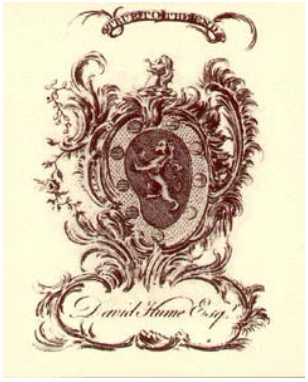

The Eminently Practical Mr. Hume or Still Relevant After All These Years
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> *The practice, therefore, of contracting debt will almost infallibly be abused, in every government. It would scarcely be more imprudent to give a prodigal son a credit in every banker's shop in London, than to impower a statesman to draw bills, in this manner, upon posterity.* (David Hume, *Political Discourses*, 1752)

> If we do not act promptly, the imbalances in the economy are such that the effects of the deficit will be increasingly felt and with some immediacy. (Federal Reserve Chairman, Alan Greenspan, 1988)

When David Hume penned his essays some 250 years ago, he was concerned that Britain's rising national debt — a debt fueled by war and poor debt management that saw fit to *mortgage the public revenues, and to trust that posterity will pay off the incumbrances contracted by their ancestors* — would eventually bankrupt the country.[1]

What the poor man might think of a country facing a budget deficit of $155 billion, a trade deficit of some $130 billion, and a national debt — can you count the zeroes? — of a staggering $2.6 trillion, one can only imagine.

Now imagination, as it happens, plays a central role in Hume's science of man — it is the imagination, after all, that is free to separate, combine, and transpose its ideas — but asking it to conceive of the U.S. economy as it nears the end of the 20th century might indeed by asking too much.

Was Hume particularly prescient? Probably not. What he was was a keen observer of the human experience who believed the principles of human nature formed the foundation of the four sciences of logic, morals, criticism, and politics. And in those four sciences, he wrote, *is comprehended almost every thing, which it can any way import us to be acquainted with, or which can tend either to the improvement or ornament of the human mind.*[2]

It is within the science of politics that *considers men as united in society, and dependent on each other* (T xv) that Hume wrote his nine

economic essays, all but one of which were published in 1752 under the title of *Political Discourses*.[3]

Before taking a look at the essays themselves, some consideration should be given to Hume's place in the history of economic thought, to his contributions to that "dismal science,"[4] and especially to some of the underlying principles in his science of Man.

The World as Hume Knew It

David Hume wrote in an England in which much of the groundwork had been laid for the Industrial Revolution that was officially to begin in the latter 18th century. It was a time of transition, between the dying years of a guild system controlled by artisans and a rising merchant class that both owned the materials and marketed the finished goods, between a primarily agrarian society of landowners and tenants and one increasingly urban as the centers of industry and production moved into the cities.

Hume, while it is unlikely that he foresaw the enormous social and economic upheavals that were to come with the mechanization of industry and the development of an extensive factory system, was certainly aware that an evolution was taking place in society, and one he was emphatic in his approval of.

As he himself says in his essay, "On Interest,"

> *But when men's industry encreases, and their views enlarge, it is found, that the most remote parts of the state can assist each other as well as the more contiguous, and that this intercourse of good offices may be carried on to the greatest extent and intricacy. Hence the origin of* ***merchants****, one of the most useful races of men ... Merchants ... beget industry, by serving as canals to convey it through every corner of the state.*[5]

In praise of the merchant class he differed from his close friend Adam Smith, for whom "merchants were more often anti-social monopolists than beneficent promoters of well-being."[6] That is not to say that Hume thought all was rosy — indeed, as quoted above, he was alarmed at the Britain's mounting public debt, and no doubt realized that a growing landless class would bring with it a host of social issues and problems.

In his *Predecessors of Adam Smith*, A. L. Johnson sees Hume as a "synthetist [*sic*]," a more liberal mercantilist than his predecessors who also saw theoretical contradictions in the economic thought of his time, especially in the area of the balance of trade. Rather than offering a fresh start from square one, Johnson said, Hume's contributions lay in

his ability to borrow from his predecessors and tie together the various aspects of economic activity into a unified theory.[7]

Hume's Contributions

What was original with Hume found its way primarily into two areas: monetary theory and international trade, and the relationships between them.

