

The number of souls in this Kingdom being usually reckoned one million and a half, of these I calculate there may be about two hundred thousand couples whose wives are breeders; from which number I subtract thirty thousand couples who are able to maintain their own children...this being granted, there will remain a hundred and seventy thousand breeders.

After making due deductions for miscarriage, or for children who die each year, Swift is left with 'a hundred and twenty thousand children of poor parents annually born'. After demonstrating that there is no way by which these poor children can be reared or employed, Swift concludes with his famous 'modest' proposal, not 'liable to the least objection'. Being assured by a knowledgeable American in London that a young healthy well-nursed child of one year old is 'a most delicious, nourishing and wholesome food, whether stewed, roasted, baked or boiled', Swift then goes on to demonstrate, in the best value-free, numerological, empiricist Pettyite manner, the economic advantages of selling 100 000 children per annum to be eaten.

Most of the special pleading economic writers of the day ended their tracts professing no personal gain and their devotion to the public weal. And so Swift ends his *Modest Proposal* accordingly!

I profess, in the sincerity of my heart, that I have not the least personal interest in endeavouring to promote this necessary work, having no other motive than the public good of my country, by advancing our trade, providing for infants, relieving the poor, and giving some pleasure to the rich. I have no children by which I can propose to get a single penny, the youngest being nine years old, and my wife past child-bearing.²⁴

10.8 Notes

1. W.H. Greenleaf, *Order, Empiricism and Politics: Two Traditions of English Political Thought* (London: Oxford University Press, 1964), p. 52.
2. In the paraphrase of Professor Greenleaf, op. cit., note 1, p. 92.
3. Greenleaf, op. cit., note 1, p. 93.
4. In Peter Laslett (ed.), *Patriarcha and Other Political Works of Sir Robert Filmer* (Oxford: Basil Blackwell, 1949), p. 286. Quoted in Carl Watner, "Oh, Ye are for Anarchy!": Consent Theory in the Radical Libertarian Tradition', *Journal of Libertarian Studies*, VIII (Winter 1986), p. 119.
5. Coke did not fully break with the king and adopt the Parliament-over-all position until 1621. In 1616, he was ousted from his post in the Privy Council, but immediately won his way back into King James's favour by marrying his daughter to Sir John Villiers, the older brother of the duke of Buckingham. He was still a privy councillor in 1621, and was expected to remain in the Court Party, but the king's by-passing him for promotion to Lord Chancellor led to Coke's final break with the Crown.
6. See Joyce Oldham Appleby, *Economic Thought and Ideology in Seventeenth-Century England* (Princeton, NJ: Princeton University Press, 1978), p. 106.
7. As Schumpeter puts it, these men were 'special pleaders for or against some individual interest, such as the Company of Merchant Adventurers or the East India Company; advocates or foes of a particular measure or policy.... All of them flourished...owing to the rapid increase of the opportunities for printing and publishing. Newspapers also, rare

