



**David Hume and Eighteenth Century Monetary Thought: A
Critical Comment on Recent Views**

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DAVID HUME AND EIGHTEENTH CENTURY MONETARY THOUGHT:
A CRITICAL COMMENT ON RECENT VIEWS

To the argument that it makes little difference what precise roles were played by various actors in a great movement, and that the busy modern reader cannot be bothered to go behind the scenes of popular successes, the answer is simple: it is on the whole better to call men and events by their right names; it is on the whole wiser not to make false diagrams of the way things happen. What, after all, are we so busy about?

Jacques Barzun, Darwin, Marx, Wagner

I

The praise that has been bestowed upon David Hume's monetary thought in recent years would suggest that however little attention is paid to the history of economic thought otherwise, no one is averse to a long and respectable lineage.¹ However, it is just when an individual is singled out and focused upon that the most misleading ideas can arise; furthermore, when the scholars who provide this attention are renowned authorities in specialized fields, their views receive very widespread circulation. It would not be easy to find a contemporary student of the eighteenth century who would assert that the mercantilists believed real wealth to consist of gold and silver, yet the late Harry Johnson made just such an assertion not very long ago, and the number of economists who read Harry Johnson must far outnumber those who read eighteenth-century scholars.² By the same token, the liberal praise bestowed upon those credited with having "demolished" mercantilism, such as David Hume, requires careful scrutiny. A recent article by Dietrich Fausten³ has shown how different Hume's analysis

actually was from modern monetarism, despite the many attempts to designate Hume the father of monetarist doctrines, and this critical approach can be taken farther. Before turning to an examination of Hume's position, it may be worthwhile to make a methodological point.

There are those who consider delving into indebtedness and priorities "antiquarian" (but not if their own contributions are in question). After all, they claim, Hume's views are there in black and white, he wrote elegantly and his philosophical merits are widely admired; does it really matter if Hume did not acknowledge his sources, that he was somewhat inconsistent, or that he caricatured his opponents? Surely some compassion is appropriate for someone who wrote at the very dawn of "economic science." This is to miss the point of such historical scrutiny altogether. If compassion were required, why should it be bestowed upon Hume, rather than on such predecessors as Gervaise, Cantillon or Vanderlint? Scholars employ certain critical standards in judging published work; let us employ these standards to Hume and if sympathy be required, let it follow and not precede the analysis.

II

The following passage is certainly one of the most frequently quoted in the history of economics but its importance for our argument makes repetition necessary.

Suppose, that all the money of Great Britain were multiplied fivefold in a night, must not the contrary effect follow? Must not all labour and commodities rise to such an exorbitant height, that no neighbouring nations could afford to buy from us; while

their commodities, on the other hand, became comparatively so cheap, that, in spite of all the laws which could be formed, they would be run in upon us, and our money flow out; till we fall to a level with foreigners, and lose that great superiority of riches, which had laid us under such disadvantages?⁴

Two points should be noted about the above. First, Hume assumes a sudden, large inflow of money to make his point. This is a very different thing from the small [relative to the money stock] and steady inflow advocated by the so-called mercantilists. Secondly, Hume assumes that this sudden inflow is met by instantaneous adjustment in prices. Otherwise, if the change in, say, wages attracts more labour, there is no reason why the increased money supply could not lead to a greater output and thus avoid inflation. International labour mobility was a standard feature of mercantilist thought and so it will be seen that Hume's "new" result is obtained by his a) altering the substantive proposition in question from the effects of a steady inflow of gold to that of a sudden inflow and b) denying the standard mercantilist assumption of international labour mobility. It should surprise no one that Hume and the mercantilists differed since they asked different questions and answered them under different assumptions.

How far Hume meant to endorse these changes is a moot question. When James Oswald pointed out to Hume that his analysis was not conformable to facts and urged that the mercantilist argument was more useful, Hume cheerfully reversed himself. In a different essay, Hume now argued that a slow inflation was desirable and governments should try to arrange for imperceptible increases in the money supply. Eugene Rotwein is the only modern scholar known to me who has

clearly pointed out this basic inconsistency of Hume's monetary thought.⁵

What accounts for the considerable popularity of Hume's monetary theory? While the lucidity and elegance of Hume's essays are undoubted, the fact that Hume was an excellent salesman for his ideas appears to have been generally missed. Thus, he prefaces the earlier quoted passage with the following words.