In the former he makes a couple of distinctions heretofore either ignored by or unknown to his predecessors. The first was to point out the difference between the value of money to the people (for whom Hume considered money merely *the oil which renders the motion of the wheels [of trade] more smooth and easy*) and to the government, for whom more money was an advantage in war and negotiations with foreign countries.[8]

The second, and of far greater import to later monetary theory, was the difference between short- and long-run effects of changes in the money supply. Within the domestic economy, it becomes apparent in the interval between the time the supply of money is increased and the time its effects are felt throughout society. As Hume says in "Of Money,"

> *At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the encreasing quantity of gold and silver is favourable to industry.*[9]

When Hume applies his quantity of money theory to the realm of foreign trade, he concludes that, while a country may enjoy a healthy balance of trade in the short term, the situation would change as the country's prices rose, making its exports more expensive, and leading to a point where its exports would fall below what was imported.

The situation would correct itself, Hume thinks, without interference; indeed his view seems almost a teeter-totter effect, with a country's poor trade balance leading to a favourable one and vice versa, much as water seeks its own level. If England were running what today we would call a trade deficit, Hume asks,

> *Must not the price of all labour and commodities sink in proportion, and everything be sold as cheap as they [once] were ...? What nation could then dispute with us in any foreign market, or pretend to navigate or to sell manufactures at the same price, which to us would afford sufficient profit? In how*

> *little time, therefore, must this bring back the money which we had lost, and raise us to the level of all the neighbouring nations? Where, after we have arrived, we immediately lose the advantage of the cheapness of labour and commodities; and the farther flowing in of money is stopped by our fulness and repletion.*[10]

Hume's second contribution to economic thought was his emphasis on psychological factors in economic activity. "The subject matter of political economy for Hume was man, not a mechanism, a price, or a cost."[11]

His economic theory was, as has been said, part of a unified package whose forming content was an inconstant human nature, a mixture of contrary ingredients — a human nature governed foremost by passions and only incidentally by reason and subject to a diversity of forces that motivate action. Above all, it was a nature determined by man as a social creature, unable to live apart from society and the government that expresses it, providing for diversity while at the same time maintaining uniformity in human life.

"A Heap of Contradictions!"

It is not necessary here, in this brief overview of Humean humanity, to devote much space to Hume's epistemology as contained in the first book of his *Treatise*, "Of the Understanding." And that's fortunate, because the portrait of philosophical scepticism he paints in his discussion of our knowledge (or rather the lack thereof) of the external world and the vision he presents of the self as a flickering succession of loose and separate ideas is downright depressing.

In his eagerness to counter the rationalists and to replace the supremacy of reason with that of experience, Hume ends up between a rock and a hard place; failing to find universal rational principles at work in the great scheme of things, he concludes there is no great scheme of things, only our individual imaginations at work, collecting, separating, and recombining the ideas representing the impressions delivered to our minds through our senses.

And that's **un**fortunate, because Hume had some valuable things to say about what governs our behaviour, what motivates us to act, what makes us tick; and if one were to stop at Book I, the optimistic Hume, the social scientist Hume, the sympathetic Hume might never be met. The philosopher for whom reason provided no universals, it turns out, found some of his own through his empirical observation of mankind going about its daily business.

(Hume, it is of interest to note, conceived of his first two books as a *compleat chain of reasoning by themselves ... If I have the good fortune*

to meet with success, I shall proceed to the examination of ***morals, politics, and criticism;*** *which will compleat this* ***Treatise of human nature*** [T xii], which, of course, he did.)

Our Passionate Existence

For Hume, the same principles of causality — those of constant conjunction and inference — at work in the physical world are operative in the domains of morality and politics.

