

The Role of Government in the Political Economy of John Locke

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As a scholar close to the centre of political events for over thirty often turbulent years, Locke (1632-1704) was well-placed to write about the role of government. His famous argument for the right of citizens to resist government is frequently interpreted as limiting the role of government. The purpose of this article is to show that Locke envisaged an active economic role for government. His political economy stressed the linkages between politics and economics, embedding the role of government in the needs of an economy and, most importantly, the obligations created by the natural law. Our interpretation differs from that by Vaughn (1982), the most substantial recent study of Locke by an economist. Vaughn argues that Locke regarded government as "playing a passive role in the domestic economy" (p.120). She is aware that Locke "was responsible for writing some shorter political position papers which tell quite a different story" (p.121). However, for Vaughn these papers "were not serious attempts at social theory" and so she suggests they should be discounted (p.122), even though the purpose of her book is to demonstrate the "unity" of Locke's thought (p.xii).

Locke's political economy papers were essays in persuasion: all were directed to particular political ends. The first part of our argument is to emphasize this feature of Locke's work by considering the circumstances in which each of his political economy papers were written. It is then argued that the role of government in Locke's thought follows from its duty to implement the God-given natural law, whose purpose is the "preservation of mankind" (TII:135). This is set out by Locke in his *Second Treatise*. In the state of nature, the natural law is implemented by the creation of property through labour and by the observance of the natural law limits to appropriation. These limits are to ensure all of mankind is preserved. The "inconveniences" inherent in the state of nature, which become pressing following the invention of money, obstruct the natural law and mean that government is established by agreement among men. The role of government is to achieve for men what the state of nature could not, the implementation of the natural law, by the "regulating and preserving of property" (TII:3). This role comprises responsibilities for the growth of commerce (by establishing the rule of law and facilitating the use of money); justice (by securing the right of labour to its property and preserving the

consequent unequal distribution of property: justice will be a source of the growth of commerce) and charity (to ensure *all* men are preserved). These sometimes conflicting responsibilities give the role of government a wide ambit for activity in the domestic economy.

The third element of our argument is that Locke's view of the limits to market regulation is much narrower than Vaughn proposes. Locke's argument is only that government cannot and should not regulate market price. It is not possible to prohibit the economic exchanges men have an incentive to make. Men find ways around prohibitions, whether they be interest rate regulations or prohibitions on trade in woollen goods, so long as they can gain. The market price is also a just price because it treats buyers consistently. Nonetheless, the market may not always serve the public good, and government will then need to intervene, but not by regulating prices. Two such cases of intervention are the woollen trade and the administration of charity. Locke's proposals for them in the economic policy papers are considered in the last section of the article.

The Philosopher as Political Activist

Until the age of 34 Locke lived the uneventful life of an unknown scholar. He had received a highly formal, classical education, first at the Westminster School and then Oxford. So, by 1665, Locke "had spent nearly twenty years of his life immersed in the matter and style of classics and classical philosophy." (Letwin, 1975, p.151) During these "years Locke studied and wrote, but never published a word, and indeed was totally unknown except for his own varied circle of friends." (Vaughn, 1982, p.2) "The evidence suggests that in the early 1660's Locke was not very sure of who he was or what role he could expect to play in society" (Ashcraft, 1987, pp.14-15).

In 1666 Locke met Lord Ashley, later Shaftsbury. This meeting was to have a fundamental impact on Locke's life. Locke joined Shaftsbury's household in 1667, and remained there for 15 years. During that time he was the "trusted political adviser to [Shaftsbury] one of the shrewdest and most powerful politicians of seventeenth-century England" (Ashcraft, 1987, p.21). This was the environment from which Locke's political economy writings emerged. Shaftsbury was the catalyst. "One only has to read the accounts of Locke's friends...to see that Locke's references to his relationship with Shaftsbury come well within the range of adulation and a profound sense of respect and loyalty" (Ashcraft, 1986, p.83). Once he joined Shaftsbury's household, Locke became quickly immersed in the affairs of his patron. In 1668 Locke wrote a manuscript on the question of lowering the rate of interest "at the direction" of Shaftsbury (Ashcraft, 1987, p.21).

