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Loren Gatch

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To Redeem Metal with Paper: David Hume's Philosophy of Money

LOREN GATCH

David Hume's writings on political economy, and on money in particular, constitute only a small portion of his encyclopedic work.¹ His stature in histories of economic thought appears correspondingly modest. In particular, Hume is credited by economic historians with having articulated an early version of the self-regulating mechanism of classical trade theory, and its relation to the quantity theory of money.² This essay challenges the accepted view that money is a minor aspect of Hume's work. Instead, this essay argues that, by interpolating Hume's limited treatment of money into his wider philosophical concerns, money takes on a much wider significance for Hume's social thought than has been heretofore appreciated. Hume's analyses of the understanding and the passions do point to a central role for money in a Humean society. While such a role is only hinted at in Hume's actual discussion of money, his larger epistemological and moral doctrines imply that money transactions are the ideal units of social life. Money must become the mediator of social relations because a society actuated on Humean psychological principles would otherwise be an entropic one. This entropy is derivable both from Hume's doctrine of sensationalism and his formulation of utilitarian self-interest and sympathy in sensationalist terms. In short, implicit in Hume's thought is something like a Humean philosophy of money.

This argument not only reintroduces money into Hume's other concerns, but highlights a triplet of reversals that are immanent in Humean social

thought. First, Hume holds that proper money must be made of a precious metal, and that paper currency is at best an inferior representation of its metallic original. Yet, as we shall see, Hume's thought reverses the original logic of representation: it is actually representative paper that redeems metal. This first reversal leads to a second: far from being a minor and derivative part of his work, Hume's writings on economy and money can actually be read as an important contribution to his moral and natural philosophy. Finally, money as a social institution ostensibly represents but one convention among many. Yet it is money itself that redeems Hume's moral vision, in the sense that a money consciousness, and monetary experience, provide a way out of the civilizational decadence implied by Hume's reliance upon convention.

This is a large argument whose contours can only be sketched in the following pages. The keys to this interpretation are found at the two points where Hume contradicts the putative neutrality of money implied by the quantity theory: (i) his argument that an expansion (or contraction) of the money supply has real effects in the short-to-medium term;³ and (ii) his abhorrence of paper money—particularly those fiduciary emissions of the government itself. These exceptions to the neutrality postulate of the quantity theory harbor the suggestion that the development of social life is identical with the progressive monetization of all human relations. In a wider historical perspective, this monetization is tantamount to a society-wide loss of control over the nature and definition of money that is made palatable by the transformation of money from a political to a technical issue.

Let us consider this argument in the following stages. First, we will contrast briefly the monetary legacies of Hume and Locke. Given Locke's importance as a theoretician of political liberalism, and the salient role money plays in his theories, it behooves us to orient our discussion of Hume's monetary ideas with a short review of Locke's, especially since the obvious similarities between the two thinkers mask deeper differences. Then, we will turn to Hume's specific monetary ideas. Next, we will situate these ideas in his other economic writings. In turn, his monetary and economic doctrines can be inserted into his moral and natural philosophy in such a way as to correct for the degenerative implications of this philosophy. As a result, we can appreciate why money would emerge as the central institution of a Humean society.

Acknowledging the importance of money as a social institution also encourages us to look harder at such accepted distinctions as that between commerce and virtue, or liberty and authority, that have animated many interpretations of liberal political theory. For if money is not merely a tool of an existing economic rationality, but actually structures the very possibility of such rationality, then we may find embedded in the nature of money itself important non-rational underpinnings of the capitalist ethos. In particular, our compulsion to place trust in money finds no grounding in any utilitarian

calculus. Thus, the particular meaning of money for Hume's thought points to a more enduring problem with the political significance of money in modern civilization.

Locke and Hume: From Consent to Convention

While, like Locke, Hume addresses the origins of justice and property, money does not have the same significance in Hume's thought as it does in Locke's. There is, in Hume's writings, no "smoking gun" such as the famous Chapter Five of Locke's *Second Treatise* that has inspired scholars from Laski to Appleby to regard Locke as a theorist of bourgeois capitalism. Nor did Hume engage in practical polemics such as Locke's contributions to the recoinage debate of the late seventeenth century. In contrast, Hume's economic essays are valued not for their originality or public effect, but for their felicitous synthesis of ideas first enunciated by other writers; these essays give the easy impression of having been crafted at leisure, and intended to be read at leisure.

To an extent, this differing importance of money in their thought can be traced to their respective treatments of the relation between nature and human artifice. For Locke, money is the crucial mechanism by which individuals' differences in their ability to acquire property (particularly differences in their nature-given ability to reason) can be reified and perpetuated, leading to enduring inequalities of wealth and power. In the absence of money, individuals are limited in the amount of property they can accumulate both by the subjectivity of value—property is created by the mixing of one's labor with the resources provided by nature—and by the divinely inspired injunction against waste. The existence of money as a store of value and a medium of exchange allows individuals to circumvent these natural limits. Moreover, the resulting inequalities of property are justified, in Locke's view, because the use of money is based upon a putative, tacit consent—of the same sort that legitimates government itself.⁴

For Hume, the origins of justice, property, and money are different. None are derivable from a state of nature; they are preeminently conventions that serve to regulate human self-interest. A convention is "a general sense of the common interest" that is "not of the nature of a promise: for even promises themselves...arise from human conventions."⁵ Conventions such as justice are the accretion of artificial, not natural virtue. Conventions correct for people's natural inclination to be partial to those closest to them.

[O]ur natural uncultivated ideas of morality, instead of providing a remedy for the partiality of our affections, do rather conform themselves to that partiality, and give it an additional force and influence. (T 489)

This remedy

is not derived from nature, but from *artifice*; or more properly speaking, nature provides a remedy in the judgment and understanding, for what is irregular and incommodious in the affections. (T 489)

Indeed, convention not only protects property, but also protects society from the proprietary urges of humanity:

This avidity alone, of acquiring goods and possessions for ourselves and our nearest friends, is insatiable, perpetual and universal, and directly destructive of society. (T 491–492)

To argue, as does Locke, that conventions are based upon consent, is to beg the question of their origins. For acts of consent, tacit or otherwise, presuppose prior states of social concordance whose own origins may be violent or otherwise irrational.

