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## David Hume and Public Debt: Crying Wolf?

JOHN CHRISTIAN LAURSEN and GREG COOLIDGE

David Hume's views on public credit have not only received prominent attention in the literature on his political thought, but have even been the subject of attention in *The Wall Street Journal*.<sup>1</sup> Most of the attention has centered on Hume's essay "Of Public Credit" of 1752, and treats it only as an expression of ideas, without relating it to the historical facts. This note lays out Hume's views on this matter throughout his lifetime, and juxtaposes them with figures for the actual public debt, carrying the story down to the twentieth century.

Public debt as we know it only goes back about 300 years. The British government in the 1690s was the first modern government to establish enough genuine credit that private citizens would loan it money without having to be compelled.<sup>2</sup> At the turn of the century, in the year 1700, the British public debt amounted to 14.2 million pounds sterling.<sup>3</sup>

As early as 1741, Hume was already worrying about the public debt in the essay "Of Liberty and Despotism" (later changed to "Of Civil Liberty"). In the last paragraph of that essay, he wrote of the "degeneracy" brought about by public debt, suggested that debt-service "taxes may, in time, become altogether intolerable, and all the property of the state be brought into the hands of" the government. If it is not curbed, we may come to "curse our very liberty," he wrote.<sup>4</sup> That year, the national debt totaled 48.8 million pounds (45.2 million in 1701 pounds<sup>5</sup>).

Hume's essay of 1752, "Of Public Credit," was devoted entirely to criticism of the public debt (*Essays*, 349–365). His thoughts on public credit at this time can be summed up in this ominous warning:

It must, indeed, be one of these two events; either the nation must destroy public credit, or public credit will destroy the nation. (*Essays*, 360–361)

Hume acknowledged that the use of public credit could benefit the economy in some ways:

more men with large stocks and incomes, may naturally be supposed to continue in trade, where there are public debts; and this, it must be owned, is of some advantage to commerce, by diminishing its profits, promoting circulation, and encouraging industry. (*Essays*, 354)

But the many disadvantages would outweigh such advantages (*Essays*, 354–355):

- 1) "It is certain, that national debts cause a mighty confluence of people and riches to the capital," making the head too large for the body.
- 2) Public stocks "banish gold and silver from the most considerable commerce of the state."
- 3) The taxes levied to pay the interest oppress the poorer people.
- 4) "As foreigners possess a great share of our national funds, they render the public, in a manner, tributary to them, and may in time occasion the transport of our people and our industry."
- 5) Public credit encourages an idle and useless rentier class.

All of this pales, however, in comparison to the political consequences.

From the point of view of the body politic, public credit was a threat to the security of the state. It would die a natural or a violent death. In wartime, or some national emergency, the funds necessary for the functioning of the economy would be diverted to other purposes. The economy, now dependent on credit, would crumble.

The whole fabric, already tottering, falls to the ground, and buries thousands in its ruins. And this, I think, may be called the natural death of public credit. (*Essays*, 363)

Another scenario would occur if the government became too indebted to intervene in maintaining the balance of power in Europe.

Our children, weary of the struggle, and fettered with encumbrances, may sit down secure, and see their neighbors oppressed and conquered; till, at last, they themselves and their creditors be both at the mercy of the conqueror. And this may properly enough be denominated the violent death of our public credit. (*Essays*, 365)

In 1752, the year that Hume published this essay, the debt totaled 76.9 million pounds (82.7 million in 1701 pounds).

Hume's position after this period is especially remarkable in view of his association with Isaac de Pinto in Paris and in London, starting in 1764. De Pinto's *Traité de la Circulation et du Crédit* was one of the first works to bring out the positive benefits of public credit, refuting Hume's views.<sup>6</sup> It was praised by later economists from Dugald Stewart and Henri Sée to Karl Marx and Werner Sombart. Among other points, it drew attention to the role of the public debt in fostering credit and increasing circulation of money and goods. It had been circulating in Paris in manuscript since 1761, and de Pinto claimed that he had convinced many people that England was not on the verge of bankruptcy because of the Seven Years War, which ended in 1763. De Pinto wrote of showing it to Hume in 1764 and it was published in French in 1771 and in English translation in 1774. In the meantime, the economist Thomas Mortimer supported de Pinto's theories against Hume in *The Elements of Commerce, Politics and Finances* of 1772.<sup>7</sup>