One does not have to wholly buy into Hume's contentions that moral distinctions can't be derived solely from reason and that reason alone can't provide a motive for or against action to appreciate the role that passions play in human behaviour.

Hume defines passions as a special kind of impressions — reflective ones that proceed either from the original impressions of the senses or from their ideas. They are both calm and violent, direct and indirect. Calm passions include the sense of beauty and deformity in action, composition, and external objects. Violent ones are those of love and hatred, grief and joy, pride and humility.

Both direct and indirect passions arise immediately from pleasure and pain, but the causal mechanism for each type differs in that the indirect passions appear in conjunction with other qualities, connected by any of the three relations of ideas he introduced in Book I: resemblance, contiguity, and cause and effect.[12]

As Hume describes it, pleasure/pain produce in us such direct passions of desire/aversion, joy/grief, hope/fear, and security/ despair. Just how those passions motivate the will to action depends on how we perceive the results of our various options, and those relations of cause and effect are discovered for us through reason. So our impulse to act, while it may be directed by reason, does not arise from it.

Just as reason does not supply the impulse to act, neither can it oppose the will to act; what's needed here is a counteracting passion, a role fulfilled by what Hume calls the calm passions, *which, tho' they be real passions, produce little emotion in the mind* (T 417) and are often erroneously perceived as reason counselling us to act in opposition to our will.

Passions, will, and action are all part of the same causal chain whether the impulse and the resulting motivation are to a moral act or an economic one. In the physical world, it is custom that is the main influence on the imagination, causing it to connect the impression of one object to the idea of another based on their constant conjunction. In the realm of human activity, the relationship is between motives and actions.

Nothing, Hume says, *has a greater effect both to encrease and diminish our passions, to convert pleasure into pain, and pain into*

pleasure, than custom and repetition (T 422). Custom thus exercises control over human behaviour by converting customary actions into habitual ones, a role that is of no little importance in Hume's economic essays.

One last word about custom: it is the principle through which we determine that like causes produce like effects and thus through which we apprehend the uniform principles of human nature and the uniformity of human actions. Though each of us is our own "heap of contradictions," though there are also *characters peculiar to different nations and particular persons*, there are also those *common to mankind. The knowledge of these characters*, Hume tells us, *is founded on the observation of an uniformity in the actions, that flow from them; and this uniformity forms the very essence of necessity* (T 403).

The Essays

> *Of these proprietors of land, some must presently discover themselves to be of different tempers from others; and while one would willingly store up the produce of his land for futurity, another desires to consume at present what should suffice for many years ... The difference depends not on the quantity of money, but on the habits and manners which prevail. By this alone the demand for borrowing is encreased or diminished.* (David Hume, *Political Discourses*, 1752)

> Because, partly on reasonable and partly on instinctive grounds, our desire to hold Money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future ... The possession of actual money lulls our disquietude; and the premium which we require to make us part with money is the measure of our disquietude. (John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, 1930)

Setting aside for the purpose at hand Hume's essay, "Of the Populousness of Ancient Nations," the remaining eight essays take on five related issues: monetary theory, interest theory, the question of free markets, taxes, and fiscal policy.[13] Just as the issues are related to one another, so too are the economic, social, cultural, and political factors that define them.

So, rather than consider each essay as a separate piece, the review here will attempt to take them as a whole, highlighting those parts of Hume's economic theory reflective of his views of human nature as put forth in his *Treatise*.

Of the eight essays under consideration, it is in the one with a deceptively uneconomic title, "Of Refinement in the Arts," that Hume most clearly states the relation between economic activity and the goals of the motivated participants.

