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The Controversy between J. Locke and W. Lowndes & Complementarity among Monies in Early Modern England
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Introduction: English Monetary Revolution in the late 17th Century

The value of Pound Sterling remained highly stable for more than 300 years from the 17th century until the suspension of gold convertibility in 1931. The mint price of standard silver coin, 5s. 2d. per ounce, was never raised after 1601, and the mint price of gold was kept at £ 3 17s. 10 1/2d. per ounce for two centuries from 1717 to 1931.

Regarding the extraordinarily continuous stability of Pound sterling the following monetary reforms during 1670s were very important: (1) the liberalization of import-export of foreign coins, gold and silver metal in 1663, (2) the issue of coins with the milled edge to prevent culling of coins & the issue of guinea coin for the promotion of African trades in 1663, (3) the assaying, melting, and minting coins without a fee whosoever native or foreigner in 1666. “Thus in few years which had elapsed since the Restoration three great steps had been taken towards the establishment of a completely decontrolled and automatic metallic standard.”

In addition to these reforms the establishment of Bank of England in 1694 and the
Great Recoinage at the old parity in 1696 based on J. Locke's ideas were epoch-making decisions for the establishment of gold standard system in England. “Largely as a result of Locke's influence, £3 17s. 10 1/2d. an ounce came to be regarded as a magic price for gold from which we ought never to stray and to which, if we did, we must always return. · · · The country gained far more than it lost from the consequences of Locke's reasoning.”[2]

The Great Recoinage in 1696 was the logical starting-point of long-term stability of Pound Sterling. And the same time it contributed to end the confusion over the complementarity and uniformity among monies, i.e. coins before the modern England with banknote issues by the Bank of England. Because it encouraged to exclude silver coins from the circulation, and they were put into the auxiliary position in the hiearchical structure of currencies.

On the other hand in the late 17th century gold & silver prices and foreign exchange rates of Pound Sterling were hardly related to the deteriorated rate of standard silver coin, and exchange values between both coins were always fluctuating. The foreign exchange rates had different quotations according to the payments with silver or gold.(cf., Table 1-4, Chart 1-3) “But if deteriorated coins retained a purchasing-power, at home and abroad, higher than was justified by the ratio of their actual silver content to its normal amount, is it still possible to claim that the currency remained on a standard comprising a determination weight of silver ? / This is the central issue of the entire controversy(between Locke and Lowndes). · · · It was not to be disposed of · · · by the assertion—that purchasing-power inhered in the silver content of coins.”[3]

We will find how merchants and traders created the devices to avoid the confusion of monetary account of coins, and how they made it end to unify the monies of account and currencies finally with the rise of the modern monetary system in England.

One of the most distinctive incident on English coins in 17th century was that the mint price of gold was raised intermittently from 1601 for more than half century, although the mint price of silver of 1 pound troy (11 oz 2 dwt fine) was never raised again after it had been raised to £ 3 2s. (5s. 2d. per ounce silver) in 1601. The mint price of gold rose up to £ 33 10s. in 1601, £ 37 4s. in 1604, £ 40 18s. in 1661, £ 44 10s. in 1663. The successive rise of the gold mint price made the gold-silver ratio up to 1:15.5 and made it favorable to gold, compared with 1:15 in Hamburg and Amsterdam. It had been to silver in England before 1660's.

On the other hand the guineas gold coins minted at 20 shillings in 1663 were never forced strangely enough to circulate at that price, and guinea coins were always accepted at the price exceeding 20s. by peoples and government officers, although the silver coins worn down badly and lighter by 10-40% than its standard weight were circulated at the face value. Therefore the silver coins with full weight and silver bullions were exported, and the mintage and circulation of silver coins could not but decrease drastically. (Cf., Table 5) "Nothing could have shown more clearly that the value of the unit of account did not depend primarily upon the quantity of silver in the coins. · · · The value of money fell very little."[5]

Under this situation it was finally decided to replace clipped silver coins with new coins minted at the old parity in January 1696. It was surely expected that new silver coins would disappear no sooner than they would introduced. "Because while the Guineas pass Current at a rate above the intrinsick Price, they will necessarily destroy and confound the New Silver Coins."[7] "We would be free either old clipped silver coins, or from new heavy silver coins in a year."[8]

Needless to say, Restorationists mainly composed of London Merchants like J. Houblon and G. Heathcote of Bank of England, who insisted the recoinage at the old parity, were with full knowledge with these facts, because "the Members of the Bank of England (would) be the persons most capable to regulate the current of Exchanges."[9]

