In 1787, Jeremy Bentham published a lengthy pamphlet entitled, “Defense of Usury; Shewing the Impolicy of the Present Legal Restraints on the Terms of Pecuniary Bargains.” The pecuniary bargains he was concerned with were loans between individuals or business enterprises. The legal restraints were limits on interest rates paid or received. Usury was and is the popular term for charging interest rates in excess of legal limits.

Bentham makes an overwhelmingly persuasive case for the proposition he sets forth at the beginning of the pamphlet, “viz. that no man of ripe years and of sound mind, acting freely, and with his eyes open, ought to be hindered, with a view to his advantage, from making such bargain, in the way of obtaining money, as he thinks fit: nor (what is a necessary consequence) any body hindered from supplying him, upon any terms he thinks proper to accede to.”

During the nearly two centuries since Bentham’s pamphlet was published, his arguments have been widely accepted by economists and as widely neglected by politicians. I know of no economist of any standing from that time to this who has favored a legal limit on the rate of interest that borrowers could pay or lenders receive—though there must have been some. I know of no country that does not limit by law the rates of interest—and I doubt that there are any. As Bentham wrote, “in great political questions, wide indeed is the distance between conviction and practice.”

Bentham’s explanation of the “grounds of the prejudices against usury” is as valid today as when he wrote: “The business of a moneylender … has no where, nor at any time, been a popular one. Those who have the resolution to sacrifice the present to future, are natural objects of envy to those who have sacrificed the future to the present. The children who have eat their cake are the natural enemies of the children who have theirs. While the money is hoped for, and for a short time after it has been received, he who lends it is a friend and benefactor: by the time the money is spent, and the evil hour of reckoning is come, the benefactor is found to have changed his nature, and to have put on the tyrant and the oppressor. It is an oppression for a man to reclaim his own money: it is none to keep it from him.”

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Developments since Bentham’s day have increased the mischief done by usury legislation. Economic progress has provided the ordinary man with the means to save. The spread of banks, savings-and-loan associations, and the like has given the ordinary man the facilities for saving.
For the first time in history, the working class may well be net lenders rather than net borrowers. They are also the ones who have fewest alternatives, who find it hardest to avoid legal regulations, and who are therefore hardest hit by them.

Under the spur of Wright Patman and his ilk, the Federal Reserve now limits the interest rate that commercial banks may pay to a maximum of 4½ per cent for small savers but to 7½ per cent for deposits of $100,000 or more. And the deposits of small savers have been relatively stable or growing, while those of large depositors have been declining sharply because they have still better alternatives.

That is the way the self-labeled defenders of the “people” look after their interests—by keeping them from receiving the interest they are entitled to. Along with Bentham, “I would … wish to learn … why the legislator should be more anxious to limit the rate of interest one way, than the other? Why should he set his face against the owners of that species of property more than of any other? Why he should make it his business to prevent their getting more than a certain price for the use of it, rather than to prevent their getting less? … Let any one that can, find an answer to these questions; it is more than I can do.”


Compiled by Robert Leeson and Charles Palm as part of their “Collected Works of Milton Friedman” project.

Reformatted for the Web.

10/25/12