rate would curtail trade in such a way as to cause specie to leave the country. That is what he meant by the phrase in the quotation above, 'the Money being gone.' It would go because a reduction in the legal rate would cause foreigners to reduce the amount of lending in England. Other opponents of usury laws also said that but they said no more. Locke did. The loss of specie, he continued, would reduce the price level and increase exports, the result being that foreigners would buy from England instead of lending to it.³³ That presumably was to be regretted. There he concluded his analysis. Had he carried it a little farther, he would have noticed that it implied specie would return to the country. He then would have described the mechanism for which Hume is celebrated. But he did not, and his argument was thus left in the unfortunate state of having been carried too far or not far enough. One may be unfair to observe he did not notice what was noticed 60 years later by a fellow philosopher and a better economist. Actually North came near to noticing it five years before Locke wrote.³⁴ The confused quality of portions of this work by Locke does impair it and is a reason I cannot accept Mr. Letwin's estimate of it as one of the origins of scientific economics.³⁵

Another and more important reason is the muddle Locke made of the capitalization principle. He was, as stated above, one participant in the controversy who did not accept it. He knew very well what the others meant when they said the price of land varies inversely with the rate of interest

³² *Ibid.*, p. 2.

³³ *Ibid.*, pp. 21-22.

³⁴ NORTH, *op. cit.*, pp. 531-2.

³⁵ LETWIN, *op. cit.*, p. 178.

and he illustrated the idea with two numerical examples that were better than any which they themselves had used. But, he insisted, there really was no inverse relation. He would prove that by fact and theory. He observed the price of land (stated as years' purchase) was not the same in all of the districts of England. It should be, if the principle were correct, and it should be 25 years' purchase because the rate of interest on secure loans was then 4 per cent. On grounds of theory, the principle was wrong because it claimed the rate of interest instead of demand and supply determined the price of land. They determine the prices of all things, he said, and land is no exception. He said the demand for land was greater in those districts where trade thrived and merchants wished to place some of their wealth in a form more secure than trade itself. They bid up the price of land to 22 or 23 years' purchase. In other districts, those where 'men live lazily,' the demand for land is less, and it sells for 17 years' purchase. Why, Locke asked, did not each shrewd merchant shop around for land as he did for other things and so bring about a uniform price for it? Because he must have land in the neighbourhood of his trade where it 'may be kept under his Eye.'³⁶

Mr. Letwin is of the opinion that Locke said the rate of interest did not 'fully determine' the price of land. I am of the opinion Locke believed the rate did not determine price at all. 'This is certain,' Locke wrote, 'and past doubt, that the legal Interest can never regulate the price of land, ... but why the rate of Land does not follow the Current [i.e., effective] Interest of Money requires a farther Consideration.' The 'consideration' is that supply and demand determine the price of land.³⁷ Yet while he explicitly rejected the capitalization principle he implicitly and unknowingly made use of it. The variation which he reported in the price of land — between 17 and 23 years purchase — can be accommodated easily to the principle. A merchant would accept a 4.3 percent yield (23 years' purchase) for land he could keep an eye on but for that on which he could not he wanted 6 percent (17 years' purchase). The difference is a risk premium, and Locke was quite aware of that idea because he used it to explain that a usury law raises the effective rate of interest by the expected cost of prosecution.

In the course of his extended (and muddled) commentary on the price of land and the rate of interest, Locke paused to notice an imaginary interrogator. 'What then should there (will you say) be no Law at all to regulate interest? I say not so.' He went on to say there should be a law in order that the courts would have a rule by which to settle commercial disputes and in order that money lenders could not by their monopoly power or other means take advantage of borrowers. Having said this, Locke returned to the main lines

³⁶ LOCKE, *op. cit.*, pp. 59, 61.

³⁷ *Ibid.*, p. 59.

of his argument, and in them very little indeed can be found to support legislation.³⁸

North and Mun addressed themselves to the effect of usury laws on trade and came to the same conclusion as Locke. But they did so clearly and correctly. They said legislation would reduce the amount of borrowing that merchants could do, because it would decrease the quantity supplied of loans, and hence would reduce the amount of trade. The result would be a smaller aggregate income.³⁹

Another direct argument against the laws was made in the anonymous *Decay of Trade* (1641) and was meant to disprove the idea that they would turn usurers to trade and to the ownership of land. They have no talent for either, the tract said, and if they are forced to turn to them many losses will presently follow both to the King and his Subjects.⁴⁰ The remark is a way station on the road to the idea that the wealth of the nation is increased by specialization, not far along the road perhaps, but certainly on it. The destination was reached in *The Wealth of Nations* where the idea appears in all of its splendour. But it did not originate there.

