In the spring of 1749 David Hume returned to his family home in Chirnside, near Berwick upon Tweed in the Scottish Borders. He was 38 years old and had no position in the world. He had published three books, but only one of them, *Essays, Moral and Political* (1741-1742, 1748), had sold well. The other two – *A Treatise of Human Nature* (1739-40) and *Philosophical Essays concerning Human Understanding* (1748) – had gained him a certain reputation in literary circles, but they had done little to help Hume toward the financial independence that he sought as a man of letters. It was time for a concerted effort at making an indelible mark on the intellectual scene, not just of Scotland but also of England, and, ideally, of continental Europe as well. Hume would publish nothing for almost three years, but he worked very hard in the mean time. He recovered his command of ancient Greek and read widely in the classics. He recast his moral philosophy in the form of *An Enquiry concerning the Principles of Morals*, published in London at the end of 1751. He wrote a draft of *Dialogues concerning Natural Religion*, a work that Hume was persuaded by his friends to leave to be published only after his death. And he wrote a collection of essays mostly on questions in what we would now call economics. These essays, he told his friend Robert Wallace, ‘are Twelve in Number, & the Subjects are Of Commerce, of Luxury, of Money, of Interest, of the Ballance of Trade,
of the Ballance of Power, of Taxes, of public Credit, of some remarkable Customs, of the Populousness of Antient Nations, of the Protestant Succession, an Idea of a perfect Commonwealth.¹ They were published in Edinburgh in January 1752, with the title Political Discourses. The title is a reminder that the eighteenth century interested itself in monetary and fiscal phenomena primarily from a political point of view. Economic questions and questions concerning the maintenance of the balance of power in Europe had in fact become inextricably intertwined by the middle of the century. The accession of William of Orange had involved England, and after 1707 Great Britain, in a long series of wars against France and her allies. These wars had created a national debt of around £70 million, requiring even in peace time interest payments equivalent to around 40 percent of total tax revenue.² The treaties that ended the wars had failed to give stability to the modern European state system. According to Lord Bolingbroke, the conflict over the Austrian succession had been 'a war, the least successful, and the most expensive, that this nation ever made'.³ No one believed that the peace concluded at Aix-la-Chappelle in 1748 would last. The principal task for the Whig administration formed in the wake of the Jacobite rebellion of 1745-6 was how to put Britain’s finances in order, and especially how to restructure the national debt, quickly enough to ensure an advantage over France in the war that was bound to break out again sooner rather than later.⁴ The essays that Hume wrote during this period were as naturally about economic issues as the essays he had written in the final years of the Walpole ministry were about the politics of faction.

Commerce, what in eighteenth-century Britain was generally called 'trade', had been generating a substantial literature for more than a hundred years.⁵ Joseph Massie, to whose book on interest rates we will return below, collected close to fifteen hundred books and pamphlets on trade published between 1557 and 1763. By the 1730s and 40s important contributions to this literature were being republished, and French works on trade were being translated into English. Though these pamphlets and books did contain theoretical

² On the growth of the national debt, see, e.g., Brewer (1990), O'Brien (1998).
³ Bolingbroke (1753), p. 323.
⁴ For a recent account of British politics post-Walpole, see Harris (2002).
⁵ For the seventeenth century debate, see e.g. Appleby (1978), Finkelstein (2000).
reflections on such things as the nature of money, the determinants of interest rates, and the proper definition of ‘luxury’, they were usually intended to persuade the reader of the wisdom of particular practical measures to be taken, so it was claimed, for the benefit of the nation considered as a whole. Sometimes they were prefaced with what might be thought of apologies for trade in general, demonstrations that the interests of manufacturers and merchants coincided with the interests of the rest of the nation; demonstrations that trade was, in the words of Josiah Tucker, ’a noble and interesting science; on which the riches, the strength, and I may add, the morals and freedom of our country, so essentially depend’. Special effort was taken to show that the landed interest was as well served by commercial success as the moneyed interest. But the main concern of most works on trade was the detail of government policy and how it should be altered. Authors published these books and pamphlets because they believed that they saw more clearly than everyone else which import taxes and which export bounties would secure trading advantage over France, or how the national debt could be reduced without unduly slowing down the economy, or how to reduce the economic and social burden constituted by the unemployed, or what was to be done about the challenge posed to English interests by the development of the Irish economy. They argued for the relaxing of commercial legislation in some areas, and its tightening in others. They argued for a variety of changes to the interest payable to holders of national debt, and about the benefits of allowing the debt itself to become a form of currency. They argued for the compulsory (and unpaid) labour of the destitute on the repair of roads and the clearing of rivers. They argued for the introduction of linen production in Ireland in place of wool. In the jargon of the time, they wrote as 'projectors'. Tucker advocated the union of Britain with Ireland. In a return to an idea first mooted in the 1650s, Malachy Postlethwayt argued for the union of Britain with the United Provinces of the Netherlands.

Underlying these disagreements about particular measures of policy was a set of assumptions that, since Smith's assault upon it in *The Wealth of Nations*, has gone by the name of the mercantilist system. It is usual now to point out that mercantilism was not in fact a

