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OF
JOHN LOCKE.

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SOME
CONSIDERATIONS
OF THE
CONSEQUENCES
OF THE
LOWERING OF INTEREST,
AND
RAISING THE VALUE
OF
MONEY.

IN A LETTER SENT TO A MEMBER OF PARLIAMENT, 1691.

SOME
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SIR,

THESE notions concerning coinage having, for the main, as you know, been put into writing above twelve months since; as those other, concerning interest, a great deal above so many years: I put them now again into your hands, with a liberty (since you will have it so) to communicate them farther, as you please. If, upon a review, you continue your favourable opinion of them, and nothing less than publishing will satisfy you, I must desire you to remember, that you must be answerable to the world for the style, which is such as a man writes carelessly to his friend, when he seeks truth, not ornament; and studies only to be in the right, and to be understood. I have, since you saw them last year, met with some new objections in print, which I have endeavoured to remove; and particularly I have taken into consideration a printed sheet, entitled, "Remarks upon a Paper given in to the Lords, &c." Because one

may naturally suppose, that he, that was so much a patron of that cause, would omit nothing that could be said in favour of it. To this I must here add, that I am just now told from Holland, "That the States, finding themselves abused, by coining a vast quantity of their base [schillings] money, made of their own ducatoons, and other finer silver, melted down, have put a stop to the minting of any but fine silver coin, till they should settle a mint upon a new foot."

I know the sincere love and concern you have for your country puts you constantly upon casting about, on all hands, for any means to serve it; and will not suffer you to overlook any thing you conceive may be of any the least use, though offered you from the meanest capacities: you could not else have put me upon looking out my old papers, concerning the reducing of interest to 4 per cent. which have so long lain by forgotten. Upon this new survey of them, I find not my thoughts now to differ from those I had near twenty years since: they have to me still the appearance of truth; nor should I otherwise venture them so much as to your sight. If my notions are wrong, my intention I am sure is right; and whatever I have failed in, I shall at least let you see with what obedience I am,

Sir,

Your most humble servant.

Nov. 7, 1691.

SIR,

I HAVE so little concern in paying or receiving of "interest," that were I in no more danger to be misled by inability and ignorance, than I am to be biassed by interest and inclination, I might hope to give you a very perfect and clear account of the consequences of a law to reduce interest to 4 per cent. But, since you are pleased to ask my opinion, I shall endeavour fairly to state this matter of use, with the best of my skill.

The first thing to be considered is, "Whether the price of the hire of money can be regulated by law?"

And to that I think, generally speaking, one may say, it is manifest it cannot. For since it is impossible to make a law, that shall hinder a man from giving away his money or estate to whom he pleases, it will be impossible, by any contrivance of law, to hinder men, skilled in the power they have over their own goods, and the ways of conveying them to others, to purchase money to be lent them, at what rate soever their occasions shall make it necessary for them to have it; for it is to be remembered, that no man borrows money, or pays use, out of mere pleasure: it is the want of money drives men to that trouble and charge of borrowing; and proportionably to this want, so will every one have it, whatever price it cost him. Wherein the skilful, I say, will always so manage it, as to avoid the prohibition of your law, and keep out of its penalty, do what you can. What then will be the unavoidable consequences of such a law?

1. It will make the difficulty of borrowing and lending much greater, whereby trade (the foundation of riches) will be obstructed.

2. It will be a prejudice to none, but those who most need assistance and help; I mean widows and orphans, and others uninstructed in the arts and management of more skilful men, whose estates lying in money, they will be sure, especially orphans, to have no more profit of their money, than what interest the law barely allows.

3. It will mightily increase the advantage of bankers and scriveners, and other such expert brokers, who, skilled in the arts of putting out money, according to the true and natural value, which the present state of trade, money, and debts, shall always raise interest to, they will infallibly get what the true value of interest shall be above the legal; for men, finding the convenience of lodging their money in hands, where they can be sure of it, at short warning, the ignorant and lazy will be forwardest to put it into these men's hands, who are known willingly to receive it, and where they can readily have the whole, or part, upon any sudden occasion, that may call for it.