Taking money as a convention thus seems to reduce its importance in Hume's thought: For what needs to be explained is not money *per se*, but the social psychology—the interaction of self-interest and sympathy—that underlies conventions of all sorts. As Hume at various points declaims, monetary conventions are insubstantial realities; against the already beleaguered doctrines of mercantilism that equated money and wealth, Hume asserts that “men and commodities are the real strength of any community,” a community whose vitality depends upon “the industry, morals, and numbers of its people.”⁶ Hume's monetary ideas exhibit little of the mercantilist residue that is found in Locke's writings, such as Locke's solicitude for trade surpluses, and the supplies of specie they bring. Unlike Hume, Locke condemned luxury, and never developed a complete notion of a flow mechanism that would determine money supply and prices at the international level.⁷

These differences notwithstanding, Locke and Hume cleave to the quantity theory of money. Broadly speaking, this theory holds that the quantity of money can be regarded as an exogenous variable that determines the price level; that transactors exhibit a stable demand for money balances; and that real economic output is determined independently of the quantity of money or the level of prices. In terms of the social reality of money, the quantity theory insists upon a basic distinction between nominal and real phenomena, and upon money's conventionality and neutrality. Yet both Locke and Hume remained convinced that money must be metallic in character. In Locke's case, we find in the literature different interpretations that link his metallism to his political philosophy as well as to his epistemology. If money exists in the state of nature, then it must be assimilable to the economic laws of value that govern all commodity exchange. Money must be a substantive commodity, since humans consent to the exchange of goods for money as they

would for any barter transaction. Simply put, money must be a species of property. At the same time, a key presupposition of the quantity theory of money holds that money is not a commodity like any other: its special status as the universal equivalent in economic exchange places it apart from the vicissitudes of supply and demand that govern the value of other, non-monetary commodities.⁸

Given this dual character of money, a vexing problem emerges. How can one distinguish between changes in the relative values of specific commodities, and changes in the value of money itself? In effect, money's status as a commodity interferes with its function as a means of exchange.⁹ The epistemological counterpart of this problem also emerges from the prepolitical character of Locke's concept of money. If money emerges from a system of consensual commodity exchange, then it must have a substantive basis. At the same time, money's exchange function raises it out of the sphere of commodity circulation, imparting to it an irreducibly abstract, social character. To that extent, money assumes, in Locke's terms, a "mixed mode" existence that imparts to the very meaning of money a conceptual instability which undermines its role in sustaining a political economy of property.¹⁰

Hume's Monetary Economics

Hume's discussions of money, and of its relation to economic activity, occur in several essays first published under the title *Political Discourses* (1752). In them Hume propounds a quantity theory of money, asserting that "the prices of commodities are always proportioned to the plenty of money." This proportionality reflects the essentially neutral character of money. Hume stresses the role of money as a conventional medium of exchange; it is

only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of trade: It is the oil which renders the motion of the wheels more smooth and easy. ("Of Money," 33)

In reaction to mercantilist doctrines that characterized an earlier age of commercial capitalism, Hume distinguishes between money and wealth.

[M]oney is nothing but the representation of labor and commodities, and serves only as a method of rating or estimating them....it can have no effect, either good or bad, taking a nation within itself; any more than it would make an alteration on a merchant's books, if, instead of the ARABIAN method of notation, which requires few characters, he should make use of the ROMAN, which requires a great many. ("Of Money," 37)

In contrast to money, wealth is created through labor, the productivity of which depends upon the “manners and customs of the people” (“Of Money,” 41).

This distinction between money and wealth informs Hume’s discussions of interest rates and the balance of trade, as well. Under mercantilist doctrines, the conflation of money and wealth led to a concern with the amount of specie circulating within a country. Mercantilism typically conceived of international economic relations in zero-sum terms; thus, national mercantilist fiscal and trade policies advocated the maintenance of a constant trade surplus (with concomitant restrictions on imports) with the aim of retaining the greatest possible stock of precious metals circulating within national boundaries.¹¹ By treating money as epiphenomenal to real economic activity, Hume argues that the rate of interest depends not upon the simple quantity of money in circulation, but upon the health of industry and commerce, as it is reflected in the supply and demand for capital (which, under the quantity theory, is independent of the nominal amount of specie in circulation) and in the level of profit prevailing in the economy (“Of Interest,” 49). In contrast to the mercantilist obsession with treasure, “interest is the barometer of the state, and its lowness is a sign almost infallible of the flourishing condition of a people” (“Of Interest,” 55).

The absolute amount of money circulating within a country is unimportant, since the relative prices of real commodities can always be reduced to a single common denominator. Under conditions of free trade, Hume holds that the flow of specie between countries tends to promote an international equilibrium that preserves national money supplies “proportional to the art and industry of each nation” (“Of the Balance of Trade,” 63). Exogenous increases in a nation’s money supply would be dissipated, as the proportional inflation predicted by the quantity theory priced the goods of that country above prices prevailing in its neighbors. This differential would enable imports to undercut local goods, resulting in a trade deficit and outflow of specie. This outflow would cause a compensatory domestic deflation, bringing the price of domestic goods back down to internationally competitive levels. Just as flowing water seeks a common level under the pull of gravity, so will the international flow of specie collect at uniform levels across countries as goods converge towards a single, world-market price.¹²

While any given price level does not influence real economic phenomena, Hume modifies his view of the neutrality of money in two respects. First, he hypothesizes that changes in the money supply will have real, intermediate effects upon economic activity before adjustments to the price level fully work their way throughout the economy. Since an increase in the supply of precious metals takes some time to suffuse throughout the economy (starting from the point of entry), prices on the whole will not react immediately to accommodate this increase. An intervening period of ‘money illusion’ ensues,

as the purchasing power of the additional specie excites additional production, in advance of higher prices. Thus, the apparent increase in wealth "must quicken the diligence of every individual, before it encrease the price of labor." This leads Hume to advocate a policy of controlled inflation, and to deplore a converse policy of deflation. Indeed, "a nation, whose money decreases, is actually, at that time, weaker and more miserable than another nation, which possesses no more money, but is on the increasing hand" ("Of Money," 38, 40).