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7 Tucker (1749), p. 65.
8 Postlethwayt (1751), vol. 2, p. 793.
system at all. Certainly there was no attempt made on the part of writers on trade to create a systematic body of doctrine such as might give an intellectual rationale for the policies they backed. The basic assumptions on which their arguments rested were taken to be uncontroversial, even truistic, and so not in need of defence.\(^9\) Prominent among these assumptions was the idea that money, in the form of gold and silver, was an important source of power for a country, and that an increase in a country's stock of money was therefore an increase in its power. For a country that lacked silver and gold mines, trade was an important source of money, though only to the extent that the value of the country's exports was greater than the value of its imports. "Tis the balance of our trade, that supplies us with bullion", John Cary had written in 1695, in a work reissued in a third edition in 1745; 'if that be in our favour, it brings it to us, if otherwise, it must be carried away'.\(^10\) The state of the balance of trade, with France in particular, was something like a national obsession in Britain in the first half of the eighteenth century. Books and pamphlets in large numbers argued that the balance of trade with France was against Britain, and that British trade therefore needed to be protected better and stimulated more effectively.\(^11\) Tariffs and duties, and in some cases prohibitions, needed to be in place to order to shelter British manufactures from foreign competition, along with consumption taxes to dampen domestic demand for imported goods, and bounties to make export more profitable. It was generally agreed that wages needed to be kept as low as possible in order to boost the international competitiveness of the price of manufactured goods. The case for such ways of furthering the interests of manufacturers and merchants, or at least the interests of those manufacturers and merchants large enough to be competing on an international scale, had been successfully urged after the Restoration of 1660, and had seen a new era of government acceptance under Walpole.\(^12\) Not every writer on trade supported the steady increase in protectionist taxes and excises and bounties. Many, on the contrary, presented themselves as advocates for freer trade. Isaac Gervaise claimed that 'Trade is never in a better condition, than when

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\(^9\) See Coleman (1980), and also Viner (1931).

\(^10\) Cary (1695), pp. iv-v.

\(^11\) E.g., Philips (1725), Decker (1744) and Tucker (1749).

\(^12\) See Kramnick (1968), ch. 2; Viner (1937), p. 69; Brewer (1990), pp. 168ff.
Matthew Decker argued that the present 'difficulties and discouragements of our trade' would be remedied by freeing it of regulation, by the creation of free ports in Britain and the destruction of trading monopolies, and the ending of export bounties. Tucker echoed his complaints. Jacob Vanderlint proclaimed that 'In general, there should never be any restraints of any kind on trade, nor any greater taxes than are unavoidable', for 'no inconvenience can arise by an unrestrained trade, but very great advantage'. The proponents of freer trade were not, however, proponents of free trade. It was common for them to argue that revenue lost by the relaxation of the regulatory structure could be replaced by increased taxation of the consumption of luxury goods. They remained fixated by the balance of trade, and thought that greater trading freedom was a better means of ensuring a favourable balance than was protectionist legislation.

Hume made it clear at the outset that Political Discourses was not to be understood as just another contribution to the debate about the best way of ensuring trading advantage over France. He was careful explicitly to deny that he sought to be understood as a 'projector'. Rather, he said, he assumed 'the character of a philosopher'. As such he addressed himself to what he termed 'speculative politicians', different and distinct, presumably, from real politicians actually involved in the business of government. In the first two paragraphs of the opening essay he intimated that his concern as a philosophical writer on 'commerce, luxury, money, interest, &c.' was with 'general principles' rather than with particular schemes: with, that is, 'those universal propositions, which comprehend under them an infinite number of individuals, and include a whole science in a single theorem' (2-3). He was interested in the assumptions underlying the literature on trade, and not in particular items of commercial policy. He warned the reader that it was possible that 'there will occur some principles, which are uncommon, and which may seem too refin'd and subtile for such vulgar subjects'. If these principles were false, they should be rejected: 'but no one ought to entertain a prejudice against them, merely because they are out of the common road' (3). It would not be correct, however, to identify Hume's 'philosophical' approach to commerce

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14 Vanderlint (1734), pp. 26, 43.
15 Hume (1752), p. 45. All subsequent references to this edition of Political Editions will be inserted into the main body of the text.
simply with the postulation of general principles. For the general principles with which Hume concerned himself in *Political Discourses* were not, for the most part, his own discoveries. What was novel and significant in Hume’s treatment of commerce was not so much the nature of its arguments as the way those arguments were made. It was the tone of the book that mattered, its dispassionate and self-consciously ‘speculative’ air, the impression created of a writer taking a very long view, unconcerned for the most part with local, temporary, and factional anxieties, and willing to consider the politics of trade from a historical and markedly cosmopolitan perspective. This tone and point of view would find its most perfect expression in an essay added in 1758, in which Hume would declare that ‘not only as a man, but as a British subject’, he prayed for the flourishing commerce of Germany, Spain, Italy, ‘and even France itself’. The ‘philosophical’ point of view was a cosmopolitan one. In the *Political Discourses* there was none of the exclusive and obsessive concern with British interests alone that was usual in Anglophone writing on trade. Hume was writing for all of Europe. And all of Europe read what he wrote.

**II: Hume’s new way of talking about commerce, money, interest rates, and the balance of trade**

Sometimes in the general apology for trade with which books and pamphlets on commerce often opened, the claim was made that it was by trade *rather than* by war that a nation's interests were best furthered. Vanderlint, for example, argued that the situation of France after the War of the Spanish Succession (1702-13) showed that war is 'a very great calamity' and that peace is 'the only natural foundation of happiness to any nation'. In the first essay in the *Political Discourses*, 'Of Commerce', Hume argued that it was not necessary to choose between the happiness of the state and the state's capacity to assert its will in international

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16 Hume's debts to earlier writers on commerce have been identified by Johnson (1937), Rashid (1984), Wennerlind (2008). Appleby (1978) shows that a case had been made against protectionism by Tories under Anne: 242ff.