In 1673 Shaftsbury was relieved of his duties as Lord Chancellor by the king. Shaftsbury then "entered upon a course that during the next decade was to make him the leader of the political opposition to Charles II." (Ashcraft, 1987, pp.26-27) Shaftsbury's views were published in 1675 in a pamphlet entitled *A Letter from a Person of Quality to his Friend in the Country*. The pamphlet was an argument against the exercise of authority by divine right. "The *Letter* caused a sensation, and within two days of its appearance on the streets of London it was condemned to be publicly burned." (Ashcraft, 1987, p.26) Many believed Locke to have had a role in writing

the *Letter*, and fearing for his safety, he left England and spent the next four years travelling throughout France.

Between 1679 and 1681 there were three national elections (more than in any other two year period in English history). The third elected Parliament was dissolved in March 1681 by Charles II after only five days, and for the remaining four years of his reign he ruled England without calling a legislative assembly into session. By this time Shaftsbury and Locke had moved towards a theory of the right of citizens to resist government and Locke wrote the *Two Treatises* during 1679-80. In July 1682 Shaftsbury began to plan a rebellion. However, the plan was not realized and Shaftsbury was forced to flee to Holland in November 1682, where he died a few months later. Locke too was forced to flee to Holland in June 1683, following the discovery of the Rye House Plot to assassinate Charles II. Locke remained in Holland for the next six years, living among a community of exiles and using the time to write. He revised his manuscript for the *Two Treatises* and his 1668 manuscript of *Some Considerations on the Lowering of the Rate of Interest*. He returned to England in 1689, following the Revolution which placed William and Mary on the English throne.

The *Two Treatises of Government* was published (anonymously) in 1690, having been revised in 1689-90 "to serve as a 'piece d'occasion'" (Cranston, 1957, p.207) for the Revolution. *Some Considerations of the Consequences of the Lowering of Interest, and Raising the Value of Money* was first published in 1691 in response to a proposal then before Parliament to lower the rate of interest from 6% to 4%. Locke's other major economic papers were in relation to recoinage. They were *Some Observations on a Printed Paper Entitled, "For Encouraging the Coining Silver Money in England, and After for keeping it here"* (1695), and *Further Considerations concerning Raising the Value of Money* (1695). The recoinage issue being considered by government arose from the twin problems of a shortage of coin and the clipping of silver coin. It was proposed to solve the problem by increasing the effective supply of money through raising the denomination of coins. Locke opposed the proposal. He favoured recalling clipped money and restamping it so that all money would "pass by its weight" (FC, p.14)³.

In 1696 a new Board of Trade was established "for promoting the trade of the kingdom, and for inspecting and improving the plantations in America and elsewhere" (Fox Bourne, 1969, vol 2, p.350). Locke was appointed one of its commissioners. The Board's charter covered a wide range of the activities of government, at a time when government itself was poorly organized (Fox Bourne, 1969, vol 2, p.347). In these circumstances the Board was potentially very influential. Locke "played a leading role in the activities of the Board" (Ashcraft, 1987, p.33): "he was in every way its chief director and controller" (Fox Bourne, 1969, vol 2, p.353). Locke is thought to have been "mainly responsible" for the interventionist commercial legislation of the time, intended to promote English interests (Fox Bourne, 1969, vol 2, p.375). It was in this capacity that he wrote his papers on the Irish linen industry and the reform of the Poor Laws.

The Role of Government in the *Second Treatise of Government*

Locke's premise in the *Second Treatise* is that God sends men to this earth to do His will and the law of nature expresses that will. For Locke there is no doubt about "the

fundamental law of Nature being the preservation of mankind" (TII:135):

Everyone as he is bound to preserve himself, and not to quit his station wilfully, so by the like reason, when his own preservation comes not in competition, ought he as much as he can preserve the rest of mankind (TII:6).

This is the law of nature which governs the state of nature and is in the hands of each individual (TII:7). The central issue in the state of nature is how to implement the natural law. In the beginning, God gives to "men in common" (TII:26) the earth and its resources. But in order to obey the natural law, a means must be found of properly appropriating the earth and its fruits (TII:26). Locke's solution rests on his concept of property:

every man has a property in his own person. This no body has any right to but himself. The labour of his body and the work of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that Nature hath provided and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. (TII:27)

Labour creates property and has the right to the benefits of the ownership of that property - the use or exchange of the property so created. Labour has this right because it makes the critical contribution to the usefulness and attractiveness of commodities (TII:40 and TII:42) and because in doing so it observes God's will (TII:34).