- ventures in the sixteenth century, became plentiful in the seventeenth...' J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 160–61.
8. Barry E. Supple, *Commercial Crisis and Change in England, 1600–1642* (Cambridge: Cambridge University Press, 1964), pp. 219–20.
 9. Appleby, op. cit., note 6, pp. 49, 179; also see Terence W. Hutchison, *Before Adam Smith: The Emergence of Political Economy, 1662–1776* (Oxford: Basil Blackwell, 1988), p. 386.
 10. For a fascinating discussion of Bacon's important role in immanentizing the sacral in the form of the pseudo-science of the Ancient Wisdom, see Stephen A. McKnight, *Sacralizing the Secular: the Renaissance Origins of Modernity* (Baton Rouge, LA: L.S.U. Press, 1989), pp. 92–7. Also see Frances Yates, 'Francis Bacon, 'Under the Shadow of Jehova's Wings', in *The Rosicrucian Enlightenment* (London, Routledge and Kegan Paul, 1972). Paolo Rossi, *Francis Bacon: From Magic to Science* (Chicago: University of Chicago, 1968).
 11. On Hobbes and the Tew circle, see the illuminating work by Richard Tuck, *Natural Rights Theories* (Cambridge: Cambridge University Press, 1979).
 12. See the fascinating article by H.R. Trevor-Roper, 'Three Foreigners and the Philosophy of the English Revolution', *Encounter*, 14 (Feb. 1960), pp. 3–20, esp. p. 15, and on Comenius and his neo-Rosicrucian group, Yates, op. cit., note 1, pp. 156–92. Also see the illuminating discussion in William Letwin, *The Origins of Scientific Economics* (Garden City, NY: Doubleday, 1965), pp. 125–6, 134–5.
 13. In Petty's *The Advice of W.P. to Mr. Samuel Hartlib, for the advancement of some particular parts of learning...* See Letwin, op. cit., note 12, pp. 136–7.
 14. The exception was poor Hartlib, who lost his Cromwellian pension and died in 1670 after fleeing his creditors to Holland.
 15. The Royal Society was headed by Dr John Wilkins, head of Oxford University and later bishop of Chester. In addition to being Cromwell's brother-in-law, Wilkins, author of the book *Mathematical Magick* (1648), was a leading adept of the hermetic and magic-steeped Rosicrucian movement as well as of the leading Elizabethan *magus*, Dr John Dee and his hermetic alchemist disciple, Robert Fludd. See Yates, op. cit., note 10, pp. 182ff.
 16. Hutchison, op. cit., note 9, p. 29.
 17. Letwin, op. cit., note 12, p. 131.
 18. Letwin, op. cit., note 12, p. 140.
 19. Letwin, op. cit., note 12, pp. 144–5.
 20. Hutchison, op. cit., note 9, p. 39.
 21. Hutchison, op. cit., note 9, pp. 38–9. Also see in particular Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism: A Study of the Labor Theories of the Later English Mercantilists* (1920, NY: Kelley & Millman, 1957), pp. 128, 134.
 22. Pitirim A. Sorokin, *Fads and Foibles in Modern Sociology* (Chicago: Henry Regnery, 1956), p. 103, p. 110 and passim.
 23. Letwin, op. cit., note 12, pp. 106–7.
 24. Letwin, op. cit., note 12, pp. 149–51. On the libertarian impact of Swift's writings, see Caroline Robbins, *The Eighteenth-Century Commonwealthman* (Cambridge, Mass.: Harvard University Press, 1959), pp. 152–3; and James A. Preu, *The Dean and the Anarchist* (Tallahassee, FL: Florida State University Press, 1959). On the *Modest Proposal*, see Louis A. Landa, 'A Modest Proposal and Populousness', in *Essays in Eighteenth-Century English Literature* (1942, Princeton, NJ: Princeton University Press, 1980), pp. 39–48.

11 Mercantilism and freedom in England from the Civil War to 1750

11.1	The Pettyites: Davenant, King, and ‘the law of demand’	309
11.2	Liberty and property: the Levellers and Locke	312
11.3	Child, Locke, the rate of interest, and the coinage	317
11.4	The North brothers, deductions from axioms, and Tory <i>laissez-faire</i>	323
11.5	The inflationists	327
11.6	The hard-money response	332
11.7	<i>Laissez-faire</i> by mid-century: Tucker and Townshend	335
11.8	Notes	338

11.1 The Pettyites: Davenant, King and ‘the law of demand’

Jonathan Swift's *A Modest Proposal* should have provided the last word on political arithmetic, except that an epilogue has been furnished by the quantophrenic and metromanic folly of modern historians of economic thought, who have resurrected a Baconian or Pettyite ‘quantitative law’ expounded in the 1690s as if it were a veritable marvel of anticipation of modern econometrics.

Charles Davenant (1656–1714), son of a poet laureate and dramatist, was an attorney who spent his life scrambling for the main chance. To supplement his meagre income from law practice, he managed to obtain the appointment of commissioner of excise in 1678. By the mid-1680s, Davenant was making a handsome salary as commissioner and was also an MP. His comfortable and placid existence, however, was grievously disrupted by the Revolution of 1688, which lost Davenant his high post; moreover, substantial loans of his to the Crown of Charles II remained unrepaid.

A Tory confronting a Whig regime, Davenant now began to turn his attention to writing economic tracts on the problems of the day. All his publications centred around special pleading for his own political interests, a quest for subsidy or for resuming his high post in the government. Davenant's first tract, *An Essay upon the Ways and Means of supplying the War* was published in 1694, after five years of war with the Dutch, and after the same number of years of Davenant's trying unsuccessfully to get back his old post as commissioner of excise. The burden of the tract was denouncing the government for financing any part of the war by public debt, and urging instead that it rely almost totally on the excise, coincidentally Davenant's own area of expertise. After again denouncing the government that stubbornly refused to see his own virtues, Davenant turned to another area of self-interest.