4. I fear I may reckon it as one of the probable consequences of such a law, that it is likely to cause great perjury in the nation; a crime, than which nothing is more carefully to be prevented by law-makers, not only by penalties, that shall attend apparent and proved perjury, but by avoiding and lessening, as much as may be, the temptations to it; for where those are strong, (as they are, where men shall swear for their own advantage) there the fear of penalties to follow will have little restraint, especially if the crime be hard to be proved: all which, I suppose, will happen in this case, where ways will be found out to receive money upon other pretences than for use, to evade the rule and rigour of the law: and there will be secret trusts and collusions amongst men, that though they may be suspected, can never be proved, without their own confession. I have heard very sober and observing persons complain of the danger men's lives and properties are in, by the frequency and fashionableness of perjury amongst us. Faith and truth, especially in all occasions of attesting it, upon the solemn appeal to heaven by an oath, is the great bond of society. This it becomes the wisdom of magistrates carefully to support, and render as sacred and awful, in the minds of the people, as they can. But, if ever frequency of oaths shall make them be looked on as formalities of law, or the custom of straining of truth, (which men's swearing in their own cases is apt to lead them to) has once dipped men in perjury, and the guilt, with the temptation, has spread itself very wide, and made it almost fashionable in some cases, it will be impossible for the society (these bonds being dissolved) to subsist. All must break in pieces, and run to confusion. That swearing in their own cases is apt by degrees to lead men into as little regard of such oaths, as they have of their ordinary talk, I think there is reason to suspect, from what has been observed, in something of that kind. Masters of ships are a sort of men generally industrious and sober, and I suppose may be thought, for their number and rank, to be equally honest to any other sort of men; and yet, by the discourse I have

had with merchants in other countries, I find that they think, in those parts, they take a great liberty in their custom-house oaths, to that degree, that I remember I was once told, in a trading town beyond sea, of a master of a vessel, there esteemed a sober and fair man, who yet could not hold saying, "God forbid that a custom-house oath should be a sin." I say not this to make any reflection upon a sort of men, that I think as uncorrupt as any other, and who, I am sure, ought in England to be cherished and esteemed, as the most industrious and most beneficial of any of its subjects: but I could not forbear to give this here, as an instance how dangerous a temptation it is to bring men customarily to swear, where they may have any concernment of their own. And it will always be worthy the care and consideration of law-makers to keep up the opinion of an oath high and sacred, as it ought to be, in the minds of the people: which can never be done, where frequency of oaths, biassed by interest, has established a neglect of them; and fashion (which it seldom fails to do) has given countenance to what profit rewards.

But that law cannot keep men from taking more use than you set (the want of money being that alone which regulates its price) will perhaps appear, if we consider how hard it is to set a price upon wine, or silks, or other unnecessary commodities: but how impossible it is to set a rate upon victuals, in a time of famine; for money being an universal commodity, and as necessary to trade as food is to life, every body must have it, at what rate they can get it; and unavoidably pay dear, when it is scarce; and debts, no less than trade, have made borrowing in fashion. The bankers are a clear instance of this: for some years since, the scarcity of money having made it in England worth really more than six per cent. most of those that had not the skill to let it for more than six per cent. and secure themselves from the penalty of the law, put it in the bankers' hands, where it was ready at their call, when they had an opportunity of greater improvement; so that the

rate you set, profits not the lenders; and very few of the borrowers, who are fain to pay the price for money, that commodity would bear, were it left free; and the gain is only to the banker: and should you lessen the use to four per cent., the merchant or tradesman that borrows would not have it one jot cheaper than he has now; but probably these two ill effects would follow: first, that he would pay dearer; and, secondly, that there would be less money left in the country to drive the trade: for the bankers, paying at most but four per cent. and receiving from six to ten per cent. or more, at that low rate could be content to have more money lie dead by them, than now, when it is higher: by which means there would be less money stirring in trade, and a greater scarcity, which would raise it upon the borrower by this monopoly; and what a part of our treasure their skill and management, joined with others' laziness, or want of skill, is apt to draw into their hands, is to be known by those vast sums of money they were found to owe, at shutting up of the Exchequer: and though it be very true, yet it is almost beyond belief, that one private goldsmith of London should have credit, upon his single security, (being usually nothing but a note, under one of his servants' hands) for above eleven hundred thousand pounds at once. The same reasons, I suppose, will still keep on the same trade; and when you have taken it down by law to that rate, nobody will think of having more than four per cent. of the banker; though those who have need of money, to employ it in trade, will not then, any more than now, get it under five or six, or as some pay, seven or eight. And if they had then, when the law permitted men to make more profit of their money, so large a proportion of the cash of the nation in their hands, who can think but that, by this law, it should be more driven into Lombard-street now? there being many now, who lend them at four or five per cent. who would not lend to others at six. It would therefore, perhaps, bring down the rate of money to the borrower, and certainly distribute it better to the advan-