This apprehension of the wrong balance of trade, appears of such a nature, that it discovers itself, where one is out of humour with the ministry, or is in low spirits; and as it can never be refuted by a particular detail of all the exports, which counterbalance the imports, it may here be proper to form a general argument, that they may prove the impossibility of this event, as long as we preserve our people and our industry. [emphasis added]⁶

Hume not only asserts that the available trade statistics were of dubious value but also clearly implies that he has a theoretical argument to obviate the necessity of having to even consult such statistics. (The subsequent hydrostatic analogy only reinforces this hypothesis.) While a plausible case can be made for the self-correcting nature of balance of trade deficits over time, Hume appears to be implying the much stronger proposition that deficits will not exist even in the short run. The incautious reader is led to think that the balance of trade problem was simply a figment of mercantilist imagination.

Hume is also careful to build up the novelty of his argument. He speaks of the universal panic created by Joshua Gee's despondent figures of the English balance of trade -- a "panic" for which evidence has not been apparent to subsequent scholars. Hume pokes

fun at Dean Swift's assertion that £100,000 were being drained from Ireland every year.

The consequence of this situation, which must be owned to be disadvantageous, was, that, in a course of three years, the current money of Ireland from 5000,000 was reduced to less than two. And at present, I suppose, in a course of 30 years it is absolutely nothing.

The reference to Ireland is not unexpected but the sarcasm is. Irish intellectuals influenced Scotland very considerably between 1720 and 1740,⁸ at which time Frances Hutcheson, largely an intellectual product of Ireland, moved to Scotland to set the Scots on an illustrious career of moral philosophy. It is true that the drain of specie due to absentee payments was bitterly attacked by Irish patriots, but already in 1729 Thomas Prior had stated that such loss would be self correcting in that the specie payments would become impossible when Ireland had been sufficiently impoverished -- a conclusion not inconsistent with that of Hume.⁹ But the Irish did more. In 1737 Bishop George Berkeley wrote a memorable tract on Irish economic problems called the Querist. Not only does the Querist demolish, for those who needed such demolition, the idea that money was real wealth, but it also provides a very clear statement of the futility of trying to amass gold and silver in a given country.

Whether there be not a measure or limit, within which gold and silver are useful, and beyond which they may be hurtful?

Whether a discovery of the richest gold mine that ever was, in the heart of this kingdom, would be a real advantage to us?

Whether every man who had money enough would not be a gentleman? And whether a nation of gentlemen would not be a wretched nation?

Whether all things would not bear a high price? And whether men would not increase their fortunes without being the better for it?

Whether, ceteris paribus, it be not true that the prices of things increase as the quantity of money increaseth, and are diminished as that is diminished? 10

Ten editions of the Querist were called for in the next twenty years and it is not implausible that Hume had profited from Berkeley's economics as he had almost certainly profited from the latter's philosophy.

If then Hume's analysis was indeed ambiguous and his presentation involved a little bit of eighteenth century "puffery," what of the charge that Hume borrowed the specie-flow mechanism without acknowledgement. The three precursors on this score are Isaac Gervaise, Richard Cantillon, and Jacob Vanderlint. Of Gervaise there is no good reason to believe that Hume had any knowledge. But the situation is not so clear with Cantillon and Vanderlint. After Cantillon's murder his manuscript is said to have circulated extensively and F.A. Hayek considers the circumstantial evidence sufficient for believing that Hume knew of Cantillon.

Better known [than Cantillon's work] is the somewhat shorter exposition of the same idea which David Hume gave a little later in a famous passage of his Political Discourses, which so closely resembles the works of Cantillon that it is hard to believe that he had not seen one of these manuscripts of the Essai which are known to have been in private circulation at the time when the Discourses were written.¹¹

While the different hands through which Cantillon's manuscript passed must remain unknown, we do know that Hume came to London in September 1737, three years after Vanderlint's Money Answers All Things

was published. The only popular magazine of the 1730's, the Gentlemans Magazine was so struck with the novelty of Vanderlint's ideas that it published a long extract from Vanderlint as its leading article shortly after the publication of the pamphlet. In view of its popularity (or notoriety) in 1734 it is not implausible that Hume should have come into contact with Vanderlint's pamphlet during his stay in London.¹²

