Locke on Currency

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Locke had always a good eye for economical facts; we read in his Journal, for example, how the expenses of the Languedoc canal were met (Life of Locke (1829), pp. 53, 55, op. 272), and how salt was prepared and taxed at Picais (ib. p. 61), how the peasants in the Bordeaux country lived, and what wages they got (ib. p. 76), what was the mortality of Paris compared with that of London (ib. 80). His remarks on the comforts of the poorest civilised man as compared with the savage (ib. 84-86), are probably the original source of a well-known passage in Adam Smith (Wealth of Nations, i. end of ch. i.). His derivation of property from labour was, as he stated it, an original and suggestive idea, even if open to many criticisms; and his political philosophy has had its influence on political economy.

But his best known economical writings are on currency. His biographer, Lord King, was himself an economist with decided views on the currency and he describes Locke's proceedings in this regard with much feeling (Life of Locke (1829) p. 240, seq.). Before Montague and Somers carried out in 1695 their great reform of the English currency, they had taken Newton and Locke into their counsels. Locke had thought deeply on these matters for twenty years, he tells us, before his pamphlet Some Considerations of the consequences of the lowering of Interest, and raising the value of Money (written 1690, published 1691), and that pamphlet was but a new expression of long-formed views. The "Considerations" were drawn out against those who desired to reduce interest to 4 percent by act of parliament; Locke says that interest will be high when "money" -- and he is not always careful to distinguish metal money from loans -- is scarce, and parliament cannot make it plentiful, though it can multiply perjury amongst borrowers and lenders, and obstruct trade by bad laws. As for the attempt to keep gold and silver within the country, he says it is an attempt "to hedge-in the cuckoo." He recognises the need of an adequate amount of metal currency in nations having any trade at all; it will be in proportion not simply to the trade but to the "quickness of circulation." "The very same shilling may pay twenty men in twenty days." The nature of the transactions must be considered, and also the habits and necessities of the parties concerned. money will go further if there are many small payments at short intervals, rather than a few large payments at long intervals. He calculates that "it cannot be imagined that less than a hundredth part of the labourer's yearly wages, one eighth part of the landlord's yearly revenue, and one fortieth part of the broker's yearly returns in ready money, can be enough to move the several wheels of trade, and, how much the ready cash of any country is short of this proportion, so much must the trade be impaired and hindered for want of money" (Considerations, Works, vol. ii. p. 15, ed. 1740). The value of money is subject to the same variations as the value of other "consumable commodities." The quantity of ready money compared with the 'vent' or the number of buyers and sellers, determine the value of money (p. 16); and the vent and value depends on the necessity or usefulness of the articles.

The foregoing will be a sufficient sample of Locke's manner. The treatise, though nominally on the currency, is to a large extent a general discourse on the general principles of economics. There is even an hint of the doctrine of rent. "Were all the land in Romney marsh, acre for acre, equally good, that it did constantly produce the same quantity of equally good hay or grass, one as another, the vent of it, under that consideration, being of an equal worth, would be capable of being regulated by law." etc. (ib. 18). Locke refuses to consider the consumers as worthy of special account: "There are so few consumers" he says (p. 16), "who are not either labourers, brokers, or landlords." It is the labourers he most favours, tracing as he does all value as well as property to labour. His explanation of interest by the analogy of rent has been well said, by Dr Böhm-Bawerk, rather to discredit rent that to vindicate interest; "the unequal distribution brings you a tenant for your land, and the same unequal distribution of money brings me a tenant for my money." (p. 19). The one is as lawful as the other; but there is no more than an analogy; rent does not cause interest or interest rent, they vary differently (pp. 20, 21). On the other hand Locke is physiocratic; he thinks that all taxes fall eventually on the landholder (p. 31). In this treatise and in the appended short observations on a printed paper entitled, "For encouraging the coining silver money in England," Locke maintains boldly what is known as the Quantity Theory of the currency, and he makes little or no distinction between demand for the metal money and demand for loans. He also (p. 33), not very

logically, defends a legal rate of interest though refusing to fix it below current rates. As to the coinage, he prefers the new milled silver to the old hammered, but thinks that both will leave us speedily if our seignorage remains nominal, and especially if our foreign balance is against us (pp. 46, 47). The raising of the denomination or the increase of alloy he considers as debasement and fraud (p. 43, 44). In respect of the standard, he is a silver mono-metallist, but, with his easy-going inconsistency, would have gold still coined, since, as a matter of fact, it is there and used among us.