Davenant has been termed inconsistent and confused on the free trade issue, sometimes appearing to favour free trade and other timesavouring protection. But these inconsistencies magically clear up if we realize that Davenant, in an attempt to get on the East India Company bandwagon, revived the by now grand seventeenth century tradition of arguing about the rights and wrongs of the East India trade. Davenant unsurprisingly took the standard Munian line of supporting an overall, or general, ‘favourable’ balance of trade, but pointed out the absurdity of trying to balance trade with each country, and defending the East India Company's deficit with the Far East. Davenant's pro-East India trade position was expressed in his 1696 tract, *Essay on the East India Trade*. The following year, Davenant urged the East India Company to send him to India; failing that, Davenant continued to curry favour with the company by publishing two *Discourses on the Publick Revenues and on the Trade of England* (1697–98), and another *Essay*

upon...the Balance of Trade in 1699, continuing his Munian foreign trade analysis.

By 1698, indeed Charles Davenant's fortune had changed; he was now a Tory MP and the East India Company agreed to send him to India. From then on, Davenant's writings were mainly strictly political, and in 1703 he finally achieved his objective of regaining a high government post, inspector-general of exports and imports. Davenant was in and out of trouble, however, his writings changing radically from 'moderation' to 'extremism' and back with each change of the political winds, or from Tory to Whig, until he ended his career generally scorned and trusted by none, in financial difficulties and living on the largesse of his old friend James Brydges, the Duke of Chandos. All in all, his biographer Professor Waddell does not seem too severe when he concludes that:

Davenant's career was thus not much of a success. He lacked the force of personality and obvious integrity necessary for the role...he...tried to play – that of a partisan pamphleteer who was yet a man of independent judgment and not a mere hack. He was on the losing side in nearly every controversy he joined.... He proved incapable of managing his own affairs and became a burden on his friends.... He was neither an original thinker, nor a practical man of affairs, but merely a competent publicist. The relationship between his writings and his personal circumstances suggests that his enemies had some excuse for regarding him as a purely self-seeking and mercenary time-server.¹

It is intriguing that Davenant, as a devoted follower of political arithmetic, would try to justify his self-seeking wavering by employing political arithmetic as a kind of cost-benefit analysis, in which the statesman, possessing 'a computing head', arrives at a balance of advantages, 'by summing up the difficulties on either side, and by computing upon the whole. In that way, he shall be able to form a sound judgment and to give right advice; and this is what we mean by Political Arithmetic'.²

Davenant would be a forgotten and no-account minor mercantilist writer, except for the extravagant praise lavished by modern quantophrenic historians of thought upon a previously unknown and alleged 'economic law' discovered by Davenant and by his quiet political arithmetical and political ally, the accountant Gregory King (1648–1712). This 'law of demand' is now hailed as the origin of econometrics, predating Bernoulli's alleged law of the diminishing utility of money of 1738 (see below). Embarrassing adulation has been heaped upon this absurd 'law' by modern economists zealously trying to find prefigurations of econometric 'science'. There has been much confusion on the precise credit for authorship of this alleged law, how attribution should be shared between King and Davenant, and even, solemnly, whether it should be called the 'Davenant-King' or the 'King-Davenant' law,

as valueless a piece of scholarly disputation as has appeared in many a moon. The law first appeared in Davenant's *Essay upon...the Balance of Trade* of 1699, citing an unpublished manuscript by King, the *Natural and Political Observations...written in 1696*.³ The 'law' states baldly, and without evidence, that the following will happen when the supply of the harvest of corn (wheat) is reduced below the usual amount: not simply, as has been known since the scholastics, that a lower supply of a product will tend to raise the price, but that the effect will be a definite quantitative relation, as follows:

Reduction of corn harvest	Increase in corn price
1/10	3/10
2/10	8/10
3/10	16/10
4/10	28/10
5/10	45/10

Modern economists have generally, *pace* Alfred Marshall, grievously misinterpreted this quantitative statement as a 'demand schedule', or tabular basis for a demand curve, and as a pioneering attempt to 'measure' the elasticity of such a curve. But the grave fallacy here is that this quantitative relation has nothing whatever to do with the consumer demand schedule that plays such a deservedly important part in modern economics. The genuine demand schedule is hypothetical, subjective, and instantaneous: all it says is that at a given moment, at price x , consumers would purchase a certain quantity y of the product. And the point of this schedule is precisely that we don't know and *can't* know this subjective relation, that there is no way to find out, and that the only point of the demand schedule is to show that, at any given time, the demand curve is 'falling', that is, as the price falls the quantity demanded increases, and vice versa. Properly, the law is qualitative and never quantitative, and there is never any way to establish such quantities.