* * *

This, then, is the historical record: the description of the controversy from the points of view of the men who were a part of it and in language that is nearer to theirs than to ours. In favour of legislating a lower interest rate were the elder Culpeper, *primus inter pares*; his son; Robinson; Barbon; Child; Fortrey; and the anonymous author of *Usurie Araigned and Condemned*. Against legislation were Manley, Mun, Petty, North, Locke, and the anonymous author of *Decay of Trade*.

The reader may wonder if the record is complete? What of such worthies as Misselden, Malynes, Papillon, Davenant, Coke, Temple, the anonymous author of *Britannia Languens*, and that of *Considerations on the East India Trade*?

The answer is that these men did not write about the issue of usury legislation. Some referred to the laws, and a few expressed an opinion about them. Several said a reduction in the rate could benefit traders, and one remarked on its relation to the price of land. But the references were incidental to other matters and were not related in any important way to the ideas on which the controversy centered.

Misselden and Malynes, those desperate adversaries who nevertheless agreed on so much, took note in 1622 of the *Tract* by the elder Culpeper but they

³⁸ LOCKE, *op. cit.*, pp. 102-103.

³⁹ NORTH, *op. cit.*, p. 519; MUN, *op. cit.*, p. 178.

⁴⁰ *Decay of Trade. A Treatise Against the abating of Interest. Etc.* (London, 1641), p. 3.

did not refer to the capitalization principle which was the centre of his argument, and although they praised him they did not agree with the proposal which the argument supported, that the interest rate should be reduced by law. Both expressly said (in language remarkably similar) that an increase in the money stock would bring down the rate better than any law could do.⁴¹

Papillon, unlike the other tractarians among the merchants, did not write of the effect of the interest rate on trade. He did consider the effect of many other things, like export subsidies, religious intolerance, and vexatious litigation.⁴² One may suppose that about the usury laws he was of the same opinion as Child, his associate for a time in the East India Company which as a net debtor was a beneficiary of a low rate.

Charles Davenant, in his *Discourses* on revenue and trade (1698) observed that the interest rate and the price of land varied inversely and offered as evidence of the improvement of England the fall in the rate from 10 to 6 per cent and the increase in the price of land from 12 to 20 years' purchase. But he gave no indication that he believed the price of land was governed by the rate and had risen because the rate had fallen. On the contrary, he said the changes 'did without doubt proceed from a greater quantity of money.'⁴³ The remark implies he did not believe the rate had fallen because it had been reduced by law from 10 to 6. Another of his observations also implies he believed the laws had, to say the least, a limited effect. He said a high rate was the consequence of excessive government borrowing and that until such borrowing stopped 'all Contrivances and Laws, to lessen [the rate] will be found ineffectual.'

Roger Coke in his *Discourse* on trade (1670), made the familiar statement that a lower rate would benefit trade and thereby raise the income of everyone including that of land owners. He was a little more factual than others who expressed the same opinion but he was no more convincing. He said the shipping cost of English merchants was, exclusive of interest, twice as high as that of the Dutch. The rate in Holland was 4 per cent and in England 6, or '1/3 more.' He concluded that 'the English Merchant labours from hence, in a three-fold charge more than the Dutch Merchant does.' How he arrived at 'three-fold' is puzzling. His figures suggest the costs of the English merchants were slightly more than twice those of the Dutch. But he was pleased with his numbers and went on to declare that what the country needed was to direct money away from trading in land to trading in merchandise.

⁴¹ MISSELDEN, *op. cit.*, p. 29; MALYNES, *op. cit.*, pp. 39-40.

⁴² A.F.W. PAPILLON, *Memoirs of Thomas Papillon, of London Merchant. (1623-1702)* (Reading, 1887), p. 70.

⁴³ [CHARLES DAVENANT] *Discourses on the Publick Revenues and on the Trade of England* (London, 1698), pt. II, 22-23.

⁴⁴ *Ibid.*, pt. I, 257-58.