Man may appropriate not only the fruits of the earth, but also the earth itself. Man who

in obedience to this command of God, subdued, tilled, and sowed any part of it, thereby annexed to it something that was his property, which another had no title to, nor could without injury take from him. (TII:32)

Locke recognizes unequal property ownership will follow this means of gaining title to land. But because property ownership reflects the industry of the owner, and given that God gave the earth to the "industrious and rational" for "their benefit and the greatest conveniencies of life they were capable to draw from it" (TII:34), unequal property ownership is rightful because it reflects differences in men's industry.

There are natural law limits to the individual's right to appropriate property. They must be followed to ensure all men fulfil their natural law duty of preservation to themselves and to others. First, appropriation may occur "at least where there is enough, and as good left in common for others" (TII:27). This reflects Locke's notion of charity. For Locke, preservation is a co-operative, rather than competitive, activity (TII:6). This is possible because the state of nature is a time of "plenty of natural provisions" (TII:31), and desirable, because everyone has the right under the law of nature to the subsistence the earth and its fruits can provide (TII:25). Even the inequality of property ownership does not interfere with the right to subsistence, or cause "any prejudice to any other man, since there was still enough and as good left, and more than the yet unprovided could use." (TII:33) The second limit is that appropriation may occur only so long as the property does not spoil:

As much as anyone can make use of to any advantage of life before it spoils, so much he may by his labour fix a property in. Whatever is beyond this is more than his share, and belongs to others. Nothing was made by God for man to spoil or destroy. (TII:31)

This duty entails a potentially significant restriction on the individual's right of property appropriation: man may not "fix a property in...more than his share".

The two limits are related. Without money, men have no means of extending their property beyond the consumption requirements of their families (TII:48). This will ensure there is "enough and as good left for others" (see also TII:33 and TII:36). It also means that in the state of nature the physical spoilage limit is redundant. The observance of the natural law limit relating to charity is problematic. Able-bodied men could have no claim on charity because they were bound to preserve themselves. However, by what means do those not able to provide for themselves by their labour gain access to the means of subsistence? Because there is no government, this must be by private charity. This is suggested by Locke when he writes of man giving "away a part to anybody else" which was "more than he could make use of" (TII:46 and see also TII:183). But, as Locke points out, rational men will not accumulate what they cannot use (TII:51). So it is not at all clear that the law of nature will be observed.

The market has only a limited role in the state of nature, for productive effort is confined to self sufficiency and there is no problem of scarcity. The market arises from the barter necessary for preservation. The values established through barter reflect the intrinsic usefulness of the good: "in the beginning, before the desire of having more than men needed had altered the intrinsic value of things, [the value of commodities] depends only on their usefulness to the life of man" (TII:37). Because of the productivity of man's labour applied to land, Locke does not foresee there being a shortage of land in the state of nature, and so no competition for scarce resources. Hence, the barter relations of this market are of a co-operative rather than competitive kind (TII:6).

Men choose to leave the state of nature by establishing government, because the enjoyment of their property, their "life, health, liberty or possessions" (TII:6), is "very uncertain and constantly exposed to the invasion of others" and "very unsafe, very insecure." (TII:123) These problems of the state of nature are always present. The "inconveniencies of the state of Nature...necessarily follow from every man's being judge in his own case" (TII:90) and the "corruption and viciousness of degenerate men" (TII:128). However, these problems are only "inconveniencies" because the state of nature was a time of plenty:

considering the plenty of natural provisions there was a long time in the world, and the few spenders, and to how small a part of that provision the industry of one man could extend itself, and ingross it to the prejudice of others, especially keeping within the bounds, set by reason of what might serve for his use; there could then be little room for quarrels or contentions about property so established. (TII:31)

The "inconveniencies" of the state of nature become much more pressing "as families increased and industry enlarged their stocks" (TII:38) and, more particularly, following the consent to the use of money. The introduction of money follows the "tacit agreement" to accept "some lasting thing that men might keep without spoiling, and that, by mutual consent, men would take in exchange for the truly useful but perishable supports of life." (TII:47) Money provides man with the means of appropriating more than his "very moderate proportion" of the state of nature. This leads to an increase in "quarrels or contentions" about property and is the critical source of the decision to agree on laws and form a government (TII:38):

The great and chief end, therefore, of men uniting into commonwealths, and putting themselves under government, is the preservation of their property; to which in the state of nature there are many things wanting. (TII:124)