Second, (and somewhat at odds with his inflationist stance), Hume is hostile to paper money valued by government fiat and, at best, ambivalent at the prospect of the widespread use of debt instruments (e.g., sovereign debt, bankers' acceptances) as a means of credit expansion. Such a paper circulation, "by increasing money beyond its natural proportion to labour and commodities" is, under the quantity theory, not only inflationary, but will not be accepted by foreigners in international trade ("Of Money," 36). The domestic use of paper money short-circuits the equilibrating specie flows that would otherwise assure the money supplies of free-trading nations. In Hume's language, such restrictions seem to take on a wider, extra-economic significance, as they "deprive neighboring nations of that free communication and exchange which the Author of the world has intended, by giving them soils, climates, and geniuses, so different from each other" ("Of the Balance of Trade," 75).

Despite his antipathy to paper money, Hume recognizes that the advance of economic life itself generates forms of financial intermediation that attenuate the simple correlation between prices and money postulated by the quantity theory. Hume acknowledges that the ingenuity of financial innovations, such as the discounting of bills by the Bank of England or Scottish merchant-banking, influences the level of economic activity and prices that can be sustained by a given quantity of money. Moreover, in Hume's eyes such innovations go beyond making more efficient use of metallic money; they actually monetize successively greater aspects of non-monetary life. Thus, using bank credit,

a merchant does hereby in a manner coin his houses, his household furniture, the goods in his warehouse, the foreign debts due to him, his ships at sea; and can, upon occasion, employ them in all payments, as if they were the current money of the country. ("Of the Balance of Trade," 71)

Above all, Hume avers, this monetization extends to sovereign borrowings themselves: "Public securities are with us become a kind of money, and pass as readily at the current price as gold or silver." Yet Hume fears that such innovations, while sustaining an expansion of credit, undermine the monetary

restraint enforced by the relatively constant stocks of precious metals. Public credits in particular

banish gold and silver from the most considerable commerce of the state, reduce them to common circulation [i.e., to non-monetary commodities of fluctuating price], and by that means render all provisions and labour dearer than otherwise they would be. ("Of Public Credit," 93, 95).

These caveats about the nature and workings of money under the quantity theory express Hume's unresolved priority as to money's function: is it primarily a medium of exchange or a store of value? The quantity theory of money stresses its conventional exchange role; what particular material functions as money may depend upon historical vicissitude. As a mere facilitator of economic exchange, money, according to the quantity theory, need not have any substantial reality. Yet, Hume prefers precious metals for their intrinsic worth. Indeed, the use of public credits as money is hardly Hume's most vehement grounds for denouncing such credit. Using uncharacteristically strong language, Hume paints a dystopian portrait of a society corrupted by circulating paper credits. It is a portrait easily recognizable by any late nineteenth century American Populist. Overindulgence in government credit, Hume contends, tends to draw people and resources to the capital, as the political authorities command an ever-greater share of private wealth. Gold and silver disappear from circulation. Wealth is transferred to an indolent rentier class, which consists of "men, who have no connexions with the state, who can enjoy their revenue in any part of the globe in which they chuse to reside...." As wealth moves into foreign hands, disparities widen between the rich and poor. Hume prophesies: "either the nation must destroy public credit, or public credit will destroy the nation" ("Of Public Credit," 98, 102).

How can we reconcile Hume's metallism with the neutrality postulates of the quantity theory? Moreover, what do we make of the fact that, scarcely a decade after the first edition of the *Political Discourses*, Hume himself finally achieved personal financial security thanks to timely speculations in the very government paper that he had earlier deplored?¹³ Was Hume simply "crying wolf" about the use of public credit, as some scholars have suggested?¹⁴ J. G. A. Pocock has seen in Hume's revulsion against public credit a concern for the self-generating instability of commercial society; according to this argument, Hume feared that the spread of commerce would undermine those regulative virtues that would otherwise check the accumulation of sovereign obligations.¹⁵ More recently, Istvan Hont has argued that Hume's growing opposition to the expansion of public credit reflected his worries about its international implications for Great Britain: An expanding public credit enabled the country to embark on imprudent foreign adventures, at the same

time that it subjected government authority to the myopic and selfish interests of creditors.¹⁶ As concerns the more specific use of public credit as a monetary medium, Hont's emphasis appears the more plausible. Hume appreciated the usefulness of a store of precious metals, "and the weight which they give the nation in all foreign wars and negotiations" ("Of Money," 35). By the same token, Hume's horror of public credit did not extend to those instruments generated by private banking, the growth of which Hume accepted with relative equanimity. In short, it was not credit *per se*, and the spread of commercial society, but public credit that had earned Hume's opprobrium.

Does this appeal to international convenience exhaust Hume's reasons for preferring precious metals over paper? Like Locke, Hume holds that money has a "fictitious" value, arising however not from consent, but from convention ("Of Interest," 48). If, according to the quantity theory, the natural virtue of the precious metals inheres in their relative constancy of supply, are there not other regulatory possibilities that might supplant the metals' natural advantages with an artificial virtue? In effect, the same conceptual problem that faced Locke in the recoinage debate also faced Hume: What is to prevent money, as a human convention, from evolving to an entirely fiduciary basis? Interestingly, Hume doubted the wisdom of King William's recoinage favoring instead devaluation of the monetary standard for the same reasons that he otherwise advocated a controlled inflation ("Of Interest," 39n). As we have noted, Locke had both political and epistemological reasons for believing that money had to be a tangible commodity, reasons that were grounded in the prepolitical substrate of property. We can fill in the corresponding gap in Hume's own reasoning if we regard his political economy in the light of his moral and epistemological teachings—particularly in light of the dualism of impressions and ideas that characterizes Hume's sensationalism. There exists an unexploited analogy between the links between metallic money and paper credit on the one hand, and between impressions and ideas on the other. This analogy points towards the possibility—and the regulatory challenge—of money understood as an entirely artificial virtue. In order to explore the potential significance of money as a social conventionalism, we will next consider Hume's psychology of economic behavior, before turning to the wider implications of his sensationalism for his discussion of the understanding and the passions.