17 Hume (1760), vol. ii, p. 110.

18 Vanderlint (1734), pp. 25-6.
affairs. This was in part a reply to traditionalist ‘Country’ critics of policies made in the interests of trade. Hume was especially concerned to make it plain that foreign commerce was no more a cause for concern than domestic commerce. By both its imports and its exports foreign trade increased the nation’s stock of labour, which the state could use to its own purposes in times of war. Hume was not the first make this kind of argument in defence of trade. Nor was he the first to articulate the beneficial economic consequences of the production and consumption of luxury goods, as he did implicitly in 'Of Commerce', and explicitly in the second essay, 'Of Luxury'. Refinement in manufactures and in patterns of consumption, Hume argued, went along with an increase in sociability and an improvement of science. The distinctive forms that modern life took, and the sentiments that were formed and exchanged and refined in clubs and societies and coffeehouses and drawing rooms, were inconceivable without progress beyond a basic subsistence economy. 'Thus', as Hume put it, 'industry, knowledge, and humanity are linkt together by an indissoluble chain, and are found, from experience as well as reason, to be peculiar to the more polish'd and luxurious ages' (27-8). Hume had read Montesquieu making the same kind of case for luxury as a softener of manners and refiner of customs. He had read Melon arguing that, far from making a country effeminate and lazy and unable to defend itself, luxury is 'the destroyer of sloth and idleness'. He had also read Mandeville. But in this connection, Hume mentioned Mandeville only in order to distance himself from the more extreme conclusions reached in The Fable of the Bees. Not all luxury is beneficial to the nation, Hume argued. It is better, in the sense of being more useful, for the rich man to educate his children and support his friends and relieve the poor than to spend all his money gratifying his own appetites. Mandeville had been wrong to argue that there is no such thing as vicious luxury. This, again, was hardly a novel point to make, and Hume’s intention was presumably a clear and elegant and condensed articulation of what he knew would be a familiar line of argument. Woven into the argument, though, was an emphasis on the advantages of a flourishing industry and

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Samuel Johnson, not a natural ally of Hume’s on most issues, would defend luxury in Adventurer 67 (26 May 1753): see Winch (1996), pp. 57-60.
21 Melon (1739), p. 177.
commerce as regards the cause of liberty. It was commerce that had given property and power to the class of society from which Britain's House of Commons was drawn. Commerce, therefore, was to be seen as a source of liberty as well as of wealth, of national power, and of the refinement of manners. Smith would claim in *The Wealth of Nations* that Hume was 'the only writer' who had taken notice of the link between commerce and the liberty and security of individuals.  

The first aim of trade, from a political perspective, was an increase in the nation's stock of money, where money meant metal, gold and silver. It was gold and silver that paid for armies and ships and castles, that subsidized the foreign allies necessary to the maintenance of a balance of power in Europe, and that was paid out in the treaties that brought wars to an end. It tended to be assumed by writers on trade that money and wealth were the same thing: that in all circumstances, in other words, the more gold and silver a nation had, the more wealthy it was. More reflective writers on trade, however, had questioned the identification of metal with wealth, and had asked whether the accumulation of money should really be thought of as what commerce was for. Berkeley, for example, had asked in *The Querist* 'Whether money be not only so far useful, as it stirreth up industry, enabling men mutually to participate in the fruits of each other's labour?'  

Money, according to Berkeley, was merely what made trade, as distinct from bartering, possible. It had no value in itself. Its true idea, he suggested was 'that of a ticket or counter'. Vanderlant also had conceived of money as a 'counter', 'the means by which commodities of all kinds are procured and transferred from one to another', the 'medium' of trade rather than trade's objective. Montesquieu had made the same suggestion. When money was defined in this way, it did not matter much how many 'counters' an economy contained, so long as there were enough to facilitate the exchange of goods from one person to another. Nor, some suggested, did it matter much what money was made of. As we will see, Hume thought that it did matter what money was made of, but he did not attach significance to how much money a country possessed. In the essay 'Of Money' he made it clear that he thought this

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much was obvious. It was, he wrote, a 'principle of reason, that the quantity of gold and silver is in itself altogether indifferent' (51-2). An increase in the quantity of money could do no more than inflate prices, something that, far from being useful, 'may even be a loss to a nation in its commerce with foreigners' (42). Hume explored the circumstances in which this would indeed be a loss to a nation later in Political Discourses. The bulk of the essay on money was not a defence of what is now known as the quantity theory of money, but rather a consideration, for the benefit of 'speculative politicians', of two apparent problems for the theory. It was a matter of historical fact that the increase of money in Europe following the discovery of the gold and silver mines of South America had stimulated the economies of Europe. It was also a matter of historical fact that countries with limited amounts of money tended to be the poorest countries. Hume's solution was that in both cases the determining factor was not the quantity of money, but rather the amount of industry and trade, and the speed at which money circulated as a result of that industry and trade. An increase in the amount of money did encourage growth, but the crucial thing here was the process of increase, not the amount of money added to the economy at the end of the process, and what made growth possible was the extent to which manufacturers and traders were willing to take advantage of the short-term effects of a boost to the money supply. The usual cause of poverty was not that money was short, but that money was not being put to good use. The strength of a state, Hume concluded, lay not in its money, but rather in its habits of industry and enterprise.

With respect to money, Hume took himself to have identified a confusion of a collateral effect for a cause. Scarcity of money generally accompanied poverty, but was not its cause. The cause of both, rather, was insufficient circulation. Another example of this kind of confusion was the view, orthodox since at least Locke's writings on money, that the quantity of money was the key determinant of money's price: that low interest rates and cheap borrowing were caused by plenty of money, and high interest rates and expensive borrowing were caused by shortage of money. Hume's view as outlined in 'Of Interest' was that

26 There is a very striking similarity between Hume's description (pp. 47-8) of the effects of an increase in money and Cantillon's (pp. 161ff).