What does it mean that Restorationists whose leader was J. Locke, gained a victory over Devaluationists? Restorationists insisted that value of money of account depended upon the intrinsic value of coin, that is to say, the metal content. What was the standard of prices in the situation where clipped silver coins circulated at the face value and guineas gold coins circulated at the market rate?
II Locke—Lowndes Controversy: A Comment

(1) Devaluationists’ understanding on money

Lowndes’ Report says that “whenssoever the extrinsic Value of Silver in the Coin hath been, or shall be less than the price of Silver in Bullion, and will be Melted down ... The Value of Silver in the Coin ought to be raised, to encourage the bringing of Bullion to the Mint to be Coin’d. ... It is perceivably by every body else, that since Bullion hath born a greater Price than silver in the Coin, there has been none brought to the Mint to be Coin’d, either by Importers or others, ... ”

Devaluationists attached a great importance to the following two facts; (1) that exchange rates and bullion prices of gold & silver did not respond to the deterioration rate of the standard silver coin, (2) the ratio of gold-silver in England was favorable to gold. Therefore they insisted that the extrinsic value of coin did not depend upon the intrinsic value of coin, and the circulation of silver coins decreased because the silver bullion and coins with full weight were exported or hoarded. His Report mentioned nothing about raising the mint price of gold.

Thus the recovery of silver coin circulation “is of principal consideration in this whole affair”, and “The True and Reasonable Adjustmant of ... the French, Pied de Monoye.”

“A Domestic Trade is for the good of a Nation. When Money is plenty, a Domestick Trade will certainly follow.”

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(2) Restorationist’s understanding on money

It is just and proper that restorationists could not accept the reverse of gold-silver ratio and the change of extrinsic value by raising the mint price of silver coins. Their basic viewpoint is following. “It not being the denomination but the quantity of silver, that gives the value to any Coin.” “Silver is the Measure of Commerce by its quantity, which is the Measure also of its intrinsick value.” However they had to explain why people accepted clipped coins at their face value.

C. Davenant explained this situation by the stratified structure of currencies. Internal & external wholesale businesses were carried out “in Credit, publick or private”, namely by “assigning or transferring fictitious Wealth” such as tallies, bank bills, and goldsmith’s notes increasingly. “The Species of money seldom intervening, and while this continues the Coine may pass, in the Retailing Trade, at the rate it holds from Law, and Custome.” “Cash serves for Change of Credit Money, and passes at Market in the retaile Trade. As long as credit was maintained, English domestic trades could be done through credit in whatsoever condition the Coyne remaine.”

Davenant was against Lowndes’ plan due to its possible bad influence on foreign trade. “We are a Tradeing Nation, all our Interests are closely linked with the Interests of Trade. Any valuation the Government here can put upon our money can alter its course abroad or put another price upon it then what the Generall practice of the Commercial World seems to have established.”

We can understand what kind of monetary system the restorationists intended to build up at the end of the 17th century in England. In the background of their sturdy faith not minding to sacrificing silver coin circulation, there were their recognition that silver coins only functioned to “serve for Change of Credit.” That is to say, the hierarchical structure of currencies had been established with credit money like banknotes & deposits of goldsmith bankers and the Bank of England taking the preferential position, and with state coins taking the subordinate one. “And in their own words we may truly say, That, Instead of real Gold and Silver we had before, we have now a Fairy Treasure in our Glorious New Money, that no sooner appears but vanishes.”

The mint price of guinea gold coin, of which market price had been fluctuating incessantly from 21s to 30s., was reduced at 22s. in 1696 and 21s. 6d. in 1699, and was finally fixed at 21s. in 1717. Pound Sterling as money of account was bound with the certain weight of gold at the rate £ 3 17s. 10 1/2d per ounce.
circulation of paper currencies, “a completely decontrolled automatic metallic (gold) standard” was virtually established until the beginning of 18th century in England. Thus the confusion of exchange rates among coins for medieval and early modern times was almost disappeared, and the complementarity and uniformity among monies were almost gained for the first time by the establishment of the gold standard system based upon the credit monies.


(11) The Use and Abuses of Money, and the Improvements of it, By two Propositions of it, for Regulating our Coin, 1671, Preface & p. 23.


(15) A Letter Humbly Offer’d To the Consideration of all Gentlemen, Yeoman, Citizens, Freeholders, &c. · · · , 1696, p. 18.


III Central Issue of the Controversy between Locke and Lowndes

(1) Intrinsic value and Extrinsic value

It was well known to merchants and traders that prices and the foreign exchange rates were not caused by the deterioration of coins, and the intrinsic value of coins was not the measure of foreign exchange rates and bullion prices. “The Exchange does not regard the intrinsick Value, but the extrinsick Value and denomination it bears in the respective Countries.”

