

NICHOLAS BARBON: ANTICIPATING THE CLASSICS

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The classic recipe for yoghurt begins with the instruction to ‘take some previous yoghurt...’ - clearly, it is not always possible to create something original. Here, David Slattery applies this insight to Nicholas Barbon and classical economic theory. Slattery reveals that many key components of classical thought were predated in the work of Barbon, a late mercantilist, including a repudiation of the positive balance of trade theory, an insight into interest as the rent for capital, and an advocacy of free trade.

Introduction

When one begins to consider the emergence of classical economics, the general view is of a revolutionary era in economic thought sparked by Adam Smith and synthesised by the likes of David Ricardo and J.S. Mill. Smith (1776) was highly critical in his conception of pre-classical economics, with mercantilism being a particular target of his ire. He considered mercantilism as a system controlled by and for the benefit of the merchant class; it was a system that rested largely on the fallacious positive balance of trade theory. One of the main aims of this essay will be to demonstrate the influence of one particular late mercantilist economist, Nicholas Barbon, on the emergence and development of classical theory.

Barbon is, in our time, often considered a lesser light of the late mercantilist period. There are particular reasons for why Barbon is so frequently overlooked. He has suffered from assertions against his character and allegations of rent-seeking. Some of these assertions have elements of truth in them. Roger North (1887) notes that Barbon, in his profession as a builder, was famed for his poorly constructed buildings and for refusing to pay any of his creditors until ordered to do so by a court. These issues, however, should not impact on Barbon’s reputation as an economist. The scope and profundity of his theorising should necessitate a far higher place in our esteem. It is time to restore Barbon’s reputation as one of the great economic writers of the seventeenth century.

Barbon’s theory of value and its applications:

1. Overturning the positive balance of trade

A great number of the contributions Barbon made to economic thought emanated from his theorising on the nature of value. In order to consider the importance of Barbon’s work in this area, one should first consider the debt he owes to earlier ‘pro-mercantilists’ such as Mun and Misseldon, both of whom used a use/scarcity paradigm to analyse the nature of value. He was also influenced by certain ‘anti-mercantilists’ (so-called as their primary occupation was in overturning the mistakes of early mercantilists) such as Child. The basic assertion was that goods must have a

use in order to have a value and, having that use, their value is defined by their scarcity. Such work was perhaps most neatly defined by later writers, notably John Law, who used the water/diamonds analogy in order to analyse the paradox of value. This was later picked up on by classical writers, notably Smith, who used the same analogy in his own work.

Barbon inherited this theory and it became a focal point of his own work. However, unlike previous writers, Barbon used it to draw particular conclusions that had not as yet been touched on. The first of these conclusions was the overturning of the positive balance of trade theory. Early analysis centred on the discussion of a choice of policy for stopping the outflow of bullion from the country, which was a popular policy objective of the bullionist and pro-mercantilist writers.

‘Barbon’s treatment of the determination of value in exchange, in contrast to the earlier seventeenth-century writers cited, is a deliberate analysis. Mere acceptance or assumption, of the scarcity/utility and supply and demand theorems would have been inadequate to establish with sufficiency the relativity of all values in exchange, including those of the precious metals’ (Bowley, 1973: 73).

Barbon built on the work of earlier writers but expanded on them also, in order to analyse precious metals and money in general. He realised that gold and silver are merely commodities like any other, and that there was nothing intrinsically special about such metals that made them useful as money. He argued that ‘in trade and commerce there is no difference in commodities when their values are equal’ (Barbon, 1696: 11). Such a statement foreshadowed Smith, who in *The Wealth of Nations* (1776) went to great lengths to demonstrate that a given value of one commodity is as valuable as another, even if one of the commodities is gold or silver. From such an assertion it logically follows that if money is merely a commodity like all others, then it is fruitless to aim for a positive inflow of money any more than a positive inflow of silk or tin etc.

Schumpeter (1954) noted the work of Sir Josiah Child as being of great value to Barbon on this point. Child wrote concerning the export of bullion and demonstrated how it could be exported to the national advantage. By the time Smith included in *The Wealth of Nations* lengthy tracts on the Midas fallacy, the overturning of the positive balance of trade theory and the nature of gold and silver as regular trading commodities, Barbon and others had delivered analogous arguments almost eight decades earlier.