The "property" Locke has in mind here is men's "lives, liberties and estates" (TII:123). The extensive literature on the meaning of "property" in the *Second Treatise* testifies to "Locke's extraordinary vagueness about the use of this term" (Laslett in Locke, 1988, p103). Locke means different things at different times. Thus, his "account of the origin of property cannot be intended to cover all meanings of the word." (Laslett in Locke, 1988, p.102) However, consistent with his view of the origin of property, the focus of Locke's account of the origin of government relates to "quarrels and contentions" about property as possessions. Although in relation to the economic role of government, Locke commonly writes of property as possessions, government also has a responsibility in relation to "liberty" (in order to encourage the growth of commerce) and "life" (the duty of charity).

Government is to rule for the public good and the natural law is to guide this. For Locke the positive laws made by government must be consistent with natural law:

the obligations of the law of nature cease not in society, but only in many cases are drawn closer, and have by human laws, known penalties annexed to them to enforce their observation. Thus the law of nature stands as an eternal rule to all men, legislators as well as others...and the fundamental law of nature being the preservation of mankind, no human sanction can be good or valid against it (TII:135).

The role of government follows from this. It is to implement the natural law. Government forfeits its trust from the people when it ceases to act consistently with the natural law (TII:149 and TII:221-222). This is the context in which Locke's description of the role of government as "the regulating and preserving of property...for the public good" (TII:3) must be understood. This role requires active economic policy by government and comprises four responsibilities.

The first is for the "preservation of mankind" by encouraging the increase of commerce through providing the rule of law. The introduction of money provides a means of producing more property than is required for self-preservation. But men will not produce this surplus unless they can be sure of secure ownership of that property and of being able to enforce agreements. The role of government is to provide that security by "preserving" property. Government thereby establishes the framework for the flourishing of the human species by giving men the incentive to labour beyond their own requirements. Government provides the means whereby men can realize the value of their labour through exchange. In this sense the value of property in civil society depends on government.

The rule of law is to give secure title to property and provide a means of resolving disputes. As Locke expresses it,

the increase of lands and the right employing of them is the great art of government. [This great art of government entails] established laws of liberty

to secure protection and encouragement to the honest industry of mankind (TII:42).

The rule of law overcomes the fundamental weakness of the state of nature of "every man's being judge in his own case", by establishing a "common measure to decide all controversies", adjudicated by a "known and indifferent judge" and backed by the power to sentence (TII:124-126).

The second responsibility of government is justice. Justice "gives every man a title to the product of his honest industry and the fair acquisitions of his ancestors descended to him" (TI:42). The "regulating and preserving of property" to achieve justice entails protecting an unequal distribution of property. Money creates the means to a "rightful" unequal property distribution, which builds on the "rightful" unequal distribution of property of the state of nature. In the state of nature this inequality reflects differences in men's industry. Then, by consenting to the use of money, men also consent to increases in the inequality of the distribution of property: "as different degrees of industry were apt to give men possessions in different proportions, so this invention of money gave them the opportunity to continue and enlarge them" (TII:48). By protecting the property produced by individuals, government must thereby "regulate" the property distribution so created (TII:50). Those without property "ought not to meddle with what was already improved by another's labour: if he did, 'tis plain he desired the benefit of another's pains, which he had no right to" (TII:34).

The implementation of justice is complex. As Locke notes in an aside in *Some Considerations*, the inequality of the distribution of property should not be inflexibly maintained:

the labourer's share being seldom more than a bare subsistence, never allows that body of men time or opportunity to raise their thoughts above that...unless when some common and great distress, uniting them in one universal ferment, makes them forget respect, and emboldens them to carve to their wants with armed force: and then sometimes they break in upon the rich, and sweep all like a deluge. But this rarely happens but in the maladministration of neglected or mismanaged government. (SC, p.115)

There is a further problem, which Locke does not appear to recognize: what is the value of the product of man's "honest industry" which justice is to protect? In the state of nature, Locke has a labour theory of value: it is labour that gives commodities "99/100" of their value (TII:40), which is their "usefulness to the life of man" (TII:37) and constitutes the right to property. However, the use of money "altered the intrinsic value of things" (TII:37). Once value is determined in exchange, as it is in civil society, man's property is not simply the result of his labour. Indeed, part of the value of property determined in exchange is owing to government itself. Locke's theory of property may then not provide a natural law basis to the justice of men receiving the value of their "honest industry".