The consequence would be that, 'the interest of Money without a Law would fall to be as low, as in the United Netherlands.'⁴⁵

Usury is not a topic in the highly esteemed *Considerations on the East India Trade*, which was published two years after the century ended. The author does however acknowledge the power of the land owners and is at pains to assure them that imports from the East Indies do not lessen their rents or harm them in any other way.⁴⁶

Sir William Temple is thought by some to have said the last word about the Dutch in his *Observations upon the United Provinces of the Netherlands* (1671). The reason for his being held in high regard may be that he was untainted by trade, unlike most other writers on economic affairs. He referred to the interest rate and the price of land, but he did so in a way that indicates he, unlike some of his inferiors, did not understand the relation. He said the prosperity of Holland was the effect of a large population within a small space of land. The crowding raised the price of land and reduced the interest rate. Did he reach this conclusion by thinking that rent does not increase as much as the price of land? Actually, the reason the price of land would increase is that the large population would increase the demand for the output of land and hence the income from it. Temple went on to say something quite sensible, however, which was that the yield on one class of assets (land) influences that on another class (loans). His explanation of the low rate on loans in Holland was that it was determined by low rate on land.⁴⁷

IV. *An Admonitory Afterword*

I hope this will satisfy the reader that those writers who have not been named as participants in the controversy have not been overlooked. I mean the reader to whom usury is an issue of economic policy. It is not that to everyone or to most people. Much more has been written about it from the point of view of religion and morals.

Nothing has been said here of such writing. Its purpose was different from that of the writing of which note has been taken. The churchly writings were intended to guide men in their worldly affairs by the precepts of the Bible (especially the Old Testament which contains more about usury than the New). That guidance had the ultimate purpose of securing for men the salvation of their eternal souls. In the light of such a purpose, whether land sold for 15 or 20 years' purchase could not be important.

⁴⁵ ROGER COKE, *A Discourse of Trade. Etc.* (London, 1670), p. 20.

⁴⁶ *Considerations on the East-India Trade; etc.* [1680], in McCULLOCH, *op. cit.*, ch. XIV.

⁴⁷ SIR WILLIAM TEMPLE, *Works* (Edinburgh, 1754), I, 126, 129.

This is not to say the churchmen were ignorant about economic affairs or did not wish to touch on them. They did, some with great skill.

A tract by Gabriel Powel, of 1602, contains the idea of opportunity cost and uses it to justify the taking of interest as distinct from usury, the one being permissible and the other not. The work is to be noted for another reason, which is its observations on the belief that a man's wealth is his own to do with as he wishes. Those who held the belief at that time based it on natural law or the doctrine of natural rights. Powel did not hold it. 'It cannot be inferred out of my words, that I permit the natural man to judge of what is just Necessitie,' he said, and deplored 'the children of this world' who believed they had such a right.⁴⁸ That most men did believe they had it was acknowledged by another churchman, Richard Capel. 'Why,' he wrote in 1636, 'is it past the power of our Divines with their pens and tongues to cry down Usury? The cause is, because most men do think that they have reason to make the most of their money.'⁴⁹

The issue was whether or not borrowers and lenders had a moral right to do as they wished. Certainly not, the churchmen said. The economic writers said nothing. Some did offer a moral justification of a free market in goods, and Locke is remembered to have said a man has a natural right in the property with which he has mixed his labour.⁵⁰ The defence of a free market in *loans*, however, was made on grounds of efficiency (a moral value also but different from freedom). Locke did not object to the law proposed in 1690 because it would curtail freedom but because it would not do what it was meant to do. It wouldn't work. If in fact it had become effective, he would have been in an awkward position if he believed (as he may have) in freedom as an end in itself.

Another defence of free exchange is that there is mutual advantage in it. The secular writers did not say much about this idea although they were familiar with it. The churchmen did take note of it and were not all of the same view. Robert Bolton disputed it. 'But both are gainers, may the usurer say, both the Borrower and the Lender,' he wrote in 1637. But that is mistaken, he continued. What is wrong in itself does not become right

⁴⁸ [GABRIEL POWEL] *Theological and scholasticall positions concerning vsurie. Etc.* (Oxford, 1602), pp. 13-14, 55; and *Theological Positions concerning the lawfulness of Borrowing upon Usurie. Etc.* (London, 1605), p. 3.