27 For a survey of the debate about interest rates, see Tucker (1960); also Brewer (1990), pp. 124ff.
something else was needed to explain how interest rates were fixed. Again, this was not an
original suggestion. In *An Essay on the Governing Causes of the Natural Rate of Interest*, published
in 1750, Joseph Massie had claimed that the right place to begin in an explanation of interest
rates was with the question of why people are prepared to pay interest in the first place.\textsuperscript{28}
The answer Massive gave was that interest is seen as a price paid for the opportunity to make
a profit with someone else's money. People will allow others to make a profit with their
money when they cannot make more from their money by investing it themselves. So the
rate at which they will lend is bound to be at least equal to the profitability of trade in general.
Interest rates, then, are linked closely to the rates of profit from trade. This raises the further
question of what determines profits from trade, and the answer to this question is, simply,
competition. An increase in competition squeezes profit margins. What, then, determines the
number of people wanting a part of a trading market? Massie's answer, in essence, was that
political considerations are the key factor. When there is confidence in the government's
capacity to enforce contracts, protect shipping, and generally keep the peace, then people
will take the risks inherent in trade. Hume's essay on interest replicated Massie's argument so
exactly that it is hard not to conclude that he had read Massie and was influenced by him --
though, of course, it should be remembered that if Massie was capable of thinking up his
explanation by himself, so also, presumably, was Hume. In any case, it was, again, a nation's
industriousness, its appetite for business and profit, that mattered according to Hume. The
habits and manners of commerce were the cause both of the quantity of money in
circulation and of the prevailing rate of interest. The relatively low interest rates in the
Europe of the mid-eighteenth century were the effect not of the influx of silver and gold
from the American colonies of Spain and Portugal, but of the general flourishing of
manufactures, arts, and industry, of the appetite for luxury among consumers, and of the
habits of frugality among traders. The moral for politicians, hinted at but not spelled out by
Hume, was that there was no shortcut to cheap money. Interest rates could not be lowered,
for example, by a legally-mandated increase in the value of coins, or by the introduction of
paper money to supplement metal. Whatever the short-term effects of such policies, it would
not be very long before interest rates reverted to the natural level determined by the amount
of activity in the economy taken as a whole.

\textsuperscript{28} Massie (1750), pp. 47ff.
The idea that there is a 'natural' state of an economy that cannot be artificially improved by legislative activity had been formulated before Hume by those 'mercantilist' writers on trade who were in favour of a general relaxation of the system of tariffs and taxes and monopolies that had grown up so quickly under Walpole and his successors. But those writers remained attached to the idea that trade served the national interest just to the extent that it resulted in a surplus of exports over imports. They were as worried as the protectionists about the extent to which Britain was 'losing' money to France, for instance because of a self-destructive appetite for French luxury goods. In the essay 'Of the Balance of Trade' Hume argued that the very notion of a 'wrong' or 'harmful' balance of trade was mistaken. The idea of a natural state of the economy had not been taken far enough. The full implications of the fact that industriousness, not the quantity of money, was the key determinant of the facts of economic life had not been grasped. Money could not be 'lost' to France because there was a determinate amount of money that the British economy could make use of. The amassing of money would result only in increased wage costs, increased prices, and the rise of the price of exports to the point where they became uncompetitive. Money at that point would be bound to start leaving the economy because imports had become cheaper than domestic produce. This would trigger a decline in the state of manufactures, jobs would be lost and wages would fall, and in the end domestic industry would be competitive again, both nationally and internationally. Money, being (in Berkeley's image) the oil that lubricated the wheels of trade, or (in Vanderlint's image) the water on which commerce floated, had, like any liquid, a natural level, above or below which it could not kept for long. The 'innumerable barriers and obstructions upon commerce' that the British, in their jealousy and hatred of the French, had implemented were just so many doomed attempts to raise the level of money above what was natural to the British economy, given the amount of industriousness and enterprise that animated it. It was time, Hume suggested, to moderate jealousy and hatred. Manufacturers of woolen goods should be allowed to export freely to France, regardless of fears that this might foster a domestic market for woolen goods from abroad, and so encourage woolen manufacture in, for example, Ireland. Luxury goods, for example French wines, should be allowed to be imported without penalty. French wine production could only be increased by giving over to it land currently used for staples such as wheat and barley, and wheat and barley would then have to be imported from, for example, England. 'In short,' Hume concluded, 'a government
has great reason to preserve with care its people and its manufactures. Its money, it may safely trust to the course of human affairs, without fear or jealousy' (100). He was willing to accept protectionist measures -- for example, taxes on German linen and on French brandy - if they would help with the preservation of people and manufactures. He was no advocate of completely free trade. The important point, though, was that the concern of legislators should be understood to be the cultivation of industriousness, not the draining of money from commercial rivals in the interests of a 'favourable' balance of trade.

The *Political Discourses* betrayed a deep scepticism on Hume's part not only about protectionism but also about the proclivity of politicians to imagine they could increase wealth through the creation of new forms of money, such as credit notes issued by banks, stocks in large trading companies, and holdings of national debt. In 'Of Money' Hume dismissed these things as 'counterfeit money' (44). Paper money contributed to inflation, would not be accepted in lieu of metal by foreigners, and its value was dangerously vulnerable to fluctuations in confidence in the creditworthiness of the issuers. Any form of serious disorder would reduce its value to nothing. Hume doubtless found reason for such scepticism in the fact that the rebellion of 1745 had very nearly caused a run on the Bank of England. Hume regarded the British as especially susceptible to the illusion that paper money provided a means of increasing national wealth. The French had reacted to the financial crises of the 1720s by banning banks and paper money and even (in theory, at least) lending at interest. But the British appeared to be still under the spell cast by John Law and his advocacy of creative finance as a means of general enrichment. Britain had seen what has been termed a 'financial revolution' in the decades that 1688.29 Fortunes had been made in speculation on the markets, and politicians had cultivated the trade in stocks and bonds as a source of tax revenue. The problem, as Hume saw it, was that as paper emerged as a substantial component of the money supply, gold and silver would be bound to leave the domestic economy, because paper would not pass as currency abroad. It might be wondered why this would matter if, as Hume held in 'Of Money', money was a counter or token, the value of which was a matter of convention. Wasn't all money, in a sense, 'counterfeit'? It mattered, according to Hume, precisely because metal was what was needed in international transactions of all kinds. The institutions were not (yet) in place that would allow merchants