The growth of commerce also requires a stable value of money in silver coin for the smooth functioning of the market. Stability yields predictability and so encourages exchange. This is a responsibility of government. The implicit argument in the *Second Treatise* is that the "imaginary" value of money must be confirmed and maintained by government. This role of government is explicit in *Several Papers*. Government introduces coinage as a remedy for the "inconveniencies" of undenomi-

nated silver. The government's stamp on coin is a "warranty of the public" of the quantity of silver and therefore the value of coin (SC, p.146). As such, the stamped coin constitutes the basis of transactions because it gives the public "faith...that sums of money contracted for under such denominations, shall be of such value, that is, shall have in them so much silver" (ibid.)

In summary, government, through the rule of law, the provision of justice and facilitating the use of money, is the source of the differences in prosperity between America (a representation of the state of nature: "In the beginning all the world was America" (TII:49)) and England (civil society). Locke wants to explain why "a king of a large and fruitful territory there feeds, lodges, and is clad worse than a day labourer in England." (TII:41) His theory is that without money, men had no incentive to enclose and cultivate land. With the introduction of money, "man will begin presently to enlarge his possessions" (TII:49) Enclosure occurred following the use of money (TII:48-49) and the common consent to settle property rights (TII:45). Both depend on government.

In providing this explanation of the difference between America and England, Locke is beginning to suggest the way in which the increased inequality of property ownership in civil society might be compatible with the "preservation of all mankind". Market relations develop under the rule of law as men seek to accumulate property, by realizing the value of their labour through exchange. With the increasing pressure of scarcity, market relations become competitive. The market becomes a means for the rivalrous expansion of property and increased individual accumulation, rather than a vehicle for the co-operative exchange of goods for men's preservation, as it had been in the state of nature. But this does not infringe the "preservation of mankind" as it might in the state of nature. By developing in this way, the market provides the means of stimulating great increases in the volume of commodities because of the greater productiveness of labour. As a result, the living standards of all are improved. However, the market will not develop in this way unless government performs its functions of providing security to property and protecting the inequality of property ownership resulting from the development of the market.

The final responsibility of government is charity: "charity gives every man a title to so much out of another's plenty as will keep him from extreme want, where he has no means to subsist otherwise" (TI:42). The charity Locke has in mind is very limited, as suggested by the qualifications in the above statement and confirmed by the recommendations of his paper on the reform of the Poor Laws.

Although Locke repeatedly identifies men's natural law obligations of charity, it is never made clear whether men will perform that duty. We have some good evidence for thinking that men in civil society will not observe their duty. Locke's view of man is of one who pursues his economic interest: the consent to the use of money unleashes that instinct in civil society and men seek to accumulate beyond the requirements of self-preservation. It is implausible that such men would observe the natural law duty of charity. Government must then have a role in charity to compensate for any unacceptable consequences of the increase of scarcity for the right of all men to preservation. This may be by the regulation of men's conduct, as it is in his paper on the reform of the Poor Laws, for government has the power "to make laws for the regulating of property between the subjects" (TII:139).

Locke's Idea of the Market and the Role of Government

Several Papers is Locke's major economic tract. He puts the case against interest rate regulation and government changing the value of money. However, *Several Papers* is not an argument against all intervention, only the regulation of price. Locke's principal argument is that price cannot be regulated because it is created in the market. It is the unique product of a market at a time and place, and so cannot be estimated by any other means. It is the result of the interaction of the relative proportions of buyers and sellers and nothing else, so *only* demand and supply can determine price: "All things that are bought and sold, raise and fall their price in proportion, as there are more buyers or sellers" (SC, pp.59-60). This process cannot be regulated (SC, p.1, p.66 and p.102). The reason it cannot is that it is

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 occasion shall make it necessary for them to have it. (SC, p.1 and see also p.57)

Locke's objection to regulating interest rates applies to all prices:

things must be left to find their own price; and it is impossible in this their constant mutability for human foresight to set rules and bounds to their constantly varying proportion and use, which will always regulate their value. (SC, p.51)

Thus, we find the same argument being made in relation to recoinage. Recoinage could not change the value of money because

nothing can raise or fall the value of your money, but the proportion of its plenty, or scarcity, in proportion to the plenty, scarcity, or vent of any other commodity, with which you compare it, or for which you would exchange it. (SC, p.135)