What the pro-Davenant 'law' economists fail to realize, then, is that even if this Davenant table were based on historical fact, all it would establish is *not* a demand schedule or curve, but only the factual 'equilibrium' points each year, that is, each year's price and quantity produced. These points have nothing to do with any genuine demand schedule or 'law of demand', which is strictly qualitative and subjective to the minds of consumers.

Second, even if these historical data were correct, they would *only* establish a relation for the particular years and particular markets in question; they would in no sense establish any sort of 'law' for the same continuing quantitative relationship between supply and price in any other year or place.

But finally, there is no evidence that this table is based on any factual evidence *at all!* Thus, despite the solemn repetition of this table from the late nineteenth century onwards, and despite its alleged pioneering of econometric science, this Davenant–King table has no value whatever either as factual data, as statistics, as econometrics, or as economic theory. It is testimony only to the quantophrenic folly of modern economics.⁴

And yet economists, striving desperately to maintain that the Davenant–King ‘law’ *must* have clothes, have taken one of two contradictory directions in presuming the importance of the law, and sometimes have taken both stances at once. Thus Jevons (1871), without any evidence at all, simply assumed that the Davenant–King table was ‘accurate’ and pronounced it a scandal that economists and statisticians hadn’t yet matched these numbers in accuracy. On the other hand, William Whewell, an odd combination of expert Cambridge mathematician and arch-empiricist in the philosophy of science and economics had, two decades earlier (1850), sensed that the Davenant table was really the mere working out of a mathematical formula, and yet he still assumed that it must have been based on empirical observations. Similarly, in his recent careful study, Professor Creedy has convincingly shown that the King–Davenant numbers were the working out of the mathematical formula of ‘factorial expansion of a polynomial’, a method first discovered by the English mathematician James Gregory and then used by Isaac Newton for his great work in physics. But, after usefully pointing out how King could have rapidly discovered and used the new Gregory–Newton method Creedy, instead of concluding sensibly that the statistical or econometric soundness of the Davenant–King ‘law’ lies in ruins, blithely proceeds to save the theory by simply asserting that it ‘was quite possible’ that the polynomial formula ‘was fitted to actual observations’. ‘Quite possible’, but there is no evidence whatever, and, since this ‘law’ was never replicated, and was even changed by King, it is far more likely that, enchanted with the new maths as Creedy himself concedes, ‘hypothetical values of coefficients were used with an arbitrarily chosen polynomial in order to generate the basic “data”’; in other words, that King and/or Davenant made it all up, as part of their ‘new science’.⁵

11.2 Liberty and property: the Levellers and Locke

The turmoil of the English Civil War in the 1640s and 1650s generated political and institutional upheaval, and stimulated radical thinking about politics. Since the Civil War was fought over religion and politics, much of the new thinking was grounded in, or inspired by, religious principles and visions. Thus, as we shall see further in the chapter on ‘The roots of Marxism’ (Chapter 9 in Volume II), millennial communist sects popped up again, for the first time since the Anabaptist frenzy of the early sixteenth century in

Germany and Holland. Particularly prominent in the frenzy of the Civil War Left were the Diggers, the Ranters, and the Fifth Monarchists.⁶

At the opposite pole of new thought generated by the Civil War was the prominence, in the midst of the forces of the mainstream republican Left, of the world's first self-consciously libertarian mass movement: the Levellers. In a series of notable debates within the Republican Army – notably between the Cromwellians and the Levellers – the Levellers, led by John Lilburne, Richard Overton and William Walwyn, worked out a remarkably consistent libertarian doctrine, upholding the rights of 'self-ownership', private property, religious freedom for the individual, and minimal government interference in society. The rights of each individual to his person and property, furthermore, were 'natural', that is, they were derived from the nature of man and the universe, and therefore were not dependent on, nor could they be abrogated by, government. And while the economy was scarcely a primary focus of the Levellers, their adherence to a free market economy was a simple derivation from their stress on liberty and the rights of private property.

For a while it seemed that the Levellers would triumph in the Civil War, but Cromwell decided to resolve the army debates by the use of force, and he established his coercive dictatorship and radical puritan theocracy by placing the Leveller leadership in jail. The victory of Cromwell and his Puritans over the Levellers proved fateful for the course of English history. For it meant that 'republicanism', in the eyes of the English, would be forever associated with the bloody rule of Cromwell's saints, the reign of religious fanaticism, and the sacking of the great English cathedrals. Hence the death of Cromwell led swiftly to the restoration of the Stuarts, and the permanent discrediting of the republican cause. It is likely, on the contrary, that a Leveller rule of freedom, religious toleration and minimal government might have proved roughly acceptable to the English people, and might have ensured a far more libertarian English polity than actually evolved after the Restoration and the Whig Settlement.⁷

Historiographical discussion of the great libertarian political theorist John Locke (1632–1704), who emerged to prominence after the Civil War, and particularly in the 1680s, has been mired in a welter of conflicting interpretations. Was Locke a radically individualistic political thinker or a conservative Protestant scholastic? An individualist or a majoritarian? A pure philosopher or a revolutionary intriguer? A radical harbinger of modernity or one who harked back to the medieval or to classical virtue?