29 See Dickson (1967).
and traders in one country to have confidence in credit notes issued in another. In theory, anything could function as money, but in practice often only silver or gold would do.\(^{30}\) An abundance of money was of any use at all only in negotiations and transactions with foreigners. In the domestic context it could only be inflationary. By the rise of paper money, therefore, 'we feel ... all the ill effects, arising from a great abundance of money, without reaping any of the advantages' (90). A policy intended to raise money above its natural level in the event was in truth the only means of sinking it below that level. There was one and only way of raising the level of money, and that was a policy of 'gathering large sums into a public treasure, locking them up, and absolutely preventing their circulation' (93).\(^{31}\) Again, in principle, Hume seems to have thought that this was good policy, but human nature was such that the policy was bound to fail.\(^{32}\) Either another country would invade to steal the hoard of money, or politicians would give in to the temptation to dip into it and spend in ways that would make them popular but destroy what mattered most, 'the industry, morals, and numbers' of the people.

In the essay on the balance of trade Hume identified a mechanism governing the flow of money between rich and poor countries that appeared to make it impossible for a country with plenty of money, and so high labour costs, to isolate itself for long from the threat posed to its manufactures by a poorer country with significantly lower wages.\(^{33}\) Money, like water, would naturally flow from the high to the low, and the ultimate result, certainly where countries were close by each other, would be an approximate economic equality. '[A]ny man,' Hume pointed out, 'who travels over Europe, at this day, may see, by the prices of commodities, that money, in spite of the absurd jealousy of princes and states, has brought itself nearly to a level, and that the difference betwixt one kingdom and another is not greater in this respect, than it is often betwixt different provinces of the same kingdom' (87). When shown an early version of the essay, Hume’s friend James Oswald had expressed scepticism about the levelling process that it outlined. He argued there were reasons to think that a rich country's ability to buy and store food cheaply, and its capacity to attract in a

\(^{30}\) See Wennerlind (2008).

\(^{31}\) For an account of discussion of hoarding, see Viner (1937), pp. 45-51.

\(^{32}\) Compare Vanderlint (1734), p. 94; and also the views mentioned by Viner (1937), p. 45.

\(^{33}\) See Hont (2005), ch. 3.
reliable flow of immigrant labour, gave it the capacity to preserve a permanent competitive advantage over a poorer country. Writing in reply to Oswald, Hume pointed out that he should not be taken to be saying that the result of process was that countries 'which communicate' would automatically end up with the same amounts of money. They would only do so if they were equal in respect of 'their people, industry, and commodities'. The analogy with water, in other words, was not to be taken too literally. Hume conceded, and spelled out in detail in the essay on money, that a gradual increase in money would, in the short term, stimulate industry rather than simply cause wage and price inflation. But, Hume insisted to Oswald, in the long term it was impossible for a rich country to maintain an advantage over a poor neighbour. 'The growth of every thing,' he wrote, 'both in arts and nature, at last checks itself'. 34 The only thing that protected Europe from China's low-wage economy was distance. Were China as near as France or Spain, 'every thing we use would be Chinese, till money and prices came to a level'. 35 The question of how long Britain could maintain its economic position would recur in 1758 in correspondence with Kames about Tucker's Theory of Commerce. Hume would declare himself pleased at Tucker's confidence in England's future and his prediction of the 'continuance and even further progress of the opulence of that country'. Even so, he admitted, he could not but indulge himself 'in the hopes that we in Scotland possess also some advantages, which may enable us to share with them in wealth and industry'. 36 In the Political Discourses, however, Hume did not write as a Scot. He could quite dispassionately observe that English fears about a drain of money to Scotland following the Union of 1707 had proved to be groundless. He described his fellow Scot John Law as as much a 'foreign writer' as Melon and Dutot (126 fn). 37 He did not focus on the situation of his native country as Law had done in Money and Trade Consider'd, or as Berkeley had focused on Ireland in The Querist. 38

34 Hume (1932), vol. i, p. 143.
35 Hume (1932), vol. i, p. 144.
36 Hume (1932), vol. i, p. 271.
37 I take this point from Murphy (2006), p. 15.
38 I don't find plausible the claim made by Emerson (2008) that despite appearances to the contrary, in his essays on political economy 'Hume had Scots in mind for significant portions of his theoretical analyses and policy recommendations' (p. 10).
III: National debt in international perspective

The essay immediately following 'Of the Balance of Trade' was called 'Of the Balance of Power'. This might look like a change of subject.\(^{39}\) It was not. The state of trading relations between the countries of Europe was intimately related to the state of the European balance of power. The increasing costs of war had made commercial success, and, more important still, a nation's ability to borrow on the basis of its economic strength, vital components of international power and prestige. It was taken as more or less axiomatic that Europe was under threat from France and her allies of falling under a 'universal monarchy'. 'Europe has now, for above a century', as Hume put it, 'remain'd on the defensive against the greatest force, that ever, perhaps, was form'd by the civil or political combination of mankind' (109). The vitality of the British economy, and the country's consequent military and naval capacity, was generally supposed to be essential to countering that threat. Since 1688, Britain, so Hume asserted, 'has stood foremost in the glorious struggle; and she still maintains her station, as guardian of the general liberties of Europe, and patron of mankind' (110). Hume's essay was intended in part to show that 'the maxim of preserving the balance of power' was not a new feature of European politics. The leaders of the ancient world had followed the maxim even if they did not explicitly formulate it as an item of policy. It was no more than a matter of common sense that universal monarchy needed to be prevented. In fact, Hume suggested, there was a danger for Britain in making the balance of power an explicit political concern. The problem was Britain's obsessive and irrational antipathy to the French. It was no more than natural that a country the size of France would need to be contained by military force. But the British could not prevent themselves from, so to speak, making the conflict personal. Wars with France 'have always been too far push'd, from obstinacy and passion'; the British are always taken advantage of by allies in the conflict with France; and 'we are such true combatants, that, when once engag'd, we lose all concern for ourselves and our posterity, and consider only how we may best annoy the enemy' (110-11). There had

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\(^{39}\) The essay is not, for example, included in a widely-used volume entitled *David Hume: Writings on Economics* (Rotwein (ed.) (1955)).
been too little reflection on what a balance of power involved, which was to say, not conclusive defeat of the enemy, but the creation of an equal opposing force. Hume concluded the essay by returning to the long view. History suggested that 'enormous monarchies, such as Europe, at present, is in danger of falling into', could not last very long. A Bourbon empire would collapse just as the Roman empire had, and for the same reasons.