tage of trade in the country, if the legal use were kept pretty near to the natural; (by natural use, I mean that rate of money, which the present scarcity of it makes it naturally at, upon an equal distribution of it) for then men, being licensed by the law to take near the full natural use, will not be forward to carry it to London, to put it into the banker's hands; but will lend it to their neighbours in the country, where it is convenient for trade it should be. But, if you lessen the rate of use, the lender, whose interest it is to keep up the rate of money, will rather lend it to the banker, at the legal interest, than to the tradesman, or gentleman, who, when the law is broken, shall be sure to pay the full natural interest, or more; because of the engrossing by the banker, as well as the risque in transgressing the law: whereas, were the natural use, suppose seven per cent. and the legal six; first, the owner would not venture the penalty of the law, for the gaining one in seven, that being the utmost his money would yield: nor would the banker venture to borrow, where his gains would be but one per cent., nor the monied man lend him what he could make better profit of legally at home. All the danger lies in this; that your trade should suffer, if your being behind hand has made the natural use so high, that your tradesman cannot live upon his labour, but that your rich neighbours will so undersell you, that the return you make will not amount to pay the use, and afford a livelihood. There is no way to recover from this, but by a general frugality and industry; or by being masters of the trade of some commodity, which the world must have from you at your rate, because it cannot be elsewhere supplied.

Now, I think, the natural interest of money is raised two ways: first, When the money of a country is but little, in proportion to the debts of the inhabitants, one amongst another. For, suppose ten thousand pounds were sufficient to manage the trade of Bermudas, and that the ten first planters carried over twenty thousand pounds, which they lent to the several tradesmen and inhabitants of the country, who living above their gains, had spent ten thousand pounds of this money, and it

were gone out of the island; it is evident, that, should all the creditors at once call in their money, there would be a great scarcity of money, when that, employed in trade, must be taken out of the tradesmen's hands to pay debts; or else the debtors want money, and be exposed to their creditors, and so interest will be high. But this seldom happening, that all, or the greatest part, of the creditors do at once call for their money, unless it be in some great and general danger, is less and seldomer felt than the following, unless where the debts of the people are grown to a greater proportion; for that, constantly causing more borrowers than there can be lenders, will make money scarce, and consequently interest high. Secondly, That, which constantly raises the natural interest of money, is, when money is little, in proportion to the trade of a country. For in trade every body calls for money, according as he wants it, and this disproportion is always felt. For, if Englishmen owed in all but one million, and there were a million of money in England, the money would be well enough proportioned to the debts: but, if two millions were necessary to carry on the trade, there would be a million wanting, and the price of money would be raised, as it is of any other commodity in a market, where the merchandize will not serve half the customers, and there are two buyers for one seller.

It is in vain, therefore, to go about effectually to reduce the price of interest by a law; and you may as rationally hope to set a fixed rate upon the hire of houses, or ships, as of money. He that wants a vessel, rather than lose his market, will not stick to have it at the market-rate, and find ways to do it with security to the owner, though the rate were limited by law: and he that wants money, rather than lose his voyage, or his trade, will pay the natural interest for it; and submit to such ways of conveyance, as shall keep the lender out of the reach of the law. So that your act, at best, will serve only to increase the arts of lending, but not at all lessen the charge of the borrower: he, it is likely, shall, with more trouble, and going farther about, pay also the more for his money; unless you intend to break

in only upon mortgages and contracts already made, and (which is not to be supposed) by a law, *post factum*, void bargains lawfully made, and give to Richard what is Peter's due, for no other reason, but because one was borrower, and the other lender.

But, supposing the law reached the intention of the promoters of it; and that this act be so contrived, that it fixed the natural price of money, and hindered its being, by any body, lent at a higher use than four per cent., which is plain it cannot: let us, in the next place, see what will be the consequences of it.