Hume's Economic Man

Hume analyses the motivations for economic production and exchange in terms of utilitarian criteria of pleasure and pain. "Everything in the world is purchased by labor; and our passions are the only causes of labor" ("Of Commerce," 11). The passion for luxury motivates economic production and

exchange. Hume conceives of this passion as part of an iterative model of human happiness that is composed of “action, pleasure, and indolence.” Actions are pursued for the sake of pleasures, which reside either in discrete goals or in the performance of the actions themselves. Indolence,

like sleep, is requisite as an indulgence to the weakness of human nature, which cannot support an uninterrupted course of business or pleasure. (“Of Refinement in the Arts,” 21)

The cultivation of luxury and economic advancement flourish in reciprocal relation. Industry and the mechanical arts develop when men can labor to produce beyond what is required by bare necessity; without the possibilities afforded by industry, people

have no temptation...to increase their skill and industry; since they cannot exchange that superfluity for any commodities which may serve either to their pleasure or vanity. A habit of indolence naturally prevails. (“Of Commerce,” 10)

Foreign trade represents an additional opportunity for this synergy.

It rouses men from their indolence, and presenting the gayer and more opulent part of the nation with objects of luxury, which they never before dreamed of, raises in them a desire of a more splendid way of life than their ancestors enjoyed. (“Of Commerce,” 14)

The pursuit of luxury not only represents the original stimulus to economic development, but is a precondition for the use of money itself. Money and luxury develop in reciprocal relation. Money serves as a mechanism for invidious comparison that awakens the taste for luxury by giving men the conceptual tools to discriminate among values; in turn, pecuniary exchange develops first and foremost at the margins of subsistence economies, where men exchange their household surpluses. Far from fostering moral corruption, the pursuit of luxury contributes to ethical and political life.

Thus *industry*, *knowledge* and *humanity* are linked together by an indissoluble chain, and are found, from experience as well as reason, to be peculiar to the more polished, and, what are commonly denominated, the more luxurious ages. (“Of Refinement in the Arts,” 23)

Indeed, the progress of commerce and industry offers its own corrective to the desire for luxury that stimulates it. Once habituated to action, people come to seek such exercise for its own sake.

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.

The desire for luxury that once motivated economic activity fades away and is replaced by a psychology of avarice. The opportunity that commerce provides to industry

increases frugality, by giving occupation to men, and employing them in the arts of gain, which soon engage their affection, and remove all relish for pleasure and expence. It is an infallible consequence of all industrious professions, to beget frugality, and make the love of gain prevail over the love of pleasure. ("Of Interest," 53)

The notion that activities initially motivated by one passion can be revalued, through their sheer practice, such that they become associated with a different passion, is a typically Humean formulation. This formulation captures the essence of all conventions, namely that they are artificial, yet not reducible to intention or consent. Once the passion for luxury is sublimated by the passion for gain, what in turn modulates the passion for gain? Hume asserts that

a gratification is only vicious, when it engrosses all a man's expence, and leaves no ability for such acts of duty and generosity as are required by his situation and fortune. ("Of Refinement in the Arts," 30)

His solution to this again relies upon the self-corrective accretion of artifice:

[nothing can] restrain or regulate the love of money, but a sense of honor and virtue; which, if it be not nearly equal at all times, will naturally abound most in ages of knowledge and refinement. ("Of Refinement in the Arts," 27)

In effect, the very prosperity that the pursuit of money produces will foster that "knowledge and refinement" which, by conditioning people to appreciations of honor and virtue, will restrain the extremes of avarice.

In broader terms of social development, Hume's reliance upon successive "conventionalizations" of human behavior as the regulator of self- and group-interest takes on troubling implications. Max Weber, writing after the dimensions of industrial capitalism were apparent, raises the prospect of the "iron cage": that ascetic rationalism, detached from its religious origins and now manifested in economic activity for its own sake, possessed an independent dynamic by which the machine, and the material goods it:

produces, "have gained an increasing and finally an inexorable power over the lives of men as at no previous period in history."¹⁷ Having himself forsaken a rationalist epistemology on empirical grounds, Hume's own moral teachings point to an end-state of human society in which the possibility for action on the basis of critical rationality is smothered by successive snowfalls of convention. This terminal condition is one of moral entropy, in which the impetus of sympathy has exhausted itself. Why do people do anything? From habit. Why do they observe habit? From habit, and so on. Despite his initial grounding of conventions such as justice and property in "a general sense of the common interest," any common perception of such utilitarianism must needs fade with the development of society.

Hume's Utilitarian Sensationalism

What is the genesis and trajectory of this entropic development? Its roots may be imputed from Hume's sensationalist doctrine. Ideas are grounded in impressions. Impressions are ontologically prior to ideas; the latter are mere "copies" of the former. Ideas produce copies of ideas, as "impressions of reflexion." There exists a continuum of decreasing "vivacity" from impressions to ideas. The strength of the relations between ideas can vary according to the degree of resemblance, contiguity or interposition of objects between cause and effect.

At their epistemological foundation, comparison and sympathy constitute Janus-twins of difference and identity. "All kinds of reasoning consist in nothing but a comparison, and a discovery of these relations, either constant or inconstant, which two or more objects bear to each other" (T 73). However, "no objects will admit of comparison, but what have some degree of resemblance" (T 14); "no ideas can affect each other, either by comparison, or by the passions they separately produce, unless they be united together by some relation" (T 380).

Hume's moral teaching not only separates reason from volition in the will, but privileges sympathy over understanding in the analysis of social relations, even as Hume orients sympathy to the individual's felt experience of self. "In sympathy there is an evident conversion of an idea into an impression. This conversion arises from the relation of objects to ourself. Ourself is intimately present to us" (T 320). Since human beings resemble each other,

...this resemblance must very much contribute to make us enter into the sentiments of others, and embrace them with facility and pleasure....The stronger the relation betwixt ourselves and any object, the more easily does the imagination make the transition, and convey to the related idea the vivacity of conception, with which we always form the idea of our own person. (T 318)

In producing the conversion of an idea into an impression, sympathy proceeds in a direction ontologically opposite to that followed by operations of the understanding. Significantly, Hume attributes to sympathy an ability, as if by a law of spiritual thermodynamics, to forestall the diminution of vivacity that attends ideation: Sympathy

can entirely convert an idea into an impression, and convey the vivacity of the latter into the former, so perfectly as to lose nothing of it in the transition. (T 320)

This perfect economy of vivacity is shared by the passions themselves.