Yet all of this seems to have had no effect on Hume, who continued to reprint his essay "Of Public Credit" without significant changes, and returned to the issue again and again in his letters to William Strahan, especially in the years 1769–1775. In a letter of 25 October 1769, he wrote (facetiously) that he hoped to see a "public Bankruptcy."<sup>8</sup> In a letter of 11 March 1771, he asserted that war debt would mean "certain and speedy Ruin either to the Nation or to the public Creditors," and he returned to the subject in a letter of 25 March of the same year.<sup>9</sup> By 25 June of that year, he wrote of "our public Debts, which bring on inevitable Ruin, and with a Certainty which is even beyond geometrical, because it is arithmetical."<sup>10</sup> And on 19 August, he railed on about the debt, predicting that "the violent remedy" would be applied "about the third or fourth Year" of the next war.<sup>11</sup> On 26 October 1775, he wrote of the "overwhelm'd and totally ruin'd State of our Finances."<sup>12</sup> In 1769, the British public debt was 130.3 million pounds (131.6 million in 1701 pounds); in 1771, it had actually dropped to 128.9 million pounds (120.5 million in 1701 pounds), and in 1775, it was 127.3 million pounds (112.7 million in 1701 pounds).

The final, carefully corrected version of Hume's *History of England*, published after his death in 1778, indicates that Hume retained his fears until his death. The end of chapter XXI, on Henry IV, notes that the "first instance of debt contracted upon parliamentary security occurs in this reign, and then goes on to add that the "ruinous effects of it are now become apparent, and threaten the very existence of the nation."<sup>13</sup> In 1778, the debt stood at 143.1 million pounds (122.4 million in 1701 pounds).

The debt reached 426.6 million pounds by 1799 (266.6 million in 1701 pounds). In 1819 it peaked at 844.3 million pounds (439.9 million in 1701 pounds), not to be reached again until 1915. In those intervening years of fiscal conservatism (and alternating minor inflation and deflation), the public debt slowly declined, bottoming out at 568.7 million pounds in 1900 before starting back up. Since these were arguably the glory years of the British Empire, a declining debt may have contributed to that glory, even if the gross amount was much higher than Hume ever saw. But war ended fiscal conservatism. In World War I the debt soared to 7.1 thousand million pounds by 1919 (5.4 thousand million in 1914 pounds),<sup>14</sup> and World War II brought it up to 21.4 thousand million pounds in 1945 (17.2 thousand million in 1929 pounds). In 1980, it had reached 95 thousand million pounds.

For a full appreciation of the meaning of the figures cited above, we need some idea of the relative size of the debt to the economy as a whole. For the period before 1830 we do not have reliable GNP or GDP figures. Since Britain was above all famous for its trade, a rough indication of the vitality of the economy can be drawn from external trade figures. In the year 1700, combined import and export trade figures for England and Wales totalled 11.7 million pounds.<sup>15</sup> In 1741, this had risen to 17.5 million pounds. In 1752 it was 19.6 million pounds; in 1769, 25.3 million pounds; in 1771, 29.9 million pounds; in 1775, 28.8 million pounds; and in 1778, 21.8 million pounds. The drop-off in the last years was probably caused by the American rebellion, because a few years later, in 1785, trade was back up to 30 million pounds and it continued to rise in the following years. In the eighteenth century the debt rose faster than trade, but trade still showed a robust growth.

After 1830, we have GDP figures. In that year, GDP was 440 million pounds in current prices, 432 million pounds in constant (1900) pounds.<sup>16</sup> In 1919, it was 5.55 thousand million pounds in current prices or 4.31 thousand million pounds in 1900 prices (Mitchell, *Abstracts*, 897), figures slightly lower than the debt, as reported above. In 1945 GDP was 8.67 thousand million pounds in current prices or 5.79 thousand million pounds in 1938 constant prices (Mitchell, *Abstracts*, 905), which was roughly two-fifths of the debt, as reported above. In 1980, it was 201 thousand million pounds in current prices or 278 thousand million pounds in 1985 constant prices (Mitchell, *Abstracts*, 908), roughly twice the debt. And throughout the 1980s, the British GDP continued to grow.

Did Britain ever face the dire consequences that Hume predicted? In the hundred years after his death, it went on to win the Napoleonic Wars, pioneer the industrial revolution, maintain a vast empire, and become one of the richest countries in the world. Debt did not prevent these achievements and observers might have said that Hume was greatly exaggerating the danger.

But war and debt eventually caught up with the political power of the British Empire, as we all know. World War I was the beginning of the end, and World War II and its aftermath finished the job. War debt was surely a factor in reducing Britain to a second-rate power and lowering its standard of living compared to other industrialized countries.

Now, it may be thought that Hume would have to defend war debt, at least if a war is genuinely necessary. But he had only negative things to say about it.

I must confess, when I see princes and states fighting and quarrelling, amidst their debts, funds, and public mortgages, it always brings to mind a match of cudgel-playing fought in a China shop. (*Essays*, 362)<sup>17</sup>

He professed to prefer the ancient practice of accumulating treasure *before* war breaks out; and if borrowing is necessary, then it should be paid off after the war (*Essays*, 349–351).