However, coinage is not the same as setting interest rates. For government does have a necessary role in stamping coin.

an ounce of silver...is and always eternally will be of equal value to any other ounce of silver, under what stamp or denomination soever; unless it can be shown that any stamp can add any new and better qualities to one parcel of silver, which another parcel of silver wants. (SC, p.135)

This last comment suggests a fruitful path for his argument, but it is not pursued. It is not, because there is a major difficulty with Locke's argument and that is his failure to recognize that "Money is something more than a mere quantity of silver or gold." (Li, 1963, p.107) The argument is faulty because of its focus on the price of money as the market price of silver, which, as a market price, is not amenable to regulation.

Central to Locke's argument is the view that the market process follows economic principles and these are natural: "The principles I there went on, I see no reason to alter: they have, if I mistake not, their foundation in nature, and will stand" (FC, "The Dedication"). Thus, the interest rate determined by the market is the "natural rate" (SC,8) and the market price of silver is a "natural value" (FC,58). It is important to understanding correctly Locke's argument about intervention to examine his notion of the market price being natural, because it has implications for the possibility and

desirability of regulation. Prices are not natural in the normative sense that natural laws are natural, or God-given. Market prices are only natural in the positive sense that they arise from men following their desire for economic exchange. Their desire for exchange depends on the incentives they face. These incentives are the outcome of government policy and their economic circumstances. Government can manipulate the incentives men respond to and the resulting market prices will still be natural in Locke's use of the word. Economic principles only *explain* market behaviour and do not have the moral status of the laws of nature. In *Venditio*, Locke argues that market prices only reflect "natural" values before the introduction of money. Once money is introduced, the market price of a commodity is *not* its "natural value", but its "political or merchand (sic) value...which lies in the proportion of the quantity of [that commodity] to the proportion of money in that place and the need of one and the other." (Dunn, 1968, p.85)

In Locke's market analysis only a competitive market, which requires the liberty of free entry for producers, will generate the desired price. While prices determined in monopoly markets will equate both sides of the market, they will not have the desirable qualities of those in competitive markets. Writing in relation to the regulation of printing, Locke observes that the

liberty, to any one, of printing [books], is certainly the way to have them the cheaper and the better; and it is this which, in Holland, has produced so many fair and excellent editions of them, whilst the printers all strive to outdo one another, which has also brought in great sums to the trade of Holland, whilst our company of stationers, having the monopoly here by this act and their patents, slobber them over as they can cheapest, so that there is not a book of them vended beyond seas, both for their badness and dearness (quoted in Fox Bourne, 1969, vol 2, p.313).

The solution was to remove the regulations which gave printers their domestic monopoly.

Locke's second argument against price regulation is that market price is a just basis for distribution. He is often critical of the character of the wants which generate market prices and the inequality that then arises between intrinsic value and exchange value (SC, p94). Nonetheless, Locke believed that market prices must be accepted as the value of a commodity, whatever he thought of its worth (SC,61).

The justice of market prices is only touched on in *Some Considerations*. Locke supports market prices because distribution becomes arbitrary if price is set below the market level. In his view it then may as well be zero (SC,127). The idea of the market price as the just price is expressed more fully in *Venditio*⁴, where he argues:

what anyone has he may value at what rate he will and transgresses not against justice if he sells it at any price provided he makes no distinction of buyers but parts with it as cheap to this as he would to any other buyer. I say he transgresses not against justice, what he may do against charity is another case. (pp.85-86)

Thus it is just to sell wheat at a high price to a market affected by famine, and at lower prices to other markets not so affected. Charity is not justice and in life-threatening cases, charity must override justice:

For though all the selling merchants gain arises only from the advantage he

makes of the buyer's want whether it be a want of necessity or fancy 'tis all one yet he must not make use of his necessity to his destruction, and enrich himself so as to make another perish. He is so far from being permitted to gain to that degree, that he is bound to be at some loss and impart of his own to save another from perishing (pp.86-87).

