Money, Money, Money: The Seventeenth-Century Effort to Get an Intellectual Grasp on this Slippery Medium of Trade

The seventeenth-century effort to get an intellectual grasp on this slippery medium of trade

The early colonization of British North America coincided with England's break-away century of economic development. Annual harvests had freed the English from famines, and by the 1690s, a market that encompassed the whole British Empire had taken shape. An ever-expanding network of trade tied the English economy to the staple colonies of the New World, the subcontinent of India, and the slave trade along the West Coast of Africa.

The market itself was a dislocating force not unlike an invading army. People were torn from customary relations and ways of working. Alien values intruded upon well-established mores. Customary explanations of behavior, human purpose, and social organization were challenged. Employment followed the new ups and downs of trade cycles; gluts produced depressions. These developments sharpened people's perceptions of their pecuniary interests and at the same time encouraged close observations of the expanding system of private exchange.

But of all the novel elements in the new world of enterprise and exchange, none caused more headaches than money. A lot of diverse meanings crowded into that word. Money had always been a store of wealth, but it became the lubricator of a new economic order. It was now possible to buy and sell over longer distances and to preserve value farther into the future than had ever before been the case. Money had also become cash—the means of instant gratification. And money was—well—money, that is gold and silver minted to use as legal tender with the imprimatur of a monarch's guarantee of amount and purity.

In England the mint ratio, the face value or denomination put on a certain quantity of silver, was too low. English currency, that is, was undervalued by the Crown. As a consequence, opportunistic Englishmen began melting down silver coin and exporting it to Europe as bullion where it could be sold for profit. The trade was illegal, but it was widely recognized as a common, if felonious, practice that created a shortage of coin. The enhanced value of silver abroad promoted a further fraud. Enterprising Englishmen and women discovered that they could clip off the edges of their hammered silver shillings and melt down the clippings for profitable export as silver.

All this illegal silver trade added to an economic problem England had been struggling with for a century or more: silver coin was in short supply relative to England's needs for currency. By the last decade of the seventeenth century, the situation was becoming dire. The outbreak of war with France in 1689 had forced the government to send regular shipments of money to the continent to pay soldiers' wages and to supply England's allies abroad. As the shortage became more severe, attention focused upon the money mechanism itself.

How was this slippery medium of exchange to be corralled?

In 1695, when the king's ministers finally addressed themselves to the twin problems of the shortage of coin and the battered condition of silver money, the situation was acute. The Privy Council sought the advice of Treasury Secretary William Lowndes who composed a report that was a model of monetary analysis. As long as bullion was worth more by weight than coin, Lowndes explained, silver in bulk would never be brought to the mint for coining. Rather, the opposite would take place: coin—already in short supply—would be melted down and shipped out as bullion, illegalities notwithstanding.

After detailing why the divergence of the prices of bullion and coin promoted the melting down of silver coins, Lowndes recommended that the clipped coin be called in and reminted with a devaluation of 25 percent (that is, with 25 percent less silver than the standard five shillings per ounce of silver). Such a recoinage would have mirrored the actual value of most shillings in circulation. And a new milling process, which produced sharp edges, would prevent the clipping that had been so easy with hammered coins.

The governing party was not altogether happy with Lowndes's recommendation for a devaluation of the shilling. Above all, they feared it would lead to inflation or a rise in prices commensurate with the expansion of the money supply. In search of alternate solutions, they sought advice from the political philosopher John Locke. Locke responded with a refutation of Lowndes that followed the argument of his earlier treatise against statutory limits on usury: legislation cannot ultimately influence the value of loan rates or monetary exchange because these are determined by the market. The market, in turn, is governed by the interests of individuals. But Locke went further and claimed that silver had a natural value, which legislators and kings were unable to change, just as they were unable to set interest rates by statute.

As anyone familiar with his *Second Treatise of Government* will remember, Locke had a great deal at stake in this debate, for he had written that the use of gold and silver in exchange had arisen because in the state of nature, people had given an imaginary value to these precious metals. This consensual, imaginary value enabled them to get around the "perishable limitation" of foodstuffs, the original media of barter economies. Money also allowed some people to accumulate wealth, thus accounting for the apparent material inequalities in a world given by God to all his children.

As Locke explained, through money, people changed their labor into property and freed themselves from that hand-to-mouth existence that characterized societies without a nonperishable means to store wealth. And all this took place in the state of nature, a strictly conceptual notion Locke used to explain why governments came into existence. Locke argued in the *Second Treatise*that the essential factors for commerce existed in the state of nature. Humans created government to protect their natural rights to life, liberty, and property. Government couldn't create property; it only protected it.

There was only one source of value in coin, Locke was saying, and that was its silver content. Thus any change of denomination would be fruitless, and its perpetration by government, a fraud. Shillings were silver in another guise, and that guise was totally irrelevant to the actual value of the coin. This being the case, there was no possible way to detach value from silver content, as Lowndes's plan had presumed.

Over three hundred pamphleteers, including Isaac Newton and Daniel DeFoe, entered the recoinage debate that ensued. Sharply divided on whether or not the clipped coins should be reminted at the old standard or the silver content lowered to match the devaluation by chisel, the antagonists carried the conceptualization of money to a new level of sophistication.