> *Human happiness, according to the most received notions, seems to consist in three ingredients; action, pleasure, and indolence: And though these ingredients ought to be mixed in different proportions, according to the particular disposition of the person; yet no one ingredient can be entirely wanting, without destroying, in some measure, the relish of the whole composition.*[14]

He had begun considering the causes of why men labour in his essay, "Of Commerce": *Every thing in the world is purchased by labour; and our passions are the only causes of labour.*[15] He restates it in "Of Interest": *There is no craving or demand of the human mind more constant and insatiable than that for exercise and employment; and this desire seems the foundation of most of our passions and pursuits.*[16]

Labour, of course, is a distinctly human activity, **the** human activity that makes the world go 'round. When industry and the arts flourish, men not only enjoy the fruits of their labors, but the satisfaction of the labour itself; take away the activity and men are deprived both of action and the pleasure that accompanies it. What's left is indolence, which, in small doses, *is requisite as an indulgence to the weakness of human nature, which cannot support an uninterrupted course of business or pleasure.*[17] Too much, though, and languor and lethargy result, for deprived of his business and occupation man *runs restless from one amusement to another; and the weight and oppression, which he feels from idleness, is so great, that he forgets the ruin which must follow him from his immoderate expences.*[18]

As refinement progresses in the mechanical arts, so it will in the liberal. The period which sees more skilled craftsmen will also see more philosophers, politicians, and poets. The energy of a flourishing society thus infuses all aspects of human activity, and, so enriched, populations once content to live the rural life will flock to the cities *to receive and communicate knowledge; to show their wit or their breeding; their taste in conversation or living, in clothes or furniture.*[19]

Lest we get carried away in the excitement of what appears to be the best of all possible worlds, however, one has only to turn to the *Treatise*, where Hume, true to his "heap of contradictions" view of mankind, is quite specific about the downside to the euphoria. The benevolence he introduced as one of the calm passions that act as a

counterweight to our more violent emotions such as anger is not unlimited.

In general, it may be affirm'd, that there is no such passion in human minds, as the love of mankind, merely as such, independent of personal qualities, of services, or of relation to ourself (T 481). Our circle of selflessness and generosity, rather, is circumscribed around our associations of family, friends, and acquaintances and is of varying degree. *Ceteris paribus, A man naturally loves his children better than his nephews, his nephews better than his cousins, his cousins better than strangers* (T 483-4).

So far so good, until competition enters the picture and the selfish wants of one of us run counter to those of another, the type of conflict that arises most often in disputes of property. Man's acquisitive nature is as undeniable as it is universal.

> *This avidity alone, of acquiring goods and possessions for ourselves and our nearest friends, is insatiable, perpetual, universal, and directly destructive of society. There scarce is any one, who is not actuated by it; and there is not one, who has not reason to fear from it, when it acts without any restraint, and gives way to its first and most natural movements. So that upon the whole, we are to esteem the difficulties in the establishment of society, to be greater or less, according to those we encounter in regulating and restraining this passion.* (T 491-2)

It is from this acquisitiveness, combined with man's limited generosity toward to his fellows, that justice originates, and it is through observing the rules of justice that man protects his own interests. However — and this is a big however — man, contradictory creature that he is and forever subject to his passions, doesn't always act in his own interest, which is the long-term maintenance of order in society. Instead, he often goes for the short-term advantage, and that propensity, if left unchecked, would spell doom for *the commerce of men ... This quality, therefore, of human nature, not only is very dangerous to society, but also seems, on a cursory view, to be incapable of any remedy* (T 535).

There is a remedy, of course, and that is a government to which participants give their mutual consent to appoint specific people to enforce rules of justice, a government to which we've become morally obligated and to which we continue to owe allegiance through custom.

> *When we have been long accustom'd to obey any set of men, that general instinct or tendency, which we have to suppose a moral*

> *obligation attending loyalty, takes easily this direction, and chuses that set of men for its objects. 'Tis interest which gives the general instinct; but 'tis custom which gives the particular direction.* (T 556)

Once in place it is the duty of the state to protect the public good, with private and public interests inextricably intertwined. *The greatness of a state, and the happiness of its subjects, how independent soever they may be supposed in some respects, are commonly allowed to be inseparable with regard to commerce.*[20] The private sector gets security from the public; the public gets its riches and power from the private.