The only indubitable consequence of British foreign policy was the national debt. The debt was to a large extent serviced by taxation, and 'Of Taxes' Hume considered, and rejected, the idea that increases in taxation were always beneficial to a country's economy because they encouraged people to work harder to make up for their loss in net income. Hume looked for the middle ground. Some taxes were beneficial in this way, some were not. Like many writers on trade, he was in favour of taxes on the consumption, and especially on luxury goods. He reluctantly accepted taxes on property, such as the land tax. He opposed universal poll taxes. When he turned to a direct consideration of national debt, by contrast, the middle ground was not what he searched for. Hume regarded the mortgaging by a nation of its future income as, quite simply, 'ruinous, beyond the evidence of a hundred demonstrations' (124). At a time when Britain showed every sign of accommodating itself to permanent indebtedness, and when it was regularly argued that its creditworthiness was both a sign and a source of power, this was a remarkably strong line to take. It sat uneasily with the idea apparently promulgated in other essays that financial affairs could be mostly trusted to look after themselves. As Hume himself pointed out, in the ancient world war was financed by the hoarding of money, and in taking a stand against the very idea of national debt, Hume appeared to align himself with a Country politics of nostalgia that he usually had no time for. It brought him into agreement with Bolingbroke, for example, who argued in Some Reflections on the Present State of the Nation, begun in 1749 but left unfinished on its author's death in 1751, that 'the future prosperity and safety of this country depend on the speedy diminution of our national debts'. Hume had indicated in a 1749 letter to

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40 Berkeley, by contrast, had in The Querist described Britain's public credit as 'a mine of gold' and as 'the principal advantage that England hath over France' ((1970), p. 144). Walpole had routinely presented public credit as the means by which the liberties won in 1688 had been preserved.

Montesquieu that a national debt might have some positive effects. Debt itself being a form of currency, it increased the amount of money in circulation, and the possibility of speculating on funds that held debt prevented successful businessmen from finding reasons to sink their money in land, thereby making trade more competitive. But these benefits were overwhelmingly outweighed by the disadvantages felt by a heavily indebted country. Debt caused an unnatural concentration of both people and money in London. It was inflationary. The taxes needed to service debt acted as a check on industry. Because a large proportion of the holders of the debt were foreign, it decreased British autonomy. The possibility of living off interest encouraged idleness.42

As if the case against the national debt were not already overwhelming, there was also to be taken into consideration 'the prejudice, that results to the state, consider'd as a body politic, which must support itself in the society of nations, and have various transactions with other states, in wars and negotiations' (131-2). The idea -- articulated for example by Melon -- that a national debt was not pernicious because in effect the nation owed money only to itself, so that it was no poorer as a consequence than someone was when he transferred money from his right hand to his left, did not according to Hume deserve to be taken seriously. Debt had very real, and very detrimental, effects on the economic well-being of most of the population. And yet, Hume complained, even so people believed that there was nothing that could be done about national indebtedness, that the best that could be hoped for was the kind of restructuring, the reductions in interest on bonds and annuities and extensions of the lifespan of loans, that had occupied Walpole and that was now, in the 1750s, the concern of the Pelhams. A politician would always find reason to delay serious attempts to reduce the debt, for example by the maintenance of taxation at the kind of level it reached during wartime. It was not difficult to see, Hume claimed, that the point would soon be reached when such supine acceptance of the debt would have to end. It was inevitable both that war would break out again and that Britain would not be able both to fight the war and finance its debt. A choice would then have to be made between 'destroying' the public debt, by defaulting on it, and allowing the debt to destroy the nation, by putting the country's credit before its liberty. Perhaps more in hope than expectation,
Hume supposed that in such circumstances, default would be the preferred option. He allowed that were other ways forward out of debt, for example the French practice, defended by Melon, of artificially increasing the value of the coinage, which was bad for creditors, but good for debtors; or the Dutch policy of forcibly reducing the interest on the national debt, without prior negotiation with creditors. But these, he thought, would not work in Britain. 'People in this country are so good reasoners on whatever regards their interest', Hume remarked, presumably ironically, 'that such a practice will deceive no body; and public credit will probably tumble at once by so dangerous a trial' (137 fn). It was likely, then, that public credit would see what Hume termed a 'natural death'. Hume refused to see a default as a disaster. There were only about 17 000 holders of national debt. Why should their interests be put before the interests of owners of land who comprised all of the House of Lords and most of the House of Commons? Hume acknowledged that the 'moneyed interest' was more influential than its numbers suggested. The worry was that its influence would spread further and progressively weaken Britain's appetite for the wars necessary to the maintenance of a balance of power in Europe. French power would carry on growing, and eventually a time would come when it was no longer possible to resist it. This would be the 'violent death' of public credit. For the moment, there was a choice between these two ways of putting an end to the national debt. Revising the essay in 1764, with the national debt larger still after the Seven Years War, Hume would be rather more pessimistic.

