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DAVID HUME'S PRACTICAL ECONOMICS

As Professor Eugene Rotwein emphasized in his introduction to David Hume: Writings on Economics (Madison, 1955),¹ the philosopher made his observations on the eve of the industrial revolution in a period of accelerating change. Very often -- as in the latter half of the seventeenth century -- times of flux and turmoil call forth utopian thinkers, who propose the creation of hierarchical, communal, authoritarian societies, often patterned after a supposed golden age.²

Hume emphatically rejected utopian schemes of this kind. "All plans of government which suppose great reformation in the manners of mankind," he said, "are plainly imaginary."³ He repeatedly warned as well that "projectors" and visionaries would disrupt the balance in government between liberty and authority. Thus he could speak of or make reference to "the visionary system or ravings of Plato" (in The Republic), the ultimate impracticality of More's Utopia and James Harrington's The Commonwealth of Oceana, and the absurdity of Robert Wallace's theories on population and the paper money schemes of John Law.⁴ Even the utopian republics of Andrew Fletcher of Saltoun, the Scottish patriot whom Hume admired as "a man of undaunted courage and inflexible principles," were dismissed with the others on practical grounds.⁵

The key word we have extracted from Hume's economics is practicality. Much as Hume would have liked to have designed an empirical "science of man" -- which, incidentally, would have permitted him to propose his own infallible scheme of political economy -- he realized that his own attempts had fallen far short of his goal. Thus his nine essays devoted especially to economics: "Of Commerce," "Of Refinement

in the Arts," "Of Money," "Of Interest," "Of the Balance of Trade," "Of the Jealousy of Trade," "Of Taxes," "Of Public Credit," and "Of the Populousness of Ancient Nations," are cautious in approach and pragmatic in spirit. Most of these essays were specifically designed to challenge prevailing assumptions and utopian grand schemes of one sort or another.

In "Of Commerce," for example, Hume rejects the idea that a nation can achieve greatness as an agricultural utopia.⁶ In "Of Refinement in the Arts" he takes issue with certain religious thinkers who denote luxury as evil.⁷ In "Of Money" he is critical of those who believe that an injection of money into the economy will work long-term wonders,⁸ and in "Of Interest" he argues with those who reason that the plenty of money leads to low interest rates.⁹ "Of the Balance of Trade" and "Of the Jealousy of Trade" are directed against the protectionist policies of the mercantilists,¹⁰ "Of Taxes" rejects the French physiocratic single tax on land,¹¹ and "Of Public Credit" deplores the expedients of Lord Oxford's partisans to draw bills on posterity and imprudently use public credit to create paper riches.¹² Finally, he addressed his essay, "Of the Populousness of Ancient Nations" to a refutation of the doomsday thinking of the Reverend Robert Wallace of Edinburgh.¹³

This is not to imply, however, that Hume's economic thought was merely negative, or that he believed governments could safely entrust their powers over the economy to an "invisible hand." Even Hume's advocacy of free trade (which his friend and pupil Adam Smith, of course, applied with less caution) left the government with room to maneuver. Hume was willing to employ both the market and authority in designs for human progress. In seeking his mix of "action,

consumption, liveliness and indolence," a contradictory, counter-poised economic actor, the individual, was not a simple pleasure maximizer, nor did the acquisition of wealth and luxury make him a villain. He was a person in whom the complex springs of action, the causes of labour, needed first one, now another counter-weight. Society benefited from both free trade and from tariff.¹⁴

Hume believed that industrial development and the advancement of commerce were the springboards to progress and happiness. Less is less and more is more; Hume never got these simple verities mixed up. "The same age," he said, "which produces great philosophers and politicians, renowned generals and poets, usually abounds with skillful weavers, and ship-carpenters.... The spirit of the age affects all arts; and the minds of men, being roused from their lethargy, and put into fermentation, turn themselves on all sides, and carry improvements into every art and science."¹⁵

Since the engine that drives a society is production of goods and services, one of Hume's purposes was to deal with how production is stimulated. Progress suppresses the natural desire in man for indolence and self-indulgent vices and results from the working out of an ironic law of history. The apparent immorality of human greed and selfishness, combined with amoral curiosity and an urge to imitate, gives rise to the highly moral outcome of general progress in the arts, widely distributed wealth, economic progress, and an increase in liberty. This outcome, if sought directly by an act of will on the part of the government, would require the application of violent and oppressive measures.¹⁶