A passion is an original existence, or, if you will, modification of existence, and contains not any representative quality, which renders it a copy of any other existence or modification. (T 415)

Together, understanding and sympathy, grounded upon the difference and similarity between the self and the objects in its world, modulate the passions and make possible the establishment of social convention. A convention such as justice may find an original justification in a reasoned utilitarianism, which operates through the discrimination of differences, but the actual mortar holding convention together is the sympathetic appreciation of sameness. However, the force of both faculties are threatened by any development of society that diminishes relations of contiguity and resemblance. Social size and complexity are dysfunctional: to the extent that society expands or differentiates, the operations of sympathy as well as of understanding will be obstructed. On the one hand, utilitarian calculations of interest are products of the understanding, which operates by comparison; all comparison, in turn, relies upon the persistence of some similarity between objects.

But when society has become more numerous, and has increased to a tribe or nation, this interest is more remote; nor do men so readily perceive, that disorder and confusion follow upon every breach of these rules, as in a more narrow and contracted society. (T 499)

On the other hand, the "efficiency" of sympathetic conversions of ideas into impressions itself relies upon the degree of resemblance and contiguity prevailing between objects. Of the elements of Hume's moral philosophy, only the passions endure translation without a reduction in strength. However, the opportunities for such translation diminish in a social life that is increasingly structured by convention.

If the size and complexity of society diminish the forces of understanding and sympathy, what prompts people to continue respecting social convention? Hume invokes custom as the ultimate determinant of human action. As

people repeat any action, it becomes easier to perform; moreover, once the novelty of the action fades, its

pleasure of facility does not so much consist in any ferment of the spirits, as in their orderly motion; which will sometimes be so powerful as even to convert pain into pleasure, and give us a relish in time for what at first was most harsh and disagreeable. (T 423)

In Hume's moral vision, the project of civilization is the progressive accumulation of convention as the regulator of human behavior. To paraphrase Hegel, this project would represent the realization, not of Reason in history, but of Custom. At the same time, the triumph of Custom would seem to stand at variance with the dynamic of a utilitarian value system. The progressive refinement of society implies a growing disjuncture between the behavioral encrustation of social convention and the behavioral fluidity demanded by the individual's pursuit of hedonism. This disjuncture could tip society into a "governability crisis." For, strictly speaking, utilitarian behavior seeks not simply to avoid pain and pursue pleasure, but to stimulate the psychic satisfaction attendant upon a sampling of the difference between the two.

Hume acknowledges this dialectic of pain and pleasure in his account of malice and envy. As Hume observes of the physical world,

a small degree of any quality, succeeding a greater, produces the same sensation, as if less than it really is, and even sometimes as the opposite quality. Any gentle rain, that follows a violent one, seems as nothing, or rather as a pleasure; as on the other hand a violent pain, succeeding a gentle one, is doubly grievous and uneasy. (T 372)

This quality of human sensory experience finds its counterpart in the interactive comparisons that comprise human social experience. Malice and envy are "a kind of pity revert" (T 375):

envy is excited by some present enjoyment of another, which by comparison diminishes our idea of our own: Whereas malice is the unprovoked desire of producing evil to another, in order to reap a pleasure from the comparison. (T 377)

Hume's utilitarian categories point to an eternal restlessness in the human soul, as it seeks ever more rarified opportunities to stimulate the experience of pleasure through a recursive sublimation of passion. As the pleasurable novelty of one comparative experience fades, it must be replaced by another. To employ anachronistic language, each experience, as it persists, offers a decreasing marginal rate of pleasure.¹⁸ Hume identifies this phenomenon as the characteristic human experience of the Other and, by implication, of the

Self:

In general we may remark, that the minds of men are mirrors to one another, not only because they reflect each other's emotions, but also because those rays of passions, sentiments, and opinions may be often reverberated, and may decay away by insensible degrees. (T 365)

We can recognize in this expectation of decay the moral counterpart to Hume's skeptical regard for the certitude of reasoned knowledge. For there too lengthening chains of logic and evidence eventually break down, "and from knowledge degenerate into probability" (T 181), leading therefrom to an infinite regress towards "a total extinction of belief and evidence" (T 183).

As an eventuality of social existence, we see then that this entropic decay has two sources. First, decay follows from the representative logic of Hume's sensationalism—of that originary, modal relationship between impressions and ideas. As such, entropy is implicit in Hume's epistemology of skepticism. Second, decay ensues from the dulling effects of convention upon a keen utilitarianism: entropy is an implication of Hume's moral philosophy as well. Thus does entropy threaten at both an individual and a collective level. For the individual, the pleasure of experiencing (indeed, the ability to even understand) any given novelty will fade, according to the logic of utilitarian relativism. At the same time, those social conventions in which the individual participates represent a second brake on the human pursuit of novelty. Conventions structure social experience in such a way as to remove ever-larger portions of human life from the utilitarian calculus.

This fateful interaction of reason, passion and convention suggests why we cannot simply assimilate Hume to a thoroughgoing Benthamite utilitarianism. For it is precisely Hume's greater readiness to ground the individual in the social that gives rise to these entropic implications. These implications are also manifest in Hume's account of economic life. As noted above, Hume's model of economic incentive postulates an alternation between the sacrifice of work, the achievement of pleasure (luxury), and the restorative languor of indolence. Through convention, work becomes a desirable activity in and of itself; the connection with the original luxury recedes, to be replaced by a passion for money. And it is precisely to money that we must return for a remedy to Hume's dilemma of civilization.

