On the Effects of the Usury Laws on the Funding System.—By W. NEILSON HANCOCK, LL. B., Archbishop Whateley's Professor of Political Economy in the University of Dublin.

The system of funding, by which the greater part of the enormous national debt of England has been created, is that of granting perpetual annuities of £5, £4, or £3, redeemable on the payment of £100. These annuities are called respectively the 5 per cents., 4 per cents., and 3 per cents. The annuities are sold in the market, and the price is what is called the price of the funds. There could be no objection to this mode of borrowing, if the Government always contracted loans in whatever fund was at par; or, in other words, if they granted perpetual annuities of the amount of the market rate of interest at the day of borrowing, redeemable on payment of £100. But, unfortunately, this practice has not been pursued, and the system of contracting for loans by granting annuities, which were not at par, began in the reign of Queen Anne, and has been on most occasions pursued ever since.

I have constructed the following tables for the purpose of illustrating the effect of this system of funding on the terms of redemption, and on the present annual charge on account of two loans contracted in the American war, and two loans contracted in the French war, with the analogous results for the entire national debt. The statements which form the basis of the tables, are taken from M'Culloch's work on 'Taxation and the Funding System.'

The inspection of these tables naturally suggests two subjects for consideration. First, How can the adoption, and, above all, the continued adherence to so fatal a system, be accounted for? Secondly, Is the loss arising from this system of funding irremediable? In answer to the first of these questions, I propose to point out *one* of the causes by which the adherence to this funding system may be accounted for—namely, the usury laws.

	TERMS OF REDEMPTION.			ANNUAL CHARGE.			
	Funds Created.	Amount.	Loss on Terms of Redemption.	Amount Created.	Reduction now made.	Possible Reduction.	Annnal Loss
I. Loan of £12,000,000 in 1781.	3 per Cents.	£18,000,000	....	£540,000	nil.	—	—
	4 per Cents.	3,000,000	....	120,000	£22,500	—	—
		£21,000,000	£9,000,000	£660,000	£22,500	£300,000 nearly.	£277,500 nearly.
II. Loan of £13,500,000 in 1782	3 per Cents.	£13,500,000	....	£405,000	nil.	£200,000	—
	4 per Cents.	6, 750,000	....	270,000	£50,000	140,000	—
	Long Annuities terminable.	....	....	118,125	—	—	—
		£20,250,000	£6,750,000	£793,125	£50,000 nearly.	£340,000 nearly	£290,000 nearly.
III. Loan of £17,000,000 in 1798.	3 per Cents.	£34,000,000	....	£1,020,000	nil.	£500,000	—
	Long Annuities	....	....	40,000	—	—	—
		£34,000,000	£17,000,000	£1,060,000	nil.	£500,000 nearly	£500,000 nearly.
IV. Loan of £36,000,000 in 1815.	3 per Cents.	£62,640,000	....	£1,879,000	nil.	£854,166	—
	4 per Cents.	3,600,000	....	144,000	£27,000	65,454	—
		£66,240,000	£30,240,000	£2,023,000	£27,000	£919,600 nearly.	£900,000 nearly.
Total for entire National Debt, 1844.	All Funds.	£792,399,833	£200,000,000 nearly.	£29,269,160	£2,749,169	£9,000,000 nearly.	£6,500,000 nearly.

It is one of the commonest modes of evading the usury laws, to promise to pay a larger sum than is actually received. To prove that a desire to avoid the appearance of violating the usury laws was one of the causes of the present funding system, it will only be necessary to show that the successive governments were under the necessity of borrowing at a rate of interest higher than the legal rate of interest. But this can be clearly shown from facts stated by M'Culloch in his work on the funding system. "The system of funding, to a greater extent than the money actually borrowed amounted to, began," he says, "in the reign of Queen Anne."—p. 435. "The statutory rate of interest, at the comencement of the funding system, was 6 per cent., the reduction to 5 per cent. not having taken place till 1714. But owing to the supposed insecurity of the revolutionary establishment, *the rate of interest paid on loans to the public, previously to the accession of Geo. I., was generally much higher than the legal rate.*"—p. 427. Thus we see the motive of avoiding the appearance of violating the usury laws had full cause for operation at the commencement of the funding system.