Basically, Hume equated violent and oppressive measures on the part of government with utopian schemes. He believed that in this imperfect world, the

policy maker's job is to employ counter-measures, often composed of opposing vices, but all working toward a middling kind of solution, imperfect but workable.¹⁷ Paper money, for example, seems to have caused much mischief, yet the inland bill, the banking system, the convenient store of value offered by the public credit system often served as a stimulus to industry.¹⁸ The appearance of labor markets had freed the serf from his duty to his lord, and allowed him to pursue self-interest in the towns; but Hume counted as one of the blessings of that concentration the consequent availability of confiscatable labor, suitable to the outfitting of an army or capable of otherwise serving the needs of the state.¹⁹

In what way were Hume's philosophical economics inconsistent with the utopian spirit? His discussion of human motivation was too complex, empirical and tentative to allow him to believe that any single social system, or any simple list of work habits, would unfailingly produce happiness, dignity and satisfaction. He was critical of "highly rationalistic systems" because they depend upon "principles taken on trust," not upon empirical psychology. These non-empirical systems of thought, whose descriptions of human motivation are unacceptably rationalistic and consistent, Hume said, "draw disgrace upon philosophy itself."²⁰

A hierarchical utopia would stifle striving under self-improvement, one of the most essential engines of progress. A renunciatory utopia would be immoral; the denial of material reward for innovation and hard work would kill progress, destroy wealth and with it the pursuit of happiness. An unchanging utopia would be self-destructive. Hume's 'springs of action,' the desire for consumption, action and liveliness, would be weakened were there no hope of altering one's

material condition. A tranquil utopia would become disordered and soporific; its inhabitants, deprived of purposeful striving against real odds for uncertain rewards, would be unable to harmonize the contradictory elements in their nature. That harmonization is necessary, however, if internal peace is desired.²¹ A utopia that actively resisted change would prove fragile in the face of the disturbing force of purposeful striving. The forces of competition, avarice, liveliness and progress would surely overcome utopian indolence, and alter the society beyond all recognition.

The alteration would also remove any utopian guarantees against human failure. Without the real possibility of such failure, human striving lacks real challenge. The actual or emotional isolation and attempted self-sufficiency of utopia would also lead to stagnation. Hume placed great emphasis upon the stimulus to invention, emulation, and internal trade given by trade between nations. Should a community isolate itself from the world its people would suffer from a much lower growth rate, and a much reduced capacity to satisfy their desire for innocent luxury. The communal organization of a utopia would reduce the effectiveness of the operation of 'the quick march of the spirits,' which normally generates more labor via personal striving for personal gain. Communal responsibility for investment and consumption decisions would likely lead to more personal indolence. If innocent luxury and "refined" consumption become disreputable, the stoic ethic promulgated by most utopian policy programs would further reduce the effectiveness of a prime cause of labor effort.

Nor did Hume find any real, live utopias in man's past. His careful examination of the history of the ancient world revealed a series of butcherings,

debaucheries, enslavements and infanticides, a universal barbarousness such as eighteenth century Europeans could not imagine.²² What he did find in the past was a record of slow progress, sometimes suggestive of moral failure but always dynamic and never perfected. One of the fruits of this progress was the creation of "that middling rank of men, who are the best and firmest basis of public liberty.... They covet equal laws," Hume said, "which may secure their property, and preserve them from monarchical, as well as aristocratical tyranny."²³

While Hume did believe man's history would someday show a life cycle of birth, maturity and decay, he also believed it far too early for much of that story to be written.²⁴ Nor did he argue that any particular portion of future history would bring perfection. But in particular he warned against looking backward toward a fictive golden age. In "The Populousness of Ancient Nations" he wrote:

The humour of blaming the present, and admiring the past, is strongly rooted in human nature, and has an influence even on persons endued with the profoundest²⁵ judgment and extensive learning.

If Hume was wary of utopia based on little more than nostalgia, he was even more impatient with futuristic schemes that would dismantle present government using "violent innovations."²⁶ He supported modest reform in established governments, but to "try experiments merely upon the credit of supposed argument and philosophy can never be the part of a wise magistrate."²⁷ Instructive in this regard was his attempt to create his own perfect commonwealth, probably written, at least in part, with tongue in cheek, because he did not believe it a practical alternative.