To Redeem Metal With Paper: The Convention of Money

From Aristotle to the Church debates over usury, the use of money to make money, and the pursuit of money for its own sake, have encountered censure. In contrast, Hume's equanimity about the use of money and interest is typical of liberal economic thought, although his sanctioning of luxury

stops short of affirming avarice as a dimension of the personality to the exclusion of other concerns. Avarice is an extreme experience, and Hume's moral philosophy avoids extremities.¹⁹ However, despite this disapproval of avarice, the convention of money appears peculiarly suited to correct for the entropy implied by Hume's thought. As we observed above, Hume stresses the purely instrumental character of money, "agreed upon to facilitate the exchange of one commodity for another" ("Of Money," 33). Yet why should not money itself be subject to Hume's ubiquitous principle, "that every emotion, which precedes or attends a passion, is easily converted into it" (T 423, emphasis removed)? Hume accepts, without examination, the fact that people attribute an intrinsic value to gold and silver, even as his quantity theory affirms the neutrality of money, and the indifference of its substance to real economic relations. In Hume's own terms, where would this intrinsic valuation originate, if not from a conversion of the original exchange-value of money into a use-value, i.e., into a valuation of gold and silver as desirable in and of themselves? Conventions are nothing more than empirical regularities, i.e., when

the sense of interest has become common to all our fellows, and gives us a confidence of the future regularity of their conduct...In like manner do gold and silver become the common measures of exchange, and are esteem'd sufficient payment for what is of a hundred times their value. (T 490).

By analogy to the relation between ideas and impressions, once credit (paper) money, through use, is converted into a phenomenon valuable in and of itself, its symbolic power is no longer restrained by its tie to precious metals: it assumes the status of "impressions of reflexion," and thus an independent existence. Paper money, in effect, comes to redeem the metal upon which it was originally based.

According to Hume's theory of the passions, this conversion is a plausible milestone of economic development. Furthermore, the qualities of money as an abstract exchange-value would be an ideal unit of utilitarian discrimination (as "cost-benefit analysis"), as well as an entirely efficient vehicle for the transmission of sympathy. One unit of currency is identical to another; thus, the translation of all human values into monetary ones would preserve relations of absolute resemblance, even as the infinite divisibility of money affords an inexhaustible resource for ever more discriminating comparisons. If every unit of currency is identical to another, then any given unit exists in an immediate, functional contiguity to any other, even if those two units are formally separated by great distance: Theoretically, the use of a dollar in the United States will affect the value of a dollar in Bangkok. Moreover, the phenomenon of interest rates recognizes the contiguity of money across time:

the intertemporal valuation of money, as the opportunity cost of deferred gratification, permits the translation of all future uses of money into a present, discounted value.

Money thus annihilates space and time. It unifies use- and exchange-value. It is also the ideal medium for a dialectical synthesis of the opposition between identity and difference that underlies, yet enervates, Hume's theory of the passions. The use of money forestalls decadence. Indeed, not just any money will do. It takes a particular kind of money—paper money—of the sort that does not represent some underlying amount of precious metal, but which stands as a simulacrum of value itself. The very sort of money that Hume despises in his economic essays is precisely that which most resembles the faculty of sympathy. Both the exercise of sympathy, and the use of paper money, are practices that transcend the logic of representation that otherwise governs Hume's doctrines of sensation and understanding. Seen in this light, money no longer languishes in the shadows cast by Hume's larger moral and epistemological concerns. Rather, money can be read back into those concerns in a way that reconciles them.

In its modern form, money has assumed an entirely symbolic existence at the end of an historical trajectory of development from substance to function.²⁰ Paper money has supplanted its metallic original in the course of socioeconomic development; in turn, the functionalization of money—its historical shift from a substantive commodity to abstract purchasing power—has undercut the need and rationale for retaining any representational connection between the circulation of monetary values and some underlying "real" commodity value. In its developed character as insubstantial function, money no longer represents anything but itself. A dollar is merely a liability of the national central bank, to be redeemed, reflexively, by another dollar.

In Humean terms, an entirely fiduciary circulation forms the monetary counterpart to a real economy of passion. For both fiduciary money and Humean passion are non-representative entities; as such, they are immune to the attenuations of value and vivacity inherent in the ramifications of utilitarian sensationalism. Modern money as the basic unit of social meaning forestalls the entropic decay of social value that inheres in Hume's system. Indeed, despite Hume's reservations against avarice, a particular passion for money emerges as the signal, self-validating experience of Humean psychology, representing the most profound synthesis of self-interest and sympathy: self-interested, because the accumulation of money as an end in itself occurs without concern for the welfare of others; and yet sympathetic, because this accumulation occurs without regard for one's own sensual needs. Avarice is thus that singular ideal of ascetic egoism, at once self-engrossing and self-denying. In this final sense does money both redeem Hume's thought

from its entropic implications, and point towards the possibility of a Humean philosophy of money.

Conclusion: Money Illusion and Commercial Virtue

These properties of money, and features of money psychology, are attributes of a perfect market. That this perfect market does not actually prevail simply reflects the incomplete monetization of the world economy under the aegis of a single world currency, and the consequent lack of a unified world capital market. This unity did not exist in Hume's time, and information technologies are only now beginning to make this possible; however, the hydraulic metaphor Hume uses to characterize the self-regulating equilibrium of international trade could conceivably accommodate the diversion of all flows of social meaning into monetary channels etched into a capitalist world civilization.

Yet such a generalization of monetary experience transforms the significance of Hume's hydraulic metaphor. If these extrapolations of Hume's thought are plausible, then Hume's exceptions to the quantity theory of money are not irrational anomalies. Instead, they anticipate the quintessence of modern monetary experience. In this experience, money illusion presents not some temporary aberration but the very precondition of monetary consciousness, and thus of economic rationality itself.²¹

Elsewhere in his writings, we find that Hume himself acknowledges this illusive potential of money. In his *History of England*, Hume suggests three forms of money illusion. The first form of illusion, he avers, is that resulting from simple princely debasement, or "the change of denomination, by which a pound has been reduced to the third part of its ancient weight in silver." This is the easiest illusion to pierce, as is witnessed by the recurrent operations of Gresham's Law, or the notion that bad money drives out the good. Indeed, it was the relative absence of money illusion of this sort that precipitated the monetary crisis of the 1690s, when clipped coin replaced full-weight pieces in circulation. The second form arises from

the change in value by the greater plenty of money, which has reduced the same weight of silver to ten times less value, compared to commodities; and consequently a pound sterling to the thirtieth part of the ancient value.