IV: The politics of trade in historical perspective

We saw that Hume began *Political Discourses* implying that to write as a ‘philosopher’ about trade was to be in search of ‘universal propositions, which comprehend under them an infinite number of individuals, and include a whole science in a single theorem’ (2-3). But he himself was not concerned with extracting sciences from theorems. *Political Discourses* was very different from the systematic analyses of the political dimensions of trade that would soon by published by, for example, Cantillon, Tucker, Sir James Steuart, and Adam Smith. Hume might have meant to underline the unsystematic of his investigations in the essay 'Of

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43 See Letwin (1963), pp 218ff.
Some Remarkable Customs', which used examples of puzzling and unexpected political phenomena to show 'that all general maxims in politics ought to be establish'd with great reserve, and that irregular and extraordinary appearances are frequently discover'd, in the moral, as well as in the physical world' (142). Hume best captured the spirit of his own approach in the very first paragraph of Political Discourses, with its characterization of 'abstruse thinkers' as 'by far the most useful and valuable' in so far as '[t]hey suggest hints, at least, and start difficulties, which they want, perhaps, skill to pursue, but which may produce very fine discoveries, when handled by men who have a more just way of thinking' (1). Hume's project in the Political Discourses was, precisely, to 'start difficulties'. And the difficulties he started were not only difficulties for what has come to be called 'mercantilism'. In 'Of Money', for example, his concern was not so much with the mistake of identifying money with wealth, as with apparent exceptions to the more plausible view that it was irrelevant how much money a country possessed. In 'Of the Balance of Trade' the mechanism whereby money was bound to flow between neighbouring economies, regardless of protectionist attempts to prevent imports, was presented as a threat to even the most industrious and enterprising society. Hume had no doctrine or theory of trade to argue for. He wrote first and foremost as an essayist, wanting principally to stimulate surprise and puzzlement and reflection in his reader.

Also, surely, he wanted a wider readership than was usual for books on trade. Tucker had noted that trade had been represented as a dry and unappealing subject, fit only for 'the Mercantile Part of the World' to take interest in. He had suggested that the almost complete lack of agreement among writers on trade was a result of the fact that every writer on trade in general was really writing only to further his particular branch of trade. It was possible, then, that 'a person of liberal and learned education, not concerned in trade, is better qualified to engage in the study of it as a science, than a merchant himself'.

Hume wrote as a person of liberal and learned education seeking liberal and learned readers. There were no tables of figures in the Political Discourses, and nothing in the way of detailed examination of the state of trade, or of the balance of imports against exports, or even of the current amount and cost of the national debt. What there was in their place was history, both modern and ancient. Ancient history was especially plentiful. There was evidence all through

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44 Tucker (1749), pp. iv-vi.
the book of the intensive reading and re-reading in the classics that Hume had been doing since his return to Chirnside in early 1749. The ancient world furnished Hume with many of his examples, and at times provided him with a point of comparison and contrast with the policies of modern Europe. It is striking that detailed references to classical works, including footnotes, are much more common than references, let alone footnotes, to modern works. Very little of the modern literature on trade is explicitly referred to by Hume -- and what is referred to is more usually French than British. It is most unlikely that the reason for this was that Hume did not know the modern literature in English. Ancient literature was probably given more prominence as a means of engaging the interest of general readers who could be expected to pride themselves on their classical learning. It was an attempt to take the subject to the reader, instead of asking the reader to adapt himself -- or herself -- to an unfamiliar subject-matter.

The history was not mere window-dressing. It was more than just a *vade mecum*. Hume, as we have seen, returned repeatedly to the claim that the principal determinant of a country's economic state of health was its manners and customs. It was the habits of industry and enterprise that mattered, habits that in countries like Holland and England had both fostered and been reinforced by the emergence of political liberty, and that been engrained also by the spread of a taste for refinement and luxury. Economic development, in other words, had a social and cultural underpinning, and all of the factors involved needed to be understood in a historical framework. Manners and tastes developed and altered through time. They could not be presumed to be permanent features of a country or a people -- especially once the idea of 'physical' causes of national character had been dispensed with. To an extent, the literature on trade did incorporate a historical perspective, but the history, so it looked to Hume, was both extremely crude and fundamentally mistaken. As part of its argument that something or other needed to be urgently done in order to rectify Britain's commerce, a book or pamphlet on trade would often locate itself in that part of early modern opinion which supposed that the modern world was inferior to the ancient, that things were generally in a state of decline, and that one clear instance of decline, and of crisis in commerce, was the emptiness of Europe, its palpable loss of population in the modern era. In 1685 Isaac Vossius, a canon at the royal chapel at Windsor, had asserted that the population of Rome at its height was fourteen million, and that its area was twenty times as large as modern London and Paris combined. A similar view was expressed by Rhedi and
Usbek in Montesquieu's *Lettres Persanes*, and in *L'Esprit des Loix* Montesquieu argued *in propria voce* that Europe was more populous in the time of Charlemagne than at present. In a manuscript that Hume read in the late 1740s Robert Wallace dismissed these as exaggerations, but argued instead that a decline in population had begun before the rise of Rome. How many people lived in the ancient world might now sound like a question of purely antiquarian interest, but to Hume and his contemporaries it was, in Hume's own words, 'the most curious and important of all questions of erudition' (155 fn). It mattered because to undermine the view that the world's population was in decline was at the same time to undermine the view that there was cause for concern about the course that history was taking in European politics generally. '[I]f every thing else be equal', after all, 'it seems natural to expect, that wherever there are most happiness and virtue and the wisest institutions, there will also be most people' (160). Hume discussed the population question in an essay that occupied over a hundred of the three hundred pages of the *Political Discourses*.45

In 'Of the Populousness of Antient Nations' Hume first compared the political and moral differences between the ancient and modern worlds and argued that the differences made it very unlikely that world's population was in decline. He then turned to a survey of the available evidence for the actual population of the ancient world and argued that there was insufficient evidence for the claims made by Vossius, Montesquieu, and Wallace. Thus he did not himself seek to reach a definite conclusion on the matter. His aim, as he told a friend, lay in 'starting some doubts, and scruples, and difficulties, sufficient to make us suspend our judgment on that head'.46 What was unusual given the proclivities of the time, but not surprising given the tenor of his moral philosophy, was Hume's ability to immerse himself in the study of the ancient world without succumbing to nostalgia for its values and institutions. When considered in terms of their politics, and not in terms of their literature, classical Athens and Rome do not appear to have held many attractions for him. What was salient as he examined the ancient world was its dependence upon slavery, its perpetual and

45 Hume was not the only writer confident that the population of modern Europe was increasing. Vanderlint, e.g., accepted the arguments of Sir William Petty that the British population was increasing steadily, despite wars and emigration to colonies. For discussion of the population question, see Glass (1973), Luehrs (1987).