Most of these interpretations are, oddly enough, not really contradictory. By this point, we should realize that the scholastics may have dominated medieval and post-medieval traditions, but that despite this fact, they were pioneers and elaborators of the natural law and natural rights traditions. The

pitting of ‘tradition’ vs ‘modernity’ is largely an artificial antithesis. ‘Modernds’ like Locke or perhaps even Hobbes may have been individualists and ‘right-thinkers’, but they were also steeped in scholasticism and natural law. Locke may have been and indeed was an ardent Protestant, but he was also a Protestant scholastic, heavily influenced by the founder of Protestant scholasticism, the Dutchman Hugo Grotius, who in turn was heavily influenced by the late Spanish Catholic scholastics. As we have already seen, such great late sixteenth century Spanish Jesuit scholastics as Suarez and Mariana were contractual natural rights thinkers, with Mariana being positively ‘pre-Lockean’ in his insistence on the right of the people to resume the rights of sovereignty they had previously delegated to the king. While Locke developed libertarian natural rights thought more fully than his predecessors, it was still squarely embedded in the scholastic natural law tradition.⁸

Neither are John Pocock and his followers convincing in trying to posit an artificial distinction and clash between the libertarian concerns of Locke or his later followers on the one hand, and devotion to ‘classical virtue’ on the other. In this view eighteenth century Lockean libertarians from ‘Cato’ to Jefferson become magically transmuted from radical individualists and free marketeers into nostalgic reactionaries harking back to ancient or renaissance ‘classical virtue’. Followers of such virtue somehow become old-fashioned communitarians rather than modern individualists. And yet, why can’t libertarians and opposers of government intervention *also* oppose government ‘corruption’ and extravagance? Indeed, the two generally go together. As soon as we realize that, generally, and certainly until Bentham, devotees of liberty, property and free markets have generally been moralists as well as adherents of a free market economy, the Pocockian antitheses begin to fall apart. To seventeenth and eighteenth century libertarians, indeed to libertarians in most times and places, attacks on government intervention and on government moral corruption go happily hand in hand.⁹

There are still anomalies in John Locke’s career and thought, but they can be cleared up by the explicit discussion and implications of the impressive work by Richard Ashcraft.¹⁰ Essentially Ashcraft demonstrates that Locke’s career can be divided into two parts. Locke’s father, a country lawyer and son of minor puritan country gentry, fought in Cromwell’s army and was able to use the political pull of his mentor Colonel Alexander Popham, MP, to get John into the prominent Westminster School. At Westminster, and then at Christ Church, Oxford, Locke obtained a BA and then an MA in 1658, then became a lecturer at the college in Greek and rhetoric in 1662, and became a medical student and then a physician in order to stay at Oxford without having to take holy orders.

Despite or perhaps because of Locke’s puritan background and patronage, he clearly came under the influence of the Baconian scientists at Oxford,

notably including Robert Boyle, and hence he tended to adopt the ‘scientific’, empiricist, low-key absolutist viewpoint of his friends and mentors. While at Oxford, Locke and his colleagues enthusiastically welcomed the restoration of Charles II, and indeed the king himself ordered Oxford University to keep Locke as medical student without having to take holy orders. While at Oxford, Locke adopted the empiricist methodology and sensate philosophy of the Baconians, leading to his later *Essay Concerning Human Understanding*. Moreover, in 1661, Locke, this later champion of religious toleration, wrote two tracts denouncing religious tolerance, and favouring the absolute state enforcing religious orthodoxy. In 1668, Locke was elected to the Royal Society, joining his fellow Baconian scientists.