This illusion is nothing more than that fillip to economic activity described in the essay "Of Money." As such, this form of illusion has real effects, but is also temporary. The third form of money illusion emerges when we attempt to compare the same kingdom at different stages of civilization. For when comparing a ruder with a more advanced civilization, we may misconstrue the value of money because of "the fewer people and less industry which were

then to be found in every European kingdom." This final illusion is the hardest to dispel because it forces us to ask whether or not an identical amount of silver even means the same thing if it can be exchanged for a vastly different array of goods and services.²²

It is this third form of money illusion that must dispel our own illusions about the neutrality of money as postulated by Hume's quantity theory. Far from being a neutral facilitator of economic barter, money is alarmingly real. Indeed, the less substantial money appears in its historical development—as paper, as ledger entry, as electronic impulse—the more pervasive and real does this money illusion become. The stimulative or depressive effects of expansions or contractions in the money supply are temporary only so long as the equilibrating mechanism of specie flows continue to balance prices across national markets. If this mechanism no longer operates—as it has not, even in its attenuated form, since the demise of the international gold standard in 1971—then a fundamental, social distinction between the monetary and the real is no longer possible.

Should we regard this conflation of the monetary and the real as some harbinger of social crisis? After all, despite the quantity theory's indifference to substance, it matters to Hume that money is a substantial and precious commodity. For otherwise, the restraints placed by specie standards upon the borrowing capacities of the political authorities no longer operate. The elegance of Hume's description of international monetary flows, and its enduring fascination for *laissez-faire* economists, inheres in the total absence of political agency: Money is but another convention created by humans, yet beyond human directive control. Yet, if money is no longer a tangible substance of common international esteem—if, as the monetary theorist Knapp proclaimed, "the soul of currency is not in the material of the pieces, but in the legal ordinances which regulate their use"—then the link between money and state debt is not the vicious perversion Hume supposes it to be, but the very condition for the continued validity of modern versions of the quantity theory.²³

Under this condition, the quantity theory no longer implies the removal of money from politics by dint of its long-run neutrality. Rather, the provision of money becomes an unavoidable function of the modern state, its value dependent upon state management. At this stage of monetary development, commerce and virtue need no longer represent antagonistic principles. Hume's strictures regarding public credit can then be read as more than an attempt to balance the claims of liberty against the need for authority. In addition, his anxiety about the scope and impact of government borrowing constitutes an attempt to grapple with a basic moral problem for a modernizing political economy. Once money accedes to the status of an entirely social artefact without any anchor in the natural world, how can its twin roles as means of exchange and a standard of value be reconciled? After all, behind

these roles lie enduring oppositions of economic interest: debtor versus creditor, entrepreneur versus rentier, the promise of the future versus the obligations to the past. Given that money has become an entirely socialized artifact, it then requires a corresponding reserve of artificial virtue to back it up; to maintain money's integrity in the face of economic factions that might seek control of the government in order to manipulate the supply of money. In effect, the modern institution of state-issued, fiduciary circulation monetizes the very legitimacy of the political order. We thereby place our trust in virtue, just as we place our virtue in trust.

The persistence of such trust compels us to acknowledge the reality of money illusion—not as a pathological syndrome, but as a manifestation of money's virtue. The facets of this illusion—our credulity, the government's credibility, and the nation's credit—form the jewel of civic virtue that glitters at the heart of modern financial management. Damaging any of these facets introduces flaws into the entire stone. The success of such management has required that money be perceived as a technical, and not as a political, issue. This perception of the apolitical quality of money—the perception that, as it were, our philosopher's stone is genuine, and not made of glass and paste—is perhaps the most vertiginous form of contemporary money illusion. By the same token, our trust in this form of the illusion may also be the most important condition for the continued stability of our modern, and monetized, capitalist civilization.

NOTES

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1 Two contemporary overviews of Hume's political economy that reflect this status are: Andrew S. Skinner, "David Hume: Principles of Political Economy," in *The Cambridge Companion to Hume*, edited by David Fate Norton (Cambridge, 1993), 222–254; and T. Velk and A. R. Riggs, "David Hume's Practical Economics," and "David Hume on Money, Inflation and the State," in *David Hume: Critical Assessments*, vol. 6, edited by Stanley Tweyman (London: Routledge, 1995), 193–208.

2 Standard references for this view are: Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper and Brothers, 1955), 84–87, 292–294; J. A. Schumpeter, *History of Economic Analysis* (Oxford: Oxford University Press, 1986), 316, 331, 365–367. More specifically, Hume occupies a distinctive place in the development of the eighteenth century monetary doctrines which, beginning with Locke's version of the quantity theory, underwent a broad shift away from mercantilist concerns with money as static wealth to an appreciation of money as a dynamic medium of circulation. See Arthur Monroe, *Monetary Theory Before Adam Smith* (Cambridge: Harvard University Press, 1923), 213–223; and Douglas Vickers, *Studies in the Theory of Money 1690–1776* (Philadelphia: Chilton, 1959), 3–31. To Monroe, Hume is noteworthy for his qualifications of a strict quantity-theory proportionality

between the quantity of money and the supply of goods (Monroe, 215–268–271), while Vicker's more recent survey locates Hume midway between the inflationist doctrines of John Law and the classical orthodoxy enshrined by Smith and Ricardo (Vickers, 217–239).

3 Intriguingly, this effect has come to be known as “Money Illusion”—what the economist Irving Fisher once defined as “the failure to perceive that the dollar, or any other unit of currency, expands or shrinks in value” (Fisher, *The Money Illusion* [New York: Adelphi, 1929], 4).

4 The importance of money in Locke's political philosophy is acknowledged by commentators of otherwise diverse ideological persuasions. Compare, for example, C. B. Macpherson, *The Political Theory of Possessive Individualism* (Oxford: Oxford University Press, 1962), 194–264, esp. 203–213; and Karen Iversen Vaughn, *John Locke: Economist and Social Scientist* (Chicago: University of Chicago Press, 1980), 31–45 and chap. 4, esp. 92–94. From the Left, Macpherson argues that Locke's treatment of money as a prepolitical exercise in consent simply reads back into the state of nature the possessive individualism of bourgeois society, especially “a rational propensity to unlimited accumulation” (235). From the libertarian Right, Vaughn draws upon Locke's economic writings to counter that these attributes of the state of nature are not anachronisms, but reflect Locke's consistent grounding of the economy itself in the state of nature. Anterior to politics, the economy structures the terms of consent upon which civil society is based. A careful survey of Locke's monetary ideas that situates them in the intellectual and policy milieu of his time is Patrick Hyde Kelly's “General Introduction,” in his *Locke on Money*, vol. 1 (Oxford: Oxford University Press, 1991), 1–109.