The result may be conveniently compared with the republican utopia described in all seriousness by Andrew Fletcher of Saltoun in his speeches to the Scottish parliament and in his writings on government.²⁸ Hume's "Idea of a Perfect Commonwealth" has many parallels with Fletcher's 'federated city states of Europe,' but Hume, more cautious and balanced, warns at the outset against rejecting "the chief pillars and supports of the present constitution."²⁹ With less democracy than Fletcher, and a careful balance established between liberty and authority, Hume's commonwealth consisted of numerous counties and parishes, a senate with full executive powers, except the veto, and a commons sharing legislative powers with the senate. Like Fletcher, he warned against a standing army. In the end, however, all such plans, including his own, were rejected in favor of simple reform.³⁰

Economic reform merited the same cautious approach. Violent utopian policy prescriptions would profoundly affect government, throwing it out of balance and making way for despotism. Therefore, his suggestions were always reformist, but moderate and conservative. In this respect Hume was tolerant of John Law's paper money scheme (as expounded in his Money and Trade Considered (1705)), but Hume's pragmatism saved him from Law's extravagant demands for rapid, managed growth through money. Law, like Hume, was a proponent of growth and development. Law, too, believed growth was an economic, not a moral process -- a consequence of vigorous trade. Law's idea was to link the quantity of money and the social mechanism which generated it with the quantity of public debt in such a way that more debt would give rise to more money. All this finance was to be put to the service of the state in projecting its power and authority for

the purpose of extending empire and stimulating general growth and development.³¹

This was an idea with some practical merit and a few technical flaws. Central bankers still operate to monetize government debt in a manner not much different in outline from that designed by Law. But Law's plan was designed around a monetary commission with extensive and extraordinary claimed powers, including the banning of foreign money, and the fixing of the value ratio between silver and paper at no more than eleven to ten. Later, Law's own, real-world experiment with paper money in France produced such public abhorrence that not even the rigorous specie control edict of 1720 could save the scheme.

In contrast, Hume explicitly rejected the "absurd maxim" that public indebtedness should be extended without limitation, monetized and employed as "an expedient for promoting commerce and riches."³² For Hume, a gradual increase in the quantity of money as deliberate government policy would have beneficial effects, however, as it tends "to keep alive a spirit of industry, and increases the stock of labor, in which consists all real power and riches."³³

Hume favored the existence of "unnatural" monies, those created by the state in the form of central bank credits, and those created by the market, in the form of trade credit. He recognized the need for a public and central bank to create "the benefit of that paper-credit, which will always have place in every opulent kingdom." The state should bear the charge of this bank and use it to regulate the private bankers.³⁴ Hume understood that money in a larger sense is a network of legal interconnections between the money agencies and those political, social and individual actors who perform the rites of property,

ownership, justice and exchange; all to culminate in the beneficial growth of wealth.

In some ways Hume's economics were ahead of his general philosophy. His economic theory was, in part, generative of his ideas concerning human nature and philosophical skepticism. For him, human nature was a mixture of contrary ingredients, whose balance was unstable. Any approach to problems must be constantly revised, retested and redesigned to take into account changes in relationships among the variables.

Today's economist, under the rubric of rational expectations, argues, just as Hume did, that people will adjust their behavior in the light of knowledge and experience gained from the past. This applies to government actions. Therefore, good policy must take into account the changes which the learning process will introduce into the conjunction patterns of the past. Abstract reasoning cannot anticipate such alterations in the cause and effect regularities of the past. For example, the system of John Maynard Keynes, for many years in our own time economic orthodoxy, no longer provides the policy guidelines it once did.

Many modern economists accept Hume's economic aphorisms, which we may paraphrase as follows: 1) A nation's strength lies in its productivity; 2) trade benefits everyone, state and people, rich and poor; 3) luxury, economic growth and refinement in the arts are compatible and complementary; 4) the flow of money from nation to nation is the instrument of economic evolution and progress; 5) the rate of interest is an indicator which, read by an experienced eye, tells of the health and growth of the economy; 6) free trade is to be desired; 7) a country cannot become rich by beggaring its neighbors; 8) a government should not tax the rewards of effort lest it destroy the incentive to growth; 9) the public debt in the hands of judicious

magistrates can have beneficial effects, but can also be dangerous; and finally no utopia existed in any past golden age.