Circumstantial evidence alone should not lead us to accuse Hume of plagiarism but unfortunately Hume's literary manners are suspect. Oswald's contribution is all too apparent to anyone reading their correspondence but nowhere is Oswald mentioned in Hume's essays on monetary subjects. Later, with Lord Kames as an intermediary, Hume carried on an extensive correspondence with the Rev. Josiah Tucker on economic topics. Tucker argued that there was no necessary reason for a rich nation to become poor, and so, contrary to Hume, there was no reason to ascribe inherent economic jealousy to rival nations. Hume wrote Tucker a detailed reply contesting the point while calmly appropriating Tucker's conclusion as a point he had independently reached.¹³ When Tucker heard of Hume's altered attitude in his essay on the "Jealousy of Trade," he wrote with some annoyance to a friend that Hume had failed to acknowledge a debt publicly even though such men of letters as Lord Kames and Dr. Robertson were aware of the Hume-Tucker correspondence.¹⁴ On the whole, it would seem that the charge that Hume borrowed directly and without acknowledgement requires more careful attention.

III

In apparent ignorance of the contribution of Hobbes, Barrow, Berkeley and others, Dr. Beattie wrote of Hume and induction in his Essay on Truth.

The sea has ebbed and flowed twice every day in time past; and therefore the sea will continue to ebb and flow twice every day in time to come -- is by no means a logical deduction of a conclusion from premises -- THIS REMARK WAS FIRST MADE BY MR. HUME.¹⁵

For a long time, Hume's reputation as an economist has been enhanced by a similar casual attitude to historical details. In reviewing closely Hume's contribution to eighteenth century monetary theory we have found Hume's theoretical stance to be ambiguous and his assumptions to be incompletely specified; furthermore, there is good reason to doubt the novelty of Hume's analysis. If it is indeed worthwhile to understand contemporary issues in the light of their historical antecedents perhaps it will be more fruitful in future to focus such studies upon periods rather than upon personalities.

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1. "As current economic theories change, so should our evaluation of previous economists. This paper, therefore, suggests that David Hume's reputation, which has declined since the nineteenth century, should now be rising again because in 1752, long before Ricardo, he anticipated modern monetarism on an amazing number of issues." Thomas Mayer, "David Hume and Monetarism," Quarterly Journal of Economics (August, 1980), 89. Similar favourable evaluations can be provided from other authors, such as Milton Friedman and Harry Johnson.

2. For more detailed treatment, along with references, see S. Rashid, "Economists, Economic Historians and Mercantilism," Scandinavian Economic History Review.
3. "The Human Origin of the Contemporary Monetary Approach to the Balance of Payments," Quarterly Journal of Economics (November 1979), 655-673.
4. "Of the Balance of Trade," in David Hume: Essays on Economics, ed. E. Rotwein (Wisconsin, 1955). The neglect of the velocity of circulation in Hume's Quantity Theory and his phobia of banks are points that are well-known and will not be repeated.
5. Rotwein, op. cit., LXV. The inconsistency was well-known to economists in the classical period. See the speeches of George Rose in Parliament on the bullion question in 1809-1810. There is some unavoidable repetition of the arguments of the paper quoted in footnote 2 in the above paragraphs.
6. Op. cit., 62.
7. Ibid., 62.
8. Caroline Robbins, The Eighteenth Century Commonwealth Man (Harvard, 1959).
9. T. Prior, A List of the Absentees of Ireland (Dublin, 1729).
10. The Querist, in The Collected Works of George Berkeley, ed. A.A. Luce & T.E. Jessop (London, 1953), pp. 128, 143, 151. Berkeley writes "to oil the wheels of commerce" (no. 461), a phrase repeated by Hume.
11. Prices and Production (London, 1931).
12. Gentlemans Magazine (March 1934).
13. Hume, op. cit., 201.
14. Tucker to Thomas Birch, May 19, 1760. British Museum, Additional Manuscripts 4319.
15. As quoted by Dugald Stewart in Elements of the Philosophy of the Human Mind, vol. II, 372. Collected Works of Dugald Stewart (Cambridge, Mass., 1829), 372.