James Hodges, who criticized the Locke’s doctrine, said “that Silver, considered as Money, hath, speaking properly, no real intrinsick Value at all. · · · That the whole Value is put upon Money by Mankind, speaking generally, is extrinsick to money.” And he referred to “two sorts of money in Holland : Bank Money, which is common standard and Fineness, being design’d for, and chiefly appropriated to Foreign Trade ; and other is
called Currency Money, · · · appropriated only for home Uses: And tho it pass equally with other in small payments, · · ·. (18)

Restorationists also recognized the circulation of clipped coins at the face value. Locke said that “To which I answer, that Men make their Estimate and Contracts according to the Standard, upon supposition they shall receive good and lawfull Money, which is that full weight : And so in effect they do, whi’st they receive the current Money of the Country.” (19) And according Davenant, “Denomination Stamp and Coine is no more than a Declaration from the Soveraign that such a piece is of such a weight and fineness and serves only prevent uncertainty and ffraud· · ·, But the true Naturall and Intrinsic value arises from the Operation it has in all Dealings by Long Custome and Common Consent.” (20)

Therefore, Devaluationists as well as Restorationists did not put the importance on the real bullion content of coins in circulation, because even restorationist recognized well that the intrinsic value of coin was not the measure or standard of money. Then, how did people with the profound knowledge of trade and finance calculate and recognize the standard of money in the early modern England?

(2) Real Money and Imaginary Money

Many merchants manuals written by G. De Malynes, L. Roberts, J. Marius, J. Scarlett, A. Justice, R. Hayes, and W. Stevenson in 17th & 18th century, mentioned very often about real monies and imaginary monies. The direct comparison of the weight and fineness of money like Crown, Ducat, and Dollar, “always value for value, which therefore was called Par.” (21) However, “Par aforesaid, is not directed by the current valuation of coins, which is often seen to be inconstant and uncertaine: nor by the torelation of money, either here or beyond the Seas, · · ·.” (22)

There were two kind of Crown money in Lyon; Crown of 60 souls(3Li. Tournois) & Crown of 67 souls(3Li. 7souls), and also two kind of Duccats in Venice; Duccat de ore or banco equivalent to 52d. Sterling & Duccat de currant equivalent to 40s. Sterling. Foreign exchange were calculated with the former Crown & Duccat and supply & demand of them. Thus, the intrinsic value of money as the standard of foreign exchanges is not determined by the uncertain metal weight of clipped coins in circulation. The standard of money and foreign exchanges was an imaginary quantity of
metal supposed by custom and mutual agreement among merchants in each country. At
the beginning of 18th century A. Justice emphasized that “money in general is divided
into two sorts, Imaginary and Real,” and “a Pound is an Imaginary Sum in England.”[23]
In other words the par and standard of money were prescribed by the imaginary money
as the abstract money of account, which was divided from circulating real coins.

(17) A Letter humbly offer’d to the Consideration of all Gentlemen, · · ·, 1696, p. 20.

103-104, 146-147.


(20) Davenant, op. cit., p. 15.

(21) G. de Malynes, A Treatise of the Canker, 1601, p. 8, 9, 15, 37.


(23) A. Justice, A General Treatise of Monies and Exchanges, 1707, pp. 1-2, 3-5, 54.

Conclusion: Toward the Uniformity of Monies in Modern Monetary System

Devaluationists and restorationists knew very well the divorce between real money
and imaginary money, and also between real currencies and bank monies. Money did
not have the intrinsic value and the value of money was given extrinsically “by Long
Custome and Common Consent.” Devaluationists put the importance on the domestic
trade and silver coin circulation, and Restorationists did on wholesale & foreign trades
and the tie of imaginary money with the certain weight of silver & gold metal.

Restorationists were formulating the hierachical monetary system of
mono-metal(gold) standard based on the credit monies issued by Bank of England and
commercial banks. The Bank of England notes circulated nationally by and by because
they were very important instruments for the payment of taxes with gold coins. On the
other hand silver coins were just the change for credit money. The domestic exchange
rates between London and Edinburgh disappeared until the late 18th century with the
spread of credit monies and the credit network for payment transfer in the national
market. Great Recoinage and credit monies issued by banks paved the way for the
uniformity among monies in England. Here is the significance of the rise and growth of
the modern monetary system.

The imaginary character of money, and the divorce between real money and
imaginary money(money of account) were common sense in those days, although gold
and silver were very important payment instruments. However this divorce and
dichotomy of money have been forgotten for a long time, for the 19th century saw the development of the international gold standard system and the theory of Metallism. The collapse of the gold standard system in the interwar period and the suspension of gold-dollar convertibility in 1971 reminded us the above nature of money, and broke down the spell of Metallism.