The State and Its Sphere

> *Nothing is more usual, among states which have made some advances in commerce, than to look on the progress of their neighbours with a suspicious eye, to consider all trading states as their rivals, and to suppose that it is impossible for any of them to flourish, but at their expence ... [but should] they lose such a [manufacturing advantage], they ought to blame their own idleness, or bad government, not the industry of their neighbours.* (David Hume, *Political Discourses*, 1758)

> The U.S. cannot always stick to the rules of free trade when other nations do not. At times, it may be advisable to impose temporary protectionist measures as a bargaining chip. But that weapon should be used sparingly. The flap about fair trade obscures an inescapable fact: the fault for our industrial woes lies not with our trading partners but in ourselves. (Charles P. Alexander, *Time*, October 1988)

Writing when he did, at a time when England's international markets were rapidly expanding, Hume saw the economic sphere in which men operated as reaching beyond the boundaries of any particular state. The riches and commerce of one state engaged in foreign trade promote the riches and commerce of its trading powers and their subjects. Imports furnish raw materials, exports create jobs manufacturing goods that can't be consumed at home. A state, in short, with a flourishing international economy is more powerful, richer, and happier, and so are its citizens.

Those citizens, as Hume was well aware, need motivation of the type that a healthy foreign trade provides: *Thus men become acquainted with the pleasures of luxury and the profits of commerce;*

and their delicacy and industry, being once awakened, carry them on to farther improvements, in every branch of domestic as well as foreign trade.[21] A taste of the good life, then, inspires men to greater efforts to improve their standard of living.

But Hume points out that the advantages must flow to all who share in the labour.

> *A too great disproportion among the citizens weakens any state. Every person, if possible, ought to enjoy the fruits of his labour, in a full possession of all the necessaries, and many of the conveniencies of life. No one can doubt, but such an equality is most suitable to human nature, and dimishes much less from the* ***happiness*** *of the rich than it adds to that of the poor.*[22]

It is in passages like this one that Hume's egalitarian approach to motivation is most evident. Hume doesn't distinguish between the desires of different classes of men; all men seek the happiness that comes through pleasure and action.[23] Though a day-laborer isn't the social equal of the men of quality so admired by Hume, he is driven by the same motivations for a better life and requires some form of decent reward for his labors.

Luxury has a definite role to play in this scheme of things. It can be both virtue and vice, innocent and vicious, depending on the people and circumstances involved. Innocent luxury is refinement, and *the ages of refinement are both the happiest and most virtuous ... wherever luxury ceases to be innocent, it also ceases to be beneficial.* The former ages are those when industry and the arts flourish, when *industry, knowledge, and humanity, are linked together by an indissoluble chain* and diffuse their advantage in both private and public sectors, rendering *the government as great and flourishing as they make individuals happy and prosperous.*[24]

Luxury shows its other face, however, when the desire for it becomes excessive; it becomes disadvantageous and vicious. But even vicious luxury, since it represents an activity resulting from a desire, is preferable to the sloth and indifference — the absence of purposeful activity — that would take its place, and *when sloth reigns, a mean uncultivated way of life prevails amongst individuals, without society, without enjoyment.*[25] It's not good to eliminate one vice, Hume says, if others even less desirable remain.

Hume's Legacy

To call Hume "one of the great English utilitarian philosophers" as some have done[26] is, it would seem, to miss the mark.

True, the utilitarian buzz words of happiness and self-interest are sprinkled liberally throughout both the *Treatise* and the *Essays*; but if Hume subscribes to a principle of utility in his economic writings, it is not a normative one. In keeping with his approach to a study of our understanding, behavior, and morality, Hume sought to present a descriptive view of the way the world turns.

The individual happiness that Hume sees each of us pursuing is not to be attained through the deliberative calculation that is so much a part of at least classical utilitarian theory. Given that we are governed by our passions, the possibilities of our forming our behavior around a goal of relative advantage at every turn hardly seems possible. The ways by which our imaginations relate ideas through the principles of resemblance, contiguity, and cause and effect are not teleological — it's only after reason reflects on the information that we may adjust our behavior. But at least initially there seems to be no means-end processing at work here, no calculation of consequences. Man, heap of contradictions that he is, operates rationally only insofar as it is with reason subservient to the empirical evidence presented to our senses by our impressions.