Something happened to John Locke in the year 1666, however, when he became a physician and in the following year when he became personal secretary, advisor, writer, theoretician, and close friend of the great Lord Ashley (Anthony Ashley Cooper), who in 1672 was named the first Earl Shaftesbury. It was due to Shaftesbury that Locke, from then on, was to plunge into political and economic philosophy, and into public service as well as revolutionary intrigue. Locke adopted from Shaftesbury the entire classical liberal Whig outlook, and it was Shaftesbury who converted Locke into a firm and lifelong champion of religious toleration and into a libertarian exponent of self-ownership, property rights, and a free market economy. It was Shaftesbury who made Locke into a libertarian and who stimulated the development of Locke’s libertarian system.

John Locke, in short, quickly became a Shaftesburyite, and thereby a classical liberal and libertarian. All his life and even after Shaftesbury’s death in 1683, Locke only had words of adulation for his friend and mentor. Locke’s epitaph for Shaftesbury declared that the latter was ‘a vigorous and indefatigable champion of civil and ecclesiastical liberty’. The editor of the definitive edition of Locke’s *Two Treatises of Government* justly writes that ‘Without Shaftesbury, Locke would not have been Locke at all’. This truth has been hidden all too often by historians who have had an absurdly monastic horror of how political theory and philosophy often develop: in the heat of political and ideological battle. Instead, many felt they had to hide this relationship in order to construct an idealized image of Locke the pure and detached philosopher, separate from the grubby and mundane political concerns of the real world.¹¹

Professor Ashcraft also shows how Locke and Shaftesbury began to build up, even consciously, a neo-Leveller movement, elaborating doctrines very similar to those of the Levellers. Locke’s entire structure of thought in his *Two Treatises of Government*, written in 1681–82 as a schema for justifying the forthcoming Whig revolution against the Stuarts, was an elaboration and creative development of Leveller doctrine: the beginnings in self-ownership

or self-propriety, the deduced right to property and free exchange, the justification of government as a device to protect such rights, and the right of overturning a government that violates, or becomes destructive of, those ends. One of the former Leveller leaders, Major John Wildman, was even close to the Locke-Shaftesbury set during the 1680s.

The deep affinity between Locke and scholastic thought has been obscured by the undeniable fact that to Locke, Shaftesbury and the Whigs, the real enemy of civil and religious liberty, the great advocate of monarchical absolutism, during the late seventeenth century and into the eighteenth century, was the Catholic Church. For by the mid-seventeenth century, Catholicism, or ‘popery’, was identified not with the natural rights and the checks on royal despotism as of yore, but with the absolutism of Louis XIV of France, the leading absolutist state in Europe, and earlier with absolutist Spain. For the Reformation, after a century, had succeeded in taking the wraps off monarchical tyranny in the Catholic as well as Protestant countries. Ever since the turn of the seventeenth century, indeed, the Catholic Church in France, Jansenist and royalist in spirit, had been more a creature of royal absolutism than a check on its excesses. In fact, by the seventeenth century, the case could be made that the most prosperous country in Europe which was also the freest – in economics, in civil liberties, in a decentralized polity and in abstinence from imperial adventures – was Protestant Holland.¹²

Thus it was easy for the English Whigs and classical liberals to identify the absolutism, the arbitrary taxes, the controls, and the incessant wars of the Stuarts with the Catholicism towards which the Stuarts were not so secretly moving, as well as with the spectre of Louis XIV, towards whom the Stuarts were moving as well. As a result, the English and American colonial tradition, even the libertarian tradition, became imbued with a fanatical anti-Catholicism; the idea of including evil Catholics in the rubric of religious toleration was rarely entertained.

One common confusion about Locke’s systematic theory of property needs to be cleared up: Locke’s theory of labour. Locke grounded his theory of natural property rights in each individual’s right of self-ownership, of a ‘propriety’ in his own person. What then establishes anyone’s original right of material, or landed or natural resource property, apart from his own person? In Locke’s brilliant and very sensible theory, property is brought out of the commons, or out of non-property, into one’s private ownership, in the same way that a man brings non-used property into use: that is, by ‘mixing his self-owned labour’, his personal energy, with a previously unused and unowned natural resource, thereby bringing that resource into productive use and hence into his private property. Private property of a material resource is established by first use. These two axioms: self-ownership of each person, and the first use, or ‘homesteading’, of natural resources, establishes the

'naturalness', the morality, and the property rights underlying the entire free market economy. For if a man justly owns material property he has settled in and worked on, he has the deduced right to exchange those property titles for the property someone else has settled in and worked on with *his* labour. For if someone owns property, he has a right to exchange it for someone else's property, or to give that property away to a willing recipient. This chain of deduction establishes the right of free exchange and free contract, and the right of bequest, and hence the entire property rights structure of the market economy.