Although the purpose of *Several Papers* is to argue against the regulation of market price, some of the things that government should do are also considered. The principal role of government is in relation to trade. Locke regarded trade as the most practicable of the three means of gaining riches, the other two being foreign conquest and increased output of gold and silver (SC,16). He equates the size of the trade imbalance with the gain or loss of wealth to the nation: "Spending less than our own commodities will pay for, is the sure and only way for the nation to grow rich" (SC,118). It would have continued to be so, were it not for the rise of rival trading nations, "who will be sure to seize to themselves whatever parts of trade our mismanagement, or want of money, shall let slip out of our hands". Locke concludes: "Trade then is necessary to the producing of riches, and money necessary to the carrying on of trade. This is principally to be looked after and taken care of" (SC,17) by the "regulation and balance of our trade" (SC,182). If it is not, Locke warns, only "decay" awaits the nation. Although Locke saw domestic markets as self-regulating in the sense that flexible prices equated the two sides of the market, he did not regard the country's balance of trade as self-regulating. This was partly because of his view that the object of economic policy in relation to trade was not to equate imports with exports, but to maximize the surplus of exports over imports. The way in which trade is to be "taken care of" is explained by Locke's policy advice in relation to the Irish linen trade.

In Locke's view not all the consequences of the proposed law to regulate interest rates would be undesirable. According to Locke,

there should be a stated rate of interest . . . where contract has not settled it between the parties, the law might give a rule, and courts of judicature might know what damages to allow. This may, and therefore should, be regulated. (SC,102-103)

This is necessary to prevent "prey upon the ignorance or necessity of borrowers" (SC,103), which is a danger because loanable funds are in only a few hands. Locke believes there is a case for the regulation of this monopoly power by setting a rate, "though what the stated rate of interest should be in the constant change of affairs, and flux of money, is hard to determine". (SC,103-104)

The final role of government emerging from *Several Papers* is that of stamping coin. Unstamped coin is inconvenient for trade, and government has a role in stamping silver to facilitate trade. The "stamp is the public voucher of the intrinsic value." (SC,146) Whatever the standard of coinage is, "once settled, should be inviolably and immutably kept to perpetuity" (SC,171). The setting of this standard by public authority is important because

Men in their bargains contract not for their denominations or founds, but for the intrinsic value; which is the quantity of silver by public authority warranted to be in pieces of such denominations. (FC,9)

Economic Policy Papers

The Irish Linen Industry

The objective of Locke's proposal was: "To hinder...the growth of the woollen manufacture in Ireland, so wholly incompatible with the fundamental trade of England, on which the prosperity of this nation so much depends" (p.364)⁵. Consistent with the argument against intervention in *Several Papers*, Locke asserts that prohibition of imports of Irish woollen products will not work because Irish woollen producers and English merchants have an incentive to trade, and this will induce them to break the law. Locke then proposes an extremely elaborate set of incentives and disincentives to induce a switch among Irish producers from wool to linen. Locke proposed duties, "introduced by degrees", on all the imported inputs required in woollen manufacture. Locke recognized the need for alternative activities to be encouraged:

And since it generally proves ineffectual, and we conceive it hard to endeavour, to drive men from the trade they are employed in by bare prohibition, without offering them at the same time some other trade which, if they please, may turn to account, we humbly propose that the linen manufacture be set on foot and so encouraged in Ireland as may make it the general trade of that country (p.365).

The economic and non-economic incentives proposed by Locke included tax and duty holidays for specified periods; increased duties on imported products that would compete with linen products; exemption from public offices of those in the industry; free training in spinning, compulsory for the children of families with less than 40 shillings a year; the introduction of a productivity-increasing double spinning wheel; double disability benefits; and prizes for skilled spinners. As if these proposals do not go far enough, Locke is still concerned about the viability of the industry against existing linen producers elsewhere, so he proposes compulsory yearly production quotas of finished and raw materials for all females and males above the age of fourteen. If this is still insufficient, he proposes a two pence per pound tax on imported tobacco.

We have clear evidence in this elaborate and hard-headed advice that Locke's first interest is England's prosperity, and that most importantly the market must be radically manipulated for that public good. The Irish linen industry advice is not unique in Locke's work (Fox Bourne, 1969, vol 2, p.375). It would seem that the regulation of trade involves whatever is necessary to protect England's trading position. Outright prohibition is rejected, not because it infringes economic freedom, but on the pragmatic ground that it will not work because men have an incentive to avoid it. Indeed some of the measures proposed entail significant compulsion. Locke's intention is to manipulate the economic environment to induce a switch in Irish production. So while price is left alone, little else is. And if the proposal is effective, price will itself be different from what it would have been in an unregulated market.