5 David Hume, *A Treatise of Human Nature*, edited by L.A. Selby-Bigge, 2nd ed., revised by P.H. Nidditch (Oxford: Clarendon Press, 1978), 490, hereafter cited as T.

6 David Hume, “Of Money,” and “Of the Balance of Trade,” in *Writings on Economics*, edited by Eugene Rotwein (Madison: University of Wisconsin Press, 1955), 45, 72–73; Unless otherwise indicated, subsequent references to Hume's economic essays cited in the text are to this volume.

7 See Vaughn, 24, 66–72.

8 Vaughn, 39.

9 Vaughn, 45.

10 For this argument, see Constantine Caffentzis, *Clipped Coins, Abused Words, and Civil Government: John Locke's Philosophy of Money* (New York: Autonomedia, 1989). Caffentzis contends that this dual quality of money drove Locke to advocate recoinage in 1696, since devaluation of the monetary standard was tantamount to denying the status of money as substance. For similar remarks, see Kelly, 93–95.

11 See Eric Roll, *A History of Economic Thought*, 4th ed. (London: Faber and Faber, 1987), 61–68.

12 Of Hume's economic writings, this early description of the “specie-flow mechanism,” central to the subsequent development of international trade theory, is his most well-known legacy. See Michael Duke, “David Hume and

Monetary Adjustment," *History of Political Economy* 11.4 (1979): 572–587.

13 Ernest Mossner, *The Life of David Hume* (Austin: University of Texas Press, 1954), 409–410.

14 John Christian Laursen and Greg Coolidge, "David Hume and Public Debt: Crying Wolf?" *Hume Studies* 22.1 (1994): 143–149.

15 J. G. A. Pocock, "Hume and the American Revolution: The Dying Thoughts of a North Briton," in Pocock, *Virtue, Commerce and History* (Cambridge: Cambridge University Press, 1985), 125–141.

16 See Hont, "The Rhapsody of Public Debt: David Hume and Voluntary State Bankruptcy," in *Political Discourse in Early Modern Britain*, edited by Nicholas Phillipson and Quentin Skinner (Cambridge: Cambridge University Press, 1993), 321–348; and "Commercial Society and Political Theory in the Eighteenth Century: The Problem of Authority in David Hume and Adam Smith," in *Main Trends in Cultural History*, edited by Willem Melching and Wyger Velema (Atlanta: Rodopi, 1994), 54–94, esp. 72–79.

17 Weber, *The Protestant Ethic and the Spirit of Capitalism* (New York: Scribner's, 1930), 181.

18 Indeed, this dynamic of sublimation later reemerges unscathed in the marginalist reformulation of utilitarianism. If, in Walrasian language, *rareté* was "the intensity of the last want satisfied, as a decreasing function of the quantity consumed," then it followed in Walras' mind that "Progress is...nothing but a diminution in the intensities of the last wants satisfied, i.e., in the *raretés* of final products, in a country of increasing population." See Leon Walras, *Elements of Pure Economics* (London: George Allen and Unwin, 1954), 43, 383.

19 We can also appreciate this character of Hume's moral teachings in his use of civic humanist language to defend commercial activities—especially those stimulated by luxury—against the mercantilist position. For this argument, see Istvan Hont, "The 'Rich Country-Poor Country' Debate in Scottish Classical Political Economy," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, edited by Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 271–316.

20 This trajectory is the focus of Georg Simmel's monumental *Philosophy of Money* (London: Routledge, 1978). It is worth noting that, despite the historical irony of Simmel's Kantian orientation, Hume and Simmel resonate with each other in interesting ways. Each endeavors to work out a social philosophy of utilitarianism on relativist premises. Each situates his analysis within a vision of large-scale civilizational change—for Hume, the spread of convention; for Simmel, the spread of rationalization. Each is attuned to the ironies of social change: conventions are followed for reasons unrelated to their original foundings, just as instrumental rationality reconstitutes the ends that initially animates it. More recently, both have been appropriated by feminist theory. There is, above all, a striking convergence in their exquisite sensitivity to the larger significance of everyday experiences. In short, both figures are philosophers of the bourgeois sensibilities of their times.

21 Andrew Skinner (248) has suggested an affinity of Hume's political

economy with the American school of Institutional economics. In fact, we find in the Institutionalist tradition headed by Wesley Clair Mitchell and Thorstein Veblen a distinct awareness that money is a socio-psychological prerequisite of economic rationality. See, for instance, Mitchell, "The Rationality of Economic Activity," *Journal of Political Economy* 18.2 (1910): 97–113 (part 1) and 18.3 (1910): 197–216 (part 2); "The Role of Money in Economic Theory," in *The Backward Art of Spending Money* (New York: McGraw-Hill, 1937), 149–176; and "The Role of Money in Economic History," in *Enterprise and Secular Change*, edited by Frederic Lane (Homewood, IL: Richard D. Irwin, 1953), 199–205. Veblen faulted the marginal utility theorists for rendering the price system in hedonistic terms, thus ignoring the distinctive logic of a pecuniary economy. See Veblen, "The Limitations of Marginal Utility" [1909], reprinted in *The Place of Science in Modern Civilization* (London: Routledge, 1994), 231–251. Veblen argued further that money illusion, far from a deviation from the canons of economic rationality, was actually intrinsic to pecuniary activity—"the spiritual precipitate of the price system" (*Absence of Ownership. The Case of America* [Boston: Beacon, 1976], 179 fn 6).

22 David Hume, *The History of England*, vol. 1 (Boston: Phillips Sampson, 1856), 176.

23 George F. Knapp, *The State Theory of Money* (London: Macmillan, 1924), 2.

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