1. It will be a loss to widows, orphans, and all those who have their estates in money, one-third of their estates; which will be a very hard case upon a great number of people: and it is warily to be considered, by the wisdom of the nation, whether they will thus, at one blow, fine and impoverish a great and innocent part of the people, who having their estates in money, have as much right to make as much of the money as it is worth, (for more they cannot) as the landlord has to let his land for as much as it will yield. To fine men one-third of their estates, without any crime, or offence committed, seems very hard.

2. As it will be a considerable loss and injury to the moneyed man, so it will be no advantage at all to the kingdom. For, so trade be not cramped, and exportation of our native commodities and manufactures not hindered, it will be no matter to the kingdom, who amongst ourselves gets or loses: only common charity teaches, that those should be most taken care of by the law, who are least capable of taking care for themselves.

3. It will be a gain to the borrowing merchant. For if he borrow at four per cent., and his returns be twelve per cent., he will have eight per cent., and the lender four; whereas now they divide the profit equally at six per cent. But this neither gets, nor loses, to the kingdom, in your trade, supposing the merchant and lender to be both Englishmen; only it will, as I have said, transfer a third part of the moneyed man's estate, who had nothing else to live on, into the merchant's pocket;

and that without any merit in the one, or transgression in the other. Private men's interests ought not thus to be neglected, nor sacrificed to any thing, but the manifest advantage of the public. But, in this case, it will be quite the contrary. This loss to the moneyed men will be a prejudice to trade: since it will discourage lending at such a disproportion of profit to risque; as we shall see more by and by, when we come to consider of what consequence it is to encourage lending, that so none of the money of the nation may lie dead, and thereby prejudice trade.

4. It will hinder trade. For, there being a certain proportion of money necessary for driving such a proportion of trade, so much money of this as lies still, lessens so much of the trade. Now it cannot be rationally expected, but that, where the venture is great and the gains small, (as it is in lending in England, upon low interest) many will choose rather to hoard up their money, than venture it abroad, on such terms. This will be a loss to the kingdom, and such a loss, as, here in England, ought chiefly to be looked after: for, we having no mines, nor any other way of getting, or keeping of riches amongst us, but by trade; so much of our trade as is lost, so much of our riches must necessarily go with it; and the over-balancing of trade, between us and our neighbours, must inevitably carry away our money, and quickly leave us poor and exposed. Gold and silver, though they serve for few, yet they command all the conveniencies of life, and therefore in a plenty of them consist riches.

Every one knows that mines alone furnish these: but withal it is observable, that most countries, stored with them by nature, are poor: the digging and refining of these metals taking up the labour, and wasting the number of the people. For which reason the wise policy of the Chinese will not suffer the mines they have to be wrought. Nor indeed, things rightly considered, do gold and silver, drawn out of the mine, equally enrich, with what is got by trade. He that would make the lighter scale preponderate to the opposite, will not so soon do it, by adding increase of new weight to the

emptier, as if he took out of the heavier what he adds to the lighter, for then half so much will do it. Riches do not consist in having more gold and silver, but in having more in proportion than the rest of the world, or than our neighbours, whereby we are enabled to procure to ourselves a greater plenty of the conveniencies of life, than comes within the reach of neighbouring kingdoms and states, who, sharing the gold and silver of the world in a less proportion, want the means of plenty and power, and so are poorer. Nor would they be one jot the richer, if, by the discovery of new mines, the quantity of gold and silver in the world becoming twice as much as it is, their shares of them should be doubled. By gold and silver in the world, I must be understood to mean, not what lies hid in the earth, but what is already out of the mine, in the hands and possessions of men. This, if well considered, would be no small encouragement to trade, which is a surer and shorter way to riches than any other, where it is managed with skill and industry.

In a country not furnished with mines, there are but two ways of growing rich, either conquest or commerce. By the first the Romans made themselves masters of the riches of the world; but I think that, in our present circumstances, nobody is vain enough to entertain a thought of our reaping the profits of the world with our swords, and making the spoil and tribute of vanquished nations the fund for the supply of the charges of the government, with an overplus for the wants, and equally craving luxury, and fashionable vanity of the people.

Commerce, therefore, is the only way left to us, either for riches, or subsistence: for this the advantages of our situation as well as the industry and inclination of our people, bold and skilful at sea, do naturally fit us: by this the nation of England has been hitherto supported, and trade left almost to itself, and assisted only by the natural advantages above-mentioned, brought us in plenty of riches, and always set this kingdom in a rank equal, if not superior to any of its neighbours; and would no doubt, without any difficulty, have continued