Many historians, especially Marxists, have taken glee in claiming that John Locke is thereby the founder of the Marxian 'labour theory of value' (which Marx in turn acquired from Smith and especially Ricardo). But Locke's is a labour theory of *property*, that is, how material property justly comes into ownership by means of labour exertion or 'mixing'. This theory has absolutely nothing to do with what determines the *value* or price of goods or services on the market, and therefore has nothing to do with the later 'labour theory of value'.

11.3 Child, Locke, the rate of interest, and the coinage

One of the most prominent economic writers of the latter half of the seventeenth century in England was the eminent Sir Josiah Child (1630–99). He was a wealthy merchant who was usually affiliated with the powerful East India Company and indeed rose to be its governor, and the central concern in his economic writings was the by now traditional apologetics for the East India interests. That is: no one need worry about balance of trade from one specific country to another; a broader look at a nation's balance should be taken; and therefore the East India Company's notorious gold and silver exports to, or deficits with, the Far East are justified if we consider the company's re-exports to, and hence surpluses with, other countries. Because of this broader emphasis on the overall balance of trade, later economists often associated Child with a free trade, *laissez-faire* approach.

Unwary historians were also entrapped by many of Child's fulminations against monopolies and monopolistic privileges granted by the state to cities, guilds or trading companies. Again, they assume that Child was an advocate of *laissez-faire*; what they overlooked was that Child was always careful to defend, as a special exception, the monopoly granted to the East India Company.¹³

Child never attained the genuine *laissez-faire* view that even the overall balance of trade was unimportant; on the contrary, he insisted that gold and silver bullion could only be exported freely if the overall effect of such export would be a net import of specie, in other words, an overall favourable balance of trade.¹⁴

Unfortunately, Child's work was interpreted as solid *laissez-faire* doctrine in the eighteenth century, and particularly by the mid-eighteenth century devotee of *laissez-faire*, Viscount de Gournay, who translated Child into French as part of his programme of spreading *laissez-faire* doctrine in France. As a result, Child's work achieved undeserving fame in the following century.

One of Josiah Child's main deviations from free market and *laissez-faire* doctrine was to agitate for one of the favourite programmes of the mercantilists: to push the legal maximum rate of interest ever lower. Formerly discredited 'usury laws' were making a comeback on faulty economic rather than natural law or theological grounds.

From the early decades of the seventeenth century, English mercantilists were bitter at the superior prosperity and economic growth enjoyed by the Dutch. Observing that the rate of interest was lower in Holland than in England, they chose to leap to the causal analysis that the *cause* of the superior Dutch prosperity was Holland's low rate of interest, and that therefore it was the task of the English government to force the maximum rate of interest down until the interest rate was lower than in Holland. The first prominent mercantilist tract calling for lowering the interest rate was that of the country gentleman Sir Thomas Culpeper, in his brief *Tract Against the High Rate of Usury* (1621). Culpeper declared that Dutch prosperity was caused by their low rate of interest; that the English high interest rate crippled trade; and therefore that the government should force maximum interest rates down to outcompete the Dutch. Culpeper's pamphlet played a role in Parliament's lowering the maximum usury rate from 10 to 8 per cent. Culpeper's tract was reprinted several times, and Parliament duly pushed the maximum rate in later years down to 8 and then 6 per cent.

Each time, however, resistance increased, especially as government intervention forced down the maximum rate repeatedly. Finally, in 1668, the mercantilists tried for their most important conquest: a lowering of the maximum interest rate from 6 to 4 per cent, which would presumably result in rates below the Dutch. As a propaganda accompaniment to this bill, Culpeper's son, Sir Thomas Culpeper, in 1668 reprinted his father's tract, along with one of his own, whose title says it all: *A Discourse showing the many Advantages which will accrue to this Kingdom by the Abatement of Usury together with the Absolute Necessity of Reducing Interest of Money to the lowest Rate it bears in other Countreys.*

Culpeper Senior's pamphlet was published along with the influential contribution by the already eminent merchant and man of affairs, Josiah Child, in his first pamphlet, *Brief Observations concerning trade, and interest of money*. Child was a prominent member of the king's council of trade, established in 1668 to advise him on economic matters. Child treated lowering the maxi-

mum rate of interest to 4 per cent as virtually a panacea for all economic ills. A lower rate of interest would vivify trade, and raise the price of land; it would even cure drunkenness.