Attention concentrated on the definition of money. Had Locke based his recommendation upon preferences rather than eternal truths, the dispute would have been less portentous. Locke's opponents—for the most part merchants and entrepreneurs—started with the evidence that coining added value. It turned silver into legal tender, which created its own demand in the marketplace.

Practical rather than philosophical, these writers broke free of Locke's dogmatic position. They accepted the definition of money as a medium of exchange, separable from precious metals. Reversing Locke's cause-and-effect explanation for the rise of money, they said that the utility of having a medium of exchange prompted the use of gold and silver. Money was valued because it was useful, not because humans in the state of nature had given it an imaginary value.

One writer, recognizing Locke's effort to make the value of silver coin fixed in nature, got to the heart of the matter. Locke, he wrote dismissively, pretended "that the Government had no more power in Politicks than they have in Naturals [or the natural world]."

Locke had the worst argument in this controversy but the greatest influence. When Parliament acted in 1696, it determined that the clipped coins would be brought in and reminted at the old standard. Lowndes had argued that changing the mint ratio would be the least disruptive policy since the denomination he suggested reflected the average silver content of the coins passing at face value at the time. Landlords and creditors would receive less value but no less than in the present currency. The country's leaders, however, preferred deflation to inflation and voted for recoinage at the old value, drastically reducing the shillings in circulation.

The folly and disaster predicted by Locke's critics was realized in full. The reminted silver did not provide England with a good currency; much of it was quickly melted down and sent abroad as bullion. The halving of the value of silver coin caused a drastic deflation. Prices fell, and landlords and creditors reaped the benefits that had been expected. The shortage of money pressed particularly hard on the poor who rioted in some towns. Even the government had difficulty paying its soldiers

The debate over recoinage had concentrated attention on the fundamental relationships in the economy. Ambitions, conflicting interests, and the direction of national economic policies swirled around questions of the extrinsic and intrinsic value of coins and the proper role of government in the economy.

To some, the fact that the clipped silver coins passed at face value even with half their silver clipped away suggested the possibility of using other things as money. A few pump primers had urged changes in the mint ratio to artificially stimulate the economy. "Money is but a medium of Commerce, a Security which we part with, to enjoy the like in value," an anonymous pamphleteer explained.

Writers had already begun to tout various schemes to increase currency through land banks. William Potter, whose 1650 pamphlet *The Key of Wealth* was also published in Boston, observed that “the effect of all Trading is but the parting with Commodities for such Money, Credit, or valuable Consideration, as procures other Commodities or Necessaries,” an observation that undermined the case for silver and gold’s uniqueness.

The recognition of the interchangeability of goods through money opened up the whole prospect of finding money substitutes to promote exchanges. Sellable goods began to look like alternatives to wealth in the well-being of an economy. One bank promoter asserted that “there is no doubt, that the Consumption of the People is not so much as the Product of their Labours, which is the real Riches and Strength of the Nation, and the more the merrier, like Bees in a Hive.”

For the American colonists who used bookkeeping bargaining to settle their accounts, money was mainly notional—a figure to put down to weigh against the stated value of another recorded item. Even the accounts of the great transatlantic merchants relied more on the settling of annual accounts than the regular exchange of actual money.

The media of exchange in the colonies was a true hodgepodge of coins issued by various monarchs, private bills of exchange, and bank notes. It was hard to be doctrinaire about their utility. While Locke’s ideas about the immutable value of gold and silver became orthodoxy in England, several colonies showed their freedom from such dogmatism by issuing paper money, suggesting an as yet unexplored resonance from the great English recoinage debate of the 1690s.

Of course money is no less a vexed subject now than it was in seventeenth-century England. Only in the twenty-first century we’re worried about who is stashing away our dollars or how nations control the exchange of their currency. Now, as then, the value and flow of money responds to vested interests, rumors, and irreducible psychological factors. John Locke’s belief in an immutable value of gold and silver seems quaint, but monetary theorists still make large claims about what they can achieve by manipulating that ever-fascinating chameleon called money.

Further Reading:

See Joyce Oldham Appleby, *Economic Thought and Ideology in Seventeenth-Century England* (Princeton, 1978); this article is drawn from chapter nine of this study. See also Peter Laslett, “John Locke, The Great Recoinage, and the Origins of the Board of Trade, 1665-98,” *William and Mary Quarterly,* 14 (1957), 378-85; C. R. Fay, “Locke versus Lowndes,” *Cambridge Historical Journal*, 4 (1939), 149-55; and Sir Albert Feaveryear, *The Pound Sterling*, Oxford, 1963.

This article originally appeared in issue 6.3 (April, 2006).

Joyce Appleby, UCLA professor emerita, has studied the political and social responses to economic changes in seventeenth- and eighteenth-century England and America. Her recent works include *Inheriting the Revolution: The First Generation of Americans* (Cambridge, Mass., 2000) and *A Restless Past: History and the American Public, a collection of essays and addresses* (Lanham, Md., 2005).