⁴⁹ RICHARD CAPEL. *Tentations: their nature, danger, cure ... To which is added a briefe dispute, as touching restitution in the case of vsury.* (3rd ed.; London, 1636), p. 27.

⁵⁰ Petty, c.g., wrote that 'too many matters have been regulated by laws, which nature, long custom, and general consent, ought only to have governed' and suggested the prohibition of the export of specie was 'against the laws of nature, and also impracticable'. *Writings*, II, 243, 445; Locke's celebrated statement was made in *The Second Treatise of Civil Government* (1690), ch. 5.

because it benefits those who are guilty of it. The theft of goods does not become right because it benefits the thief and the person to whom he sells them. A different view was taken by Thomas Pie (1604). He did not say the mutual advantage is irrelevant. He said there usually is no advantage to the borrower (and much to the lender) because most men borrow out of necessity. But if they did not, there then could be a gain to them as well as to lenders, he said.⁵¹ An economist would say that the churchman had gotten things turned completely around. The greater the necessity of a thing, the greater is the advantage of obtaining it.

A curious feature of the writing against usury, whether by a divine or a worldling, is the moral position of the borrower. The lender got the worst of the condemnation. In the secular writings he got all of it, and the borrower appears as an innocent victim. He is not quite that in the work of the churchmen (as Bolton indicates) but they gave the lender the worst of it. The predisposition was shown at an earlier time in the controversy over a just price by those who opposed the market on the ground that sellers would take advantage of buyers. That is curious because one from whom they learned was even-handed in his denunciation. Isaiah, in the course of prophesying destruction upon the wicked, said, 'And it shall be..., as with the buyer, so with the seller; as with the lender, so with the borrower; as with the taker of usury, so with the giver of usury to him.'

The writing of Thomas Pie is also interesting for its description of the devices by which the usury laws were evaded: 'those cloakes and shifts [of] infinite varietie.'⁵² For one who meant to give spiritual guidance, he was remarkably familiar with the ways of the world and perhaps needed to be if he was to follow his calling. He was not alone. Powel was knowledgeable about the disguises which usury assumed.⁵³ So was another churchman, Roger Fenton. He said loan contracts could be so subtly devised that no man could tell whether they were usurious or not. 'There be,' he said in 1612, 'certaine brackish qualities which savour of vice, yet cannot be absolutely condemned; even so for usurie.'⁵⁴ James Spotswood (1616), drew a practical conclusion from the fact. He regretted that some other divines had laid down rules for lending that were 'too, too precise.' The result was that usury instead of being suppressed was abetted. He related the story of the usurer whose own son, a clergyman, preached against usury. The usurer was pleased because 'he thought he should fare the better, if all others then present

⁵¹ ROBERT BOLTON, *A Short and Private Discourse between Mr Bolton and one M. S. Concerning Usury* (London, 1637), pp. 34-5.

⁵² [THOMAS PIE] *Usuries Spright Coniured: etc.* (London, 1604), pp. 23-24.

⁵³ *Ibid.*, p. 12.

⁵⁴ *Theological and scholastical positions, concerning vsurie*. 'Dedicatorie'.

⁵⁵ ROGER FENTON, *A Treatise of Vsurie*, etc. (London, 1612), p. 31.

should hearken to the Sermon.' The author advised his readers 'to keep aloofe' of usury of any kind 'for fear of falling into the Ditch.' But ever practical, he knew that not all of them would. He then proposed that money lenders form themselves into a company like goldsmiths and chandlers (Worshipful Company of Cutworms?). Their rates would be controlled by law, they would keep a record of their dealings, and their income would be subject to taxes and tithes.⁵⁶

This excursus has been meant to suggest something of the quality of the writing of the churchmen and meant also to dispel the notion that what they wrote was of no consequence. Economists of good sense have said as much when in a lapse from their normal condition. I do not mean everything that was written by the churchmen is as interesting as that which is described here. But as a group they knew more about economics than the economic writers knew about morality. The latter did, explicitly or not, rest their case for or against the usury laws on considerations of value. Moreover, the churchmen reasoned more closely, wrote more clearly, and argued more forcefully. That, at any rate, is my impression of the writings which I have seen, those of the churchmen and those of the worldings. However, it is the impression of a wordling.

⁵⁶ JAMES SPOTSWOOD, *The Execution of Neschech, etc.* (Edinburgh, 1616), pp. 41, 37-40.