Reform of the Poor Laws

One of the terms of the appointment of the commissioners of the Board of Trade was that they were "to consider of some proper methods for setting on work and

employing the poor of the kingdom and making them useful to the public" (quoted in Fox Bourne, 1969, vol 2, p.351). Locke prepared a paper on this matter for the Board in 1697. Although Locke does not question the principle of poor relief⁶, the paper is very severe in its treatment of the poor. His interest is the efficiency of its administration, and here he is very stringent.

Locke's starting point is the view that the growth of the poor arises "neither from scarcity of provisions nor from want of employment" but "the relaxation of discipline and corruption of manners" (p.378). Locke here reflects the common view of his day that voluntary unemployment of an "idle or debauched populace was the central problem." (Blaug, 1965, pp.114-115) In Locke's view "above one half of those who receive relief from the parishes are able to get their livelihood." (p.378) Locke has some particularly severe measures in mind for this group. He recommends that those men "sound of limb and mind...begging in maritime counties out of their own parish without a pass" serve three years at sea "under strict discipline" (p.379). All other beggars were to be sent to the "next house of correction". Those who complained they could not find work were to be reported to the guardian of the poor of the parish who was to offer their labour "at a lower rate than was usually given" (p.381). Locke anticipated that these measures would virtually eliminate the problem of those able to work not working. These measures may be regarded as implementing the government's responsibility for justice: ensuring able-bodied men observe their duty of self-preservation.

The paper is not entirely a matter of putting the poor to work. Locke also allocates some specific responsibilities for the natural law duty of charity to the neighbours of the poor, the parish and "every master of the king's ships". Each of these duties of charity is to be administered by detailed government regulation. So, for instance, "if any person die for want of due relief in any parish in which he ought to be relieved, the said parish be fined according to the circumstances of the fact and the heinousness of the crime" (p.390). The natural law duty of charity is to be undertaken by the people, by following the directions of government observing its obligation to implement the natural law.

Both these papers entail significant elements of compulsion, which may seem to conflict with the responsibility of government to preserve "liberty". However, it should be recalled that the duty of government is to implement the natural law, and in its implementation men gain freedom, for "where there is no law there is no freedom." (II:57) Locke has in mind a very specific kind of freedom:

freedom of men under government is to have a standing rule to live by, common to every one of that society, and made by the legislative power erected in it. A liberty to follow my own will in all things where that rule prescribes not, not to be subject to the inconstant, uncertain, unknown, arbitrary will of another man, as freedom of nature is to be under no other restraint but the law of nature. (II:22)

Conclusion

The central theme to Locke's political economy is that natural law must guide human affairs. The purpose of natural law is the flourishing of the human species. The role

of government is then to implement the natural law. More specifically, the role of government is the "regulating and preserving of property". In some cases, this role will be best discharged by leaving the market to perform its function of price determination, but often the market will require manipulation by government. Whatever is to be done is a matter of case by case decision, based on an assessment of the needs of the public good. Locke's view is more complex than the classic *laissez faire* night-watchman view of the role of government. He recognizes the way in which the value of property, economic development and the economic order itself depend inherently on government. The market will do its job of allocating resources only if the government is doing its job. However, Locke does not see government and the market as necessarily being in harmony. When they are not, he is prepared to resolve the conflict in favour of government regulation over the market.

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Notes

Spelling, punctuation and the extensive use of capitals and italics in all the original Locke texts have been amended in accordance with modern English usage.

- 1 Quotations from the *Two Treatises* are identified as follows: TI is the *First Treatise* and TII is the *Second Treatise*; Arabic numbers refer to paragraphs.
- 2 The *Some Considerations* paper of 1691 presented the same view as the 1668 manuscript, but more fully and confidently (see W Letwin, 1975, p.156 and p.168 and see also Locke's own comments in the Preface to *Some Considerations*).
- 3 Quotations from *Several Papers* are identified as follows: SC is *Some Considerations*, SO is *Some Observations* and FC is *Further Considerations*.
- 4 *Venditio* is reprinted in Dunn, 1968, pp84-87. References to the paper are cited by page numbers from this source.
- 5 The paper is reprinted in Fox Bourne, 1969, vol 2, pp.363-372. The citations of the paper refer to page numbers in this source.
- 6 The paper is reprinted in Fox Bourne, 1969, vol 2, pp.377-390. The citations of the paper refer to page numbers in this source.

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