2. Subjectivity of value and the benefits to liberality

The underpinnings of Barbon’s analysis of value, while inspired largely by the ‘pro-mercantilists’, nevertheless display a significant independent streak. While early mercantilists also considered the price of commodities in terms of their scarcity and potential for use, Barbon specifically made this use subjective. It is likely that Barbon owes a debt here to Samuel Von Pufendorf, who wrote extensively on the subjective nature of value earlier in the seventeenth century. Barbon, in his work on this subject, writes that goods have the potential to satisfy two distinct uses: the needs of the body and the wants of the mind. Yet naturally the needs of the body are limited: ‘If strictly

examined, nothing is absolutely necessary to support life, but food' (Barbon, 1690: 14).

Barbon clearly sets out how, in fact, the majority of wares sold satisfy only the wants of the mind and are not necessities. While the majority of writers at the time advocated frugality as a means to enrich the population, Barbon follows this point *ad absurdum* to demonstrate that if taken to extremes, ultimate frugality, or cutting out the consumption of luxuries, would lead to a situation where 'the great part of mankind go naked and lye in huts and caves' (ibid.), which surely could not be a constructive policy for the enrichment of a nation's people.

'The covetous man thinks he grows rich, he grows poor for not consuming the goods that are provided for mans use, there ariseth a dead stock called plenty, and the value of those goods fall, and the covetous mans estates, whether in land, or money, become less worth' (ibid.: 63).

Liberality and prodigality, things frequently condemned by other writers of the time, actually serve to stimulate trade. All of this clearly shows Barbon's conception of the economy (trade) as being demand driven. Demands, which stem from the mind's desires, help to stimulate trade, which in turn enriches the population. The parallels to this discussion of wants and their subjective nature would later be developed in the utility theory postulated by classical writers.

3. 'On the threshold of laissez-faire'

Barbon's conclusions foreshadowed other writers.. Such conclusions related to the destructive influence of prohibitions on trade. While free trade was becoming a more acceptable stance at the time, with Tory free-traders such as Davenant and also North advocating it, Barbon's advocacy of it as we have seen stemmed from stronger principles. Barbon was of the opinion that the prohibition of imports was counterproductive as it merely resulted in a commensurate decline in outputs. This developed into a theory of equilibrium in international exchange. Related to this was an awareness on Barbon's part of the potential for reciprocity in import restrictions. Tariffs against the commodities of particular nations have throughout history tended to result in the implementation of proportionate tariffs by the offended country against the offending one, the consequence being 'to ruine all foreign trade' (ibid.: 78).

Thus, we can see Barbon was not a typical mercantilist as Smith would have it, arguing for protection. He was, in Heckscher's words: 'On the threshold of laissez-faire' (Heckscher, 1994: 115). As a free trade advocate, Barbon also possessed a strong belief in the allocative efficiency of the free market: 'The market is the best judge of value... Things are worth so much, as they can be sold for' (Barbon, 1690: 20). It was thus misguided of later classical writers to consider mercantilists as a whole to be protectionist, for this would be to deny a range of work which could be considered to advocate free trade. Thus, the era of laissez-faire was not one arising from a 'Smithian revolution' alone; rather it was a much older line of thought with its origins in late, anti-mercantilist writings, particularly those of Nicholas Barbon.

4. Debate with Locke

A further application of Barbon's concept of value was seen during the coinage crisis of the 1690s; his debate on the issue with John Locke resulted in what Letwin

considered ‘Barbon’s finest exercise in economic reasoning’ (Letwin, 1963: 74). During the crisis the government turned to experts on the matter, notably Locke, who declared that the silver coins had an intrinsic value and the only viable solution was for all coins to be restored to their original standard at the mint. However, Barbon viewed gold and silver as merely commodities like all others. In his view, ‘money is a value made by a law; and the difference of its value is known by the stamp and size of the piece’ (Barbon, 1690: 20).

Thus, he advocated a fiat system of money. This position was set out in his second major economic work, *A Discourse Concerning Coining the New Money Lighter: In Answer to Mr. Locke’s Considerations about Raising the Value of Money* (1696). In this text, Barbon set out his own view in contrast to that held by Locke.

‘There is no intrinsic value in silver or any fixed or certain estimate that common consent has placed on it, but that it is a commodity that rises and falls as other commodities do. Money is the instrument and measure of commerce and not silver. It is the instrument of commerce from the authority of that government where it is coined, and that by the stamp and size of each piece the value is known’ (Barbon, 1696: vi).

Ultimately, the government took the advice of Locke on the matter and raised the money back to its original standard; in the process proving correct Barbon’s prediction of a severe deflation given this policy.