Josiah Child's pamphlet and his testimony before Parliament were centrepieces of the debate swirling around the proposal. Child's critics pointed out effectively that low interest in a country is the *effect* of plentiful savings and of prosperity, and not their cause. Thus, Edward Waller, during the House of Commons debate, pointed out that 'it is with money as it is with other commodities, when they are most plentiful then they are cheapest, so make money [savings] plentiful and the interest will be low'. Colonel Silius Titus pressed on to demonstrate that, since low interest is the consequence and not the cause of wealth, any maximum usury law would be counterproductive: for by outlawing currently legal loans, 'its effect would be to make usurers call in their loans. Traders would be ruined, and mortgages foreclosed; gentlemen who needed to borrow would be forced to break the law....'¹⁵

Child feebly replied to his critics that usurers would never not lend their money, that they were forced to take the legal maximum or lump it. On the idea that low interest was an effect not a cause, Child merely recited the previous times that English government had forced interest lower, from 10 to 8 to 6 per cent. Why not then a step further? Child, of course, did not deign to take the scenario further and ask why the state did not have the power to force the interest rate down to zero.

Child's critics raised another telling point: how is it that the Dutch were able to get their interest rates low purely by economic means; how come the Dutch did not *need* a usury statute? Child's absurd rejoinder was that the Dutch *would have* pushed their interest rate down by statute if their market rate had not fallen low by itself.

It should be noted that this low interest deviation from *laissez-faire* accorded with Josiah Child's personal economic interest. As a leading East India merchant, Child and his colleagues were great borrowers not lenders, and so were interested in cheap credit. Even more revealing was Child's reply to the charge of the author of *Interest of Money Mistaken* that Child was trying to 'engross all trade into the hands of a few rich merchants who have money enough of their own to trade with, to the excluding of all young men that want it'. Child replied to that shrewd thrust that, on the contrary, his East India Company was not in need of a low rate since it could borrow as much money as it pleased at 4 per cent. But that of course is precisely the point. Sir Josiah Child and his ilk were eager to push down the rate of interest below the free market level in order to create a shortage of credit, and thereby to ration credit to the prime borrowers – to large firms who could afford to pay 4 per cent or less and *away* from more speculative borrowers. It was precisely because Child knew full well that a forced lowering of interest rates would

indeed ‘engross all trade into the hands of a few rich merchants’ that Child and his colleagues were so eager to put this mercantilist measure into effect.¹⁶

When the House of Lords’ committee held hearings on the interest-lowering bill during 1668–69, it decided to hold testimony from members of the king’s council of trade, of whom Josiah Child was a central figure. But another important figure was a very different member of the council of trade, and also a member of the Lords’ committee, the great Lord Ashley, John Locke’s new and powerful patron. As a classical liberal, Ashley opposed the bill, and at his behest, Locke wrote his first work on economic matters, the influential though as yet unpublished manuscript, ‘Some of the Consequences that are like to follow upon Lessening of Interest to Four Percent’ (1668). Locke made clear in this early work his profound insight, as well as thoroughgoing commitment, to a free market economy, as well as to his later structure of property rights theory.

Locke displayed straightforwardly his skill at polemics; the essay was basically a critique of Child’s influential work. First, Locke cut through the holistic rhetoric; of course, he pointed out, the borrowing merchant will be happy to pay only 4 per cent interest; but this gain to the borrower is not a gain for the national or general good, since the lender loses by the same amount. Not only would a forced lowering of interest be at best redistributive, but, Locke added, the measure would restrict the supply of savings and credit, thereby making the economy worse off. It would be better, he concluded, if the legal rate of interest were set at the ‘natural rate’, that is the free market rate ‘which the present scarcity [of funds] makes it naturally at...’. In short, the best interest rate is the free market, or the ‘natural’ interest rate, set by the workings of free man under natural law, i.e. the rate determined by the supply of and demand for money loans at any given time.

Whether or not Locke or Ashley proved decisive, the House of Lords finally killed the 4 per cent bill in 1669. Three years later, Ashley became chancellor of the Exchequer as Earl Shaftesbury, and the following year Locke became secretary to the council for trade and plantations, which replaced the old council of trade. At the end of 1674, however, Shaftesbury was fired, the council of trade and plantations was disbanded, and Locke followed his mentor into political opposition, revolutionary intrigues, and exile in Holland.

John Locke finally returned to London with the overthrow of the Stuarts and the Revolution of 1688, returning in triumph on the same ship as Queen Mary. Locke returned to England to find the old East India crowd up to their old tricks. England was in dire financial straits, Charles II having ruined public credit with his Stop of the Exchequer, and the East India people had once again introduced a bill in 1690 for the compulsory lowering of interest to 4 per cent. At the same time, Sir Josiah Child was brought back to expand