In spite of the decline of its empire, Britain's public debt never died the natural or violent death predicted by Hume in "Of Public Credit." Britain never had to declare a public bankruptcy, and it was never conquered (although that was largely because of good luck in having the right allies). What might the lesson of Hume's warnings and the actual British experience be for us? That the time it takes for public debt to destroy a country may be harder to predict than we think. That rather than declaring bankruptcy, countries with staggering public debts may simply decline into second-rate or third-rate powers with lower standards of living. And that countries with large debts should choose their allies very carefully.

## REFERENCES

1 See, for example, Eugene Rotwein, ed., *David Hume: Writings on Economics* (Madison: University of Wisconsin Press, 1955), lxxxiii–lxxxviii; David Miller, *Philosophy and Ideology in Hume's Political Thought* (Oxford: Oxford University Press, 1981), 131–137, 156, 165–166, 181; Thomas M. Humphrey, "LDC Lenders Should Have Listened to David Hume," *The Wall Street Journal*, February 21, 1989, A20 (reprinted with changes in *Bulletin of the Hume Society*, 13:1 [1989], 3).

Hume's views on public credit have been crucial evidence in discussions of Hume's larger political affiliations. In the same year that Duncan Forbes wrote that "Hume at any rate was wholly untouched by that Machiavellian moralism, or the political pathology concerned with the degree of corruption and lack of public spirit in a state, which was so all-pervasive in eighteenth-century Britain" (Forbes, *Hume's Philosophical Politics* [Cambridge: Cambridge University Press, 1975], 224–225), J. G. A. Pocock used Hume's views on public credit to make the case for Hume's Machiavellian civic republican credentials (Pocock, *The Machiavellian Moment* [Princeton: Princeton University Press, 1975], 496–497).

2 See P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit 1688–1756* (London: Macmillan, 1967).

3 All debt figures are taken from B. R. Mitchell, ed., *British Historical Statistics* (Cambridge: Cambridge University Press, 1988), 600–603. The usual reservations about the accuracy of such figures must be entered, but we are assuming that they are at least roughly accurate. In a letter of 11 March 1771, Hume mentions a growth in the debt by 100 million pounds from 1740 to 1761, but the modern figure is only 66.8 million pounds (83.2 by 1770).

4 David Hume, *Essays Moral, Political, and Literary*, edited by Eugene F. Miller, revised edition (Indianapolis: Liberty Classics, 1987), 95–96; hereafter cited within the text as *Essays*.

5 To control for inflation and deflation, current pounds figures for each year will also be expressed in constant pounds. These are obtained by adjusting the current figures by the Schumpeter-Gilboy consumer price indices for the period 1701–1819, as found in Mitchell, *British Historical Statistics*, 719–720. They are obtained for the following years from the inflation tables in B. R. Mitchell, *International Historical Statistics, Europe 1750–1980* (New York: Stockton Press, 1992), 846–850.

6 Richard H. Popkin, "Hume and Isaac de Pinto," *Texas Studies in Literature and Language*, 12:3 (1970). See also Richard H. Popkin, "Hume and Isaac de Pinto, II. Five New Letters," in *Hume and the Enlightenment*, edited by William B. Todd, (Austin: University of Texas Press, 1974). De Pinto was not the first to defend public debt, however. Hume seems to have had J.-F. Melon's *Essai politique sur le commerce* (1734) in mind in "Of Public Credit": see *Essays*, 356.

7 The material in the preceding five sentences is drawn from Popkin, "Hume and Isaac de Pinto," 428–429, 425, 420, 424, 427.

8 J. Y. T. Greig, ed., *The Letters of David Hume* (Oxford: Clarendon Press, 1932), II, 210.

9 *Letters*, II 237, 242.

10 *Letters*, II 245.

11 *Letters*, II 248.

12 *Letters*, II 301.

13 David Hume, *The History of England* (Indianapolis: Liberty Classics, 1983). Vol. 2, 454.

14 The Schumpeter-Gilboy tables only cover up until 1823. Here we begin using the International Historical Statistics figures, as mentioned above in note 5. These figures change the base year frequently, so our use of them here is only to give some suggestion of the kind of inflation that occurred during the twentieth century.

15 The figures in this paragraph are drawn from Mitchell, *British Historical Statistics*, 448–449.

16 Figures are from Mitchell, *International Historical Abstracts*, 889ff. hereafter cited in the text.

17 This quote was borrowed by Kant in *The Strife of the Faculties* (see Hans Reiss, ed., *Kant's Political Writings*, 2nd ed [Cambridge: Cambridge University Press, 1991], 190).

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