What Hume has given us is a psychological explanation to the emotive, not the rational, human nature.[27] It's an explanation characterized by its practicality and pragmatism: mankind requires the stimulus of incentive and reward to carry on the business at hand; while it is the role of the state to look out for the public good, it is not its role to try to change man's fundamental nature.

Hume saw his own role and that of philosophers in general as the study of *the general course of things*. Most of us are too involved in the particulars to ever enlarge our views to universal propositions. And it is the general principles, *if just and sound*, that must prevail.[28]

Was he successful?

An author is little to be valued, he says, setting his own standard, *who tells us nothing but what we can learn from every coffee-house conversation.*[29]

By that mark, then yes indeed, Mr. Hume. Yes, indeed.

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1. David Hume, "Of Public Credit," in *David Hume: Writings on Economics*, ed. Eugene Rotwein (Madison, 1955), 90-106.
2. David Hume, *A Treatise of Human Nature*, ed. L. A. Selby-Bigge, 2nd ed., rev. ed. P. H. Nidditch (Oxford, 1987). Further references ("T") will be given in parentheses within the body of the text.

3. The essay, "Of the Jealousy of Trade," appeared six years later, in 1758.
4. The phrase is said to have originated around 1798 with Thomas Carlyle after reading the newly published *An Essay on the Principle of Population as It Affects the Future Improvement of Society* by Thomas Malthus.
5. Hume, "Of Interest," in *Writings on Economics* (above, n. 1), 52-3.
6. E. A. J. Johnson, *Predecessors of Adam Smith* (New York, 1937), 164.
7. Johnson (above, n. 6), 162-3.
8. Hume, "Of Money," in *Writings on Economics* (above, n. 1), 33.
9. Hume, "Of Money," in *Writings on Economics* (above, n. 1), 38.
10. Hume, "Of the Balance of Trade," in *Writings on Economics* (above, n. 1), 63.
11. Robert Lyon, "Notes on Hume's Philosophy of Political Economy," *Journal of the History of Ideas* 31.3 (July-September 1970): 457.
12. David Miller, *Philosophy and Ideology in Hume's Political Thought* (Oxford, 1981), 44.
13. Rotwein (above, n. 1), liv.
14. Hume, "Of Refinement in the Arts," in *Writings on Economics* (above, n. 1), 21.
15. Hume, "Of Commerce," in *Writings on Economics* (above, n. 1), 11.
16. Hume, "Of Interest," in *Writings on Economics* (above, n. 1), 53.
17. Hume, "Of Refinement in the Arts," in *Writings on Economics* (above, n. 1), 21.
18. Hume, "Of Interest," in *Writings on Economics* (above, n. 1), 53.
19. Hume, "Of Refinement in the Arts," in *Writings on Economics* (above, n. 1), 22.
20. Hume, "Of Commerce," in *Writings on Economics* (above, n. 1), 5.
21. Hume, "Of Commerce," in *Writings on Economics* (above, n. 1), 14.
22. Hume, "Of Commerce," in *Writings on Economics* (above, n. 1), 15.
23. E. J. Hundert, "The Achievement Motive in Hume's Political Economy," *Journal of the History of Ideas* 35.1 (January-March 1974): 141.
24. Hume, "Of Refinement in the Arts," in *Writings on Economics* (above, n. 1), 20, 23.
25. Hume, "Of Refinement in the Arts," in *Writings on Economics* (above, n. 1), 32.
26. Philip C. Newman, Arthur D. Gayer, et al., eds., *Source Readings in Economic Thought* (New York, 1954), 86. Also in Lyon (above, n. 11), 460.
27. Lyon (above, n. 11), 458.
28. Hume, "Of Commerce," in *Writings on Economics* (above, n. 1), 4.
29. Hume, "Of Commerce," in *Writings on Economics* (above, n. 1), 3.