Barbon on the nature of interest and credit

1. Genesis of the cartelist position and proposals for a land bank

In a great deal of his work, Barbon was motivated by practical means. His concerns as a merchant doubtlessly led to his theorising on the importance of credit and emerging from this, his proposals for a land bank and his pioneering work on the nature of interest. The supply of credit had been a great preoccupation for many writers previous to Barbon. Yet pro-mercantilists largely considered it in terms of the positive balance of trade, advocating a positive inflow in order to stimulate the money supply.

‘Barbon’s analysis, however, on the nature of the precious metals as a mere trading commodity.... enabled him to argue that the supply of metallic money was irrelevant to the rate of interest. The supply of credit could, he considered, be adjusted to the requirements of the rate of interest through the establishment of appropriate banks’ (Bowley, 1973: 45).

As we have seen earlier, Barbon’s work in this area was essentially underpinned by his belief in the potential for a fiduciary monetary system. For this reason it has been noted that Barbon may have been the first ‘cartelist.’

This philosophy led Barbon to advocate a land bank project which proposed the use of land mortgages to extend credit. Land banks in general had been advocated long before Barbon. One of the earliest expositions on the theme was in the 1650s from William Potter and Samuel Hartlib, both of whom advocated the establishment of a

Bank of England, similar to the Bank of Amsterdam. Potter's *The Key of Wealth* (1650) recommends the foundation of a corporation of tradesmen, insured by a separate body, who would issue bills, to be secured by a variety of assets, such as land and buildings, which would circulate like legal tender. The essential idea behind such a scheme was that it would help to mobilise previously unproductive capital.

2. Real interest rate theory

Barbon's considerations on the nature of interest and credit also manifested itself in a more theoretical dimension. During the seventeenth century it was common to consider interest purely as a monetary phenomenon. The great majority of scholarship in the area would have echoed the opinion that interest was nothing more than the price of the use of money, a payment for the inconvenience caused to the lender. However Barbon's *Discourse of Trade* (1696) served to usher in a new era in interest rate theory, with the assertion that:

‘Interest is commonly reckoned for money; because the money borrowed at interest, is to be repaid in money; but this is a mistake: for the interest is paid for stock: for the money borrowed, is laid out to buy goods, or pay for them before bought: no man takes up money at interest, to lay it by him, and lose the interest of it’ (Barbon, 1690: 31-32).

This was, according to Schumpeter (1954: 329), ‘a momentous statement’. It had no precedent in past theory. To say that interest is in fact the rent of capital, is analogous to modern long run interest theory, which would consider the interest rate to equal the marginal product of capital. Naturally it should seem clear that when money is borrowed, it is not borrowed simply to be looked at; it is wanted for the goods and services that can be bought with it. Later classical writers were to become the primary purveyors of Barbon's theory. This theory was picked up via Joseph Massie in his work *An Essay on the Governing Causes of the Natural Rate of Interest* (1750).

This was perhaps the first step taken in economics away from nominal reasoning, towards the type of ‘real’ analysis with which we are now familiar, under which money is seen as a veil: a variable with no long run impact on any real parameters. There can be little doubt that this is one of the most definitive innovations in monetary theory. This theory of interest rates, initially connected to Barbon, remained the standard line of thought on the subject until the Keynesian revolution following the publication of *The General Theory of Employment, Interest and Money* (1936).

Conclusion

The evidence of Barbon's quite extraordinary foresight is evident for all to see in his two primary economic works, *A Discourse of Trade* (1690) and *A Discourse Concerning Coining the New Money Lighter, in Answer to Mr. Locke's Considerations about Raising the Value of Money* (1696). Barbon has been accused of special pleading in his works, a common accusation against mercantilist writers. However, a more charitable assertion might be to say that Barbon was motivated in his work by practical ends. His experience as a merchant led directly to his concern with credit which resulted in his advocacy of a land bank and influenced his pioneering theory on interest. His second manuscript on coining the new money lighter emanated directly from his concern over the coinage crisis and his thoughts on

the nature of money as a commodity. Perhaps Hutchinson puts it best when he states that:

‘The assessment of Barbon’s economic theories and writings seems sometimes to have been unduly affected by his reputation as a wealthy and unscrupulous businessman who refused to pay his debts, and also by elements of special pleading at some points in his works. In the last analysis, however, such defects may seem irrelevant in view of the basic merits of his ideas and theories, which, at important points, were in advance of their time’ (Hutchinson, 1988; 78).

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