As to the American war, the loans of 1781 and 1782, were both contracted for on terms equivalent to the government paying a rate of interest higher than the legal rate. The loan of twelve millions, in 1781, was really raised at the rate of upwards of 5½ per cent.; and the loan of thirteen millions and half, in 1782, at the rate of £5 16s. 10d. per cent. The same is true with regard to the loans in the French war. The loan of seventeen millions in 1798 was really raised at a rate of interest above 6 per cent.; and the loan of thirty-six millions in 1815 was raised at the rate of £5 12s. 4d. per cent.

Thus we see that a debt of about £200,000,000, and an annual burden of about six millions, have arisen, in part, from a system of laws which were framed on the notion that the interference of human legislation could afford better protection to borrowers, than the safeguard instituted by the all-wise providence of God in the instinct of man; which, seeking only its own benefit, is so framed as, by free competition, to secure the benefit of the community. But the facts not only show the burden which we have to pay, in consequence—as to part at least—of the usury laws, but they also place the absurdity of these laws in a very strong point of view.

Thus, we see that in the reign of Queen Anne, in 1781, 1782, 1798, and 1815, the government could not borrow money at a lower rate than upwards of 5½ per cent.; and during all that time private parties in England were prohibited by law from paying any interest above 5 per cent.

Having, I trust, shown that the adoption and continuance of the present funding system was caused, in part at least, by the usury laws, it remains to consider whether any part of the loss entailed by this system can be now remedied. It is obvious, from the manner in which the loss occurred—namely, that of granting annuities at 3 per cent. and 4 per cent. when the market rate of interest was 5 per cent and 6 per cent.—that if the market rate of interest should rise to 5 or to 6 per cent., the government might borrow at one of those rates, and buy up a great part of the 3 per cents., and so save a considerable portion of the loss. The same object might be effected to a less extent, if the Commissioners for the Reduction of the National Debt were authorized now to create funds of 3¼, 3½, 3¾, and 4 per cent., and sell portions of these funds from time to time, as the market rate of interest would allow them to be sold, at or near par, the produce of the sale being laid out in the purchase of three per cents. This plan would entail a slight temporary burden, as an annual sum, in the 3¼, 3½, 3¾, or 4 per cents., would not realize as large a price as the same sum in the 3 per cents.. But there is an instance stated by M'Culloch, which shows that the temporary increase of annual burden would be trifling compared with the ultimate reduction in the terms of redemption of the debt. In the year 1815, when the last loan to which I have called attention was contracted, 18 millions of exchequer bills were funded at the rate of £107, 5 per cent. stock, for every £100, being at the rate of £5 17s. per cent. or only 4s. 8d. per cent. more than the rate for funding in the 3 per cents. and 4 per cents.; or, according to the correction of Dr. Hamilton, of 2s. 6d. per cent. for the difference between funding exchequer bills and raising loans only 2s. 2d. per cent. of additional annual charge. Thus, if the entire loan of 36,000,000., in 1815, had been funded in 5 per cents., as the £18,000,000 of exchequer bills were, £24,120,000 might have been saved in the terms of redemption at the trifling annual charge of £39,000. This last year would have afforded a most favourable opportunity for trying this plan of reduction, as the funds were lower than they had been for many years. Even yet 3½ per cents. would sell at par. If this plan of reduction were adopted whenever the rate of interest rose, the government could reduce the terms of redemption of the national debt at a slight increase of the annual charge; and whenever there was a considerable fall in the rate of interest, they could reduce the annual charge. Nearly £3,000,000 of annual charge has been saved by government taking advantage of the fall in the rate of interest; but I am not aware that any attempt has been made to take advantage of a rise in the rate of interest. Although the plan of doing so is a simple deduction from reasoning on the subject, which is well known, and has, no doubt, occurred to others, yet I do not recollect having ever seen it put forward.