"The effect indeed and ill consequence of raising either of these two metals in respect of the other is more easily observed and sooner found in raising gold than silver coin, because your accounts being kept and your reckonings all made in pounds, shillings, and pence, which are denominations of silver coins or numbers of them, if gold be made current at a rate above the free and market value of those two metals, every one will easily perceive the inconvenience. But there being a law for it, you cannot refuse the gold in payment for so much. And all the money or bullion people will carry beyond sea from you will be in silver; and the money or bullion brought in will be in gold. And just the same will happen when your silver is raised and gold debased in respect of one another, beyond their true and natural proportion (natural proportion or value I call that respective rate they find anywhere without the prescription of law). For their silver will be that which is brought in, and gold will be carried out, and that still with loss to the kingdom answerable to the over-value set by the law. Only, as soon as the mischief is felt, people will (do what you can) raise the gold to its natural value." (p. 51)

"Money is the measure of commerce and of the rate of everything, and therefore 'ought to be kept (as all other measures) as steady and invariable as may be.' But this cannot be if your money be made of two metals whose proportion and consequently whose price constantly varies in respect of one another. Silver for many reasons is the fittest of all metals to be this measure, and therefore generally made use of for money. But then it is very unfit and inconvenient that gold or any other metal should be made current legal money at a standing settled rate. This is to set a rate upon the varying value of things by law, which cannot justly be done." (p. 51) "What then (will you be ready to say) would you have gold kept out of England? Or being here, would you have it useless to trade, and must there be no money made of it? I answer, quite the contrary. 'Tis fit the kingdom should make use of the treasure it has. 'Tis necessary your gold should be coined and have the king's stamp upon it, to secure men in receiving it that there is so much gold in each piece. But 'tis not necessary that it should have a fixed value set on it by public authority; 'tis not convenient that it should, in its varying proportion, have a settled price. Let gold, as other commodities, find its own rate. And when by the king's image and inscription it carries with it a public assurance of its weight and fineness, the gold money so coined will never fail to pass at the known market rates, as readily as any other species of your money" (p. 52). "There being no two things in nature whose proportion and use does not vary 'tis impossible to set a standing regular price between them. The growing plenty or scarcity of either in the market (whereby I mean the ordinary places where they are to be had in traffic), or the real use or changing fashion of the place, bringing either of then more into demand than formerly, presently varies the respective value of any two things. You will as fruitless endeavour to keep two different things steady at the same price one with another as to keep two things in an equilibrium when their varying weights depend on different causes. Put a piece of sponge in one scale and an exact counterpoise of silver in the other; you will be mightily mistaken if you imagine that because they are to-day equal they shall always remain so. The weight of the sponge varying with every change of moisture in the air, the silver in the opposite scale will sometimes rise and sometimes fall. This is just the state of silver and gold in regard of their mutual value. (ib.) "It is the interest of every country that all the current money of it should be of one and the same metal, that the several species should be all of the same alloy and none of a baser mixture, and that the standard once thus settled should be inviolably and immutably kept to perpetuity. For, whenever that is altered, upon what pretence soever, the public will lose by it." (p. 52, 53)

When the government were known to be resolved on the reform of the coinage, William Lowndes, secretary to the treasury, published his Report concerning an Essay for the amendment of the silver coins (dated Sept. 1695) and Locke was invited by Lord Somers, and challenged by Lowndes himself, to answer it. This he did in Further Considerations concerning the raising the value of money, wherein Mr Lowndes' arguments for it in his late report concerning "An Essay" etc. are particularly examined (1695). The reasoning of the second pamphlet is substantially that of the first. There is the same faint tinge of mercantilism. -- "The other case wherein our money comes to be melted down is a losing trade, or, which is the same thing in other words, an over-great consumption of foreign commodities." (p. 82). -- But the cogency of the reply is beyond dispute. There is no doubt that the government were wise in getting rid of the clipped money instead of levelling down the rest to the value of the clipped.

In 1696, Locke was made a member of the Council of Trade (Life, p. 143). His correspondent Moyneux writes to him from Dublin about the proposed bill for the encouragement of the linen manufacture in Ireland (Oct. 4, 1697, Works, vol. iii. 591): "I am apt to think that you will have the consideration and modelling thereof at your committee of trade." Locke is one of the economists who have been able to apply their principles to practical politics during their own lifetime. The influence of his political and educational writings has been considered elsewhere. Their bearing on economics, though indirect, is very important, and the same may be said of his general philosophy.

[Locke finds a place in all the chief histories of political economy. Roscher's account is perhaps the most full (Zur Geschichte der Englischen Volkswirthschaftslehre (1851), pp. 93-106). Dr Lippert's notice of him, in the Handwörterbuch der Staatswissenschaften, contains good references to literature. His theory of interest is criticised in Dr Böhm-Bawerk's Geschichte und Kritik der Zinstheorieen (1884), pp. 51, 52. Dr Zuchekandl examines his "quantity theory " of the currency in his book Zur Theorie des Preises (1889), pp. 137-141. For other remarks on this part of Locke's work, see H.D. M'Leod, Bimetallism (1894), pp. 25-34. -- Miklashevsky, Money (Moscow, 1895), pp. 271-274. When Professor Ingram, Hist. of Pol. Econ. (1888) p. 54, finds fault with Locke for in any degree connecting lowered interest with gold discoveries, it is fair to remember the argument urged by Cliffe Leslie in his last published paper (Fortnightly Review, 1881), in favour of a connection.]