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1. David Hume, Writings on Economics, ed. Eugene Rotwein (Madison: University of Wisconsin Press, 1955), pp. ix-xii. We have also consulted a paper presented by Professor Rotwein to the Hume Society in 1976 entitled "David Hume, Philosopher-Economist."
2. A partial list of English utopian works between 1650 and 1700 includes the following titles:
 - a) Robert Norwood, Pathway into England's Perfect Settlement (1653).
 - b) Richard Baxter, A Holy Commonwealth (1656).
 - c) Marchamont Nedham, Excellency of a Free State (1656).
 - d) James Harrington, Oceana (1656).
 - e) Anonymous, Chaos (1659).
 - f) John Elliot, The Christian Commonwealth (1659).
 - g) William Sprinne, Modest Plea for an Equal Commonwealth (1659).
 - h) James Harrington, The Rea Rota (1660).
 - i) Antoine Le Grand, Syndromedia (1669).
 - j) Archbishop Fenelon, Telomachus (1669).
 - k) Gabriel de Foigny, The Australian Land Discovered (1676).
 - l) Anonymous, Free State of Noland (1696).
3. David Hume, "Idea of a Perfect Commonwealth," in Political Essays, ed. Charles W. Hendel (New York: Bobbs Merrill, 1953), p. 146.
4. Hume's references to Plato are in "Of the Original Contract," ed. Hendel, p. 60, and in More and Harrington in "Idea of a Perfect Commonwealth," Ibid., p. 146. Hume's essay, "Of the Populousness of Ancient Nations," Writings on Economics, ed. Rotwein, pp. 108-184, is a reply to Robert Wallace, whose Dissertation on the Numbers of Mankind in Ancient and Modern Times was published in 1753. Hume discussed John Law in his History of England, Vol. XII, pp. 81-82, and he dealt with the quantity

- issue in "Of Money," Writings on Economics, ed. Rotwein, pp. 33-46.
5. Hume, History of England, XII, 71.
 6. Hume, "Of Commerce," Writings on Economics, pp. 8-10.
 7. Ibid., pp. 19-20.
 8. Ibid., p. 33. See also his letter to Montesquieu, Ibid., p. 188.
 9. Ibid., p. 47.
 10. Ibid., p. 60 and 78.
 11. Ibid., p. 86, and Letter to Turgot, pp. 208-9.
 12. Ibid., fn., p. 92.
 13. Ibid., fn. p. 108.
 14. Ibid., p. 76.
 15. Ibid., p. 22.
 16. Ibid., p. 21 and p. 12: "Thus the greatness of the sovereign and the happiness of the state are, in a great measure, united with regard to manufactures. It is a violent method, and in most cases impracticable, to oblige the labourer to toil, in order to raise from the land more than what subsists himself and family. Furnish him with manufactures and commodities, and he will do it himself."
 17. See, for example, "Of Refinement in the Arts," ed. Rotwein, p. 32: "He cannot cure every vice by substituting a virtue in its place. Very often he can only cure one vice by another; and in that case he ought to prefer what is least pernicious to society."
 18. "Of the Balance of Trade," ed. Rotwein, p. 70.
 19. Ibid., pp. 11-12.
 20. Hume, A Treatise of Human Nature, ed. L.A. Selby-Bigge (Oxford, 1888), p. xvii.
 21. Discussions of this point appear in Rotwein, "David Hume, Philosopher-Economist," pp. 17-18, and in David Hume, "The Sceptic," Of the Standard of Taste

and Other Essays, ed. J.W. Lenz (New York: Bobbs Merrill, 1965), p. 121.

22. Hume, Writings on Economics, pp. 135-139.
23. Ibid., pp. 28-29.
24. Ibid., pp. 108-109.
25. Ibid., p. 183.
26. See David Hume, "Of the Original Contract," ed. C.W. Hendel, p. 53: "Some innovations must necessarily have place in every human institution; and it is happy where the enlightened genius of the age give these a direction to the side of reason, liberty and justice. But violent innovations no individual is entitled to make. They are even dangerous to be attempted by the legislature. More ill than good is ever to be expected of them."
27. Hume, "Idea of a Perfect Commonwealth," ed. C.W. Hendel, p. 145.
28. Andrew Fletcher, Overtures Offered to Parliament ... (Edinburgh, 1700); A Discourse of Government with Relation to Militias (Edinburgh, 1698); An Account of a Conversation Concerning a Right Regulation of Governments ... (London, 1704); The Political Works of Andrew Fletcher, Esq. (London, 1732).
29. Hume, "Idea of a Perfect Commonwealth," ed. Hendel, p. 145.
30. Ibid., p. 156. The reforms Hume substituted for his original plan included more equal representation in Parliament, more limitations on the franchise in the counties, removal of bishops and Scottish peers from the House of Lords, and an expansion in that body with elimination of hereditary tenure.
31. John Law, Money and Trade Considered: With a Proposal for Supplying a Nation with Money (Edinburgh, 1705), pp. 10-15.
32. Hume, "Of Public Credit," ed. Rotwein, p. 92.
33. Ibid., "Of Money," pp. 39-40.
34. Ibid., p. 36.