46 Hume (1932), vol. i, p. 140.
destructive wars, and the undeveloped state of its manufactures and commerce. The ancient
departed republics were fond of liberty, Hume remarked, but did not understand it very well. Such
liberty as was achieved was hopelessly unstable, because ‘there was no medium betwixt a
severe, jealous, aristocracy, over discontented subjects; and a turbulent, factious, tyrannical
democracy’ (204). That is, there was no class of medium-sized land owners and prosperous
manufacturers and merchants to act as a counterweight to the pendulum swing of power
from the few to the many and back again. Violence and inhumanity were endemic to
political life. Violence and inhumanity were endemic to domestic life as well. The number of
slaves used in the ancient world, Hume claimed, and the way in which they were treated,
meant that 'to one, who considers coolly of the subject, it will appear, that human nature, in
general, really enjoys more liberty at present, in the most arbitrary government of Europe,
than it ever did during the most flourishing period of the antient times' (161).

This was an unambiguous rejection of the idea that modern politics might be
improved by a return to the ideals of the ancients. It confirmed the claim made in the essays
on commerce and on luxury that there was nothing to be said in favour of a reversion to 'the
maxims of antient policy'. The modern world was infatuated with the acquisition of the
wealth, and with social status and the conspicuous consumption that conferred it. But all of
that was inextricably bound up with the modern world's widespread and relatively liberty,
and with its more refined and humane manners. In the Political Discourses taken as a whole
Hume argued that, putting the question of national debt to one side, there were no reasons
for 'speculative politicians' to wish things very different from how they were. The essay 'Of
the Protestant Succession' supplemented the argument with a reflection on the harm always
done by revolutionary insurrections. According to Hume, the case for the Protestant
succession was its de facto success. Legitimacy was conferred on George II by the simple fact
that Hanoverian monarchs had been on the throne for close to forty years. It is surprising,
then, that Hume chose to conclude the Political Discourses with a consideration of the
potentially unsettling question of which form of government should be considered most
perfect. This was a question worth asking, Hume claimed at the beginning of 'Idea of a
Perfect Commonwealth', in order 'that we may be able to bring any real constitution or form
of government as near it as possible, by such gentle alterations and innovations, as may not
give too great disturbance to society' (282.3). Hume's model of the ideal state took
Harrington's Oceana as its point of departure, which again was surprising, given the
importance of Harrington to the kind of neo-republicanism that Hume so plainly rejected. In addition, Hume found a place in his perfect commonwealth for just the kind of citizen militia that Harrington and his followers attached great importance to: 'without a militia', he declared, "tis folly to think any government will ever have security or stability' (298). But as was to be expected after his remarks on the instability of ancient politics, Hume argued for a representative democracy, not for republican self-government, and clearly had no problem at all with the perfect commonwealth being a very large commonwealth. It was not the case, in other words, that, as modern republicans liked to claim, a state had to be small in order for its citizens to be free. He drew attention to the similarities between his ideal state and Holland, but of course Holland was small, and depended on alliances to maintain its freedom. It was in fact size that would make it possible for a state reliably to combine democracy with peace and order. And, although Hume did not labour the point, and did not need to in the wake of the essays that had gone before in Political Discourses, size and freedom and stability would go a long way toward ensuring that the perfect commonwealth would also be a wealthy one.

IV: European Political Discourses

Hume would claim in the brief autobiography written shortly before he died that Political Discourses was 'the only work of mine, that was successful on the first Publication'. It was successful enough to be reissued in a second (identical, bar minor corrections) edition in the same year. Also, it was immediately turned into French, by two different translators – and of course French translation was the way for an English writer to make himself known further afield, in Italy, and in Prussia. The first of these translations, by Elézéar Mauvillon, was commissioned by a Dutch publisher wanting to cash in on the book’s success in Britain. The second is more interesting. It was made by Jean-Bernard Le Blanc, and was printed with extensive notes indicating the extent to which Hume could be seen as contributing to the

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47 See Pocock (1975).
49 Hume (1932), vol. i, p. 4.
French discussion of the political dimensions of trade. Melon’s *Essai Politique sur le Commerce* had been translated in English in 1739 by an Irish translator who added several notes reflecting on the book’s relevance to the Irish situation. Le Blanc in turn emphasized the affinity (and sometimes also the differences) between Hume and Melon on economic questions, and added a series of notes intended to highlight the way Hume added support to Melon's case for commerce as just as important to the interests of the state as military prowess. 'Le Miltaire, le Magistrat, le Négociant, tous servent également l'Etat', he wrote in the preface.\(^{50}\) It has been argued that this translation of *Political Discourses* needs to be seen in the context of the aims of the French *intendant* of trade, Jacques-Claude-Marie Vincent de Gournay, who sought to persuade his superiors that French policy after Aix-la-Chapelle should be to seek preeminence in Europe through trade rather than through military prowess. Translation of Hume’s *Political Discourses* – and of a number of other British writers on trade – was supposed to be a means to that end.\(^{51}\) In fact in his notes Le Blanc was critical of Hume on a number of important issues, and misinterpreted him on others, but this clearly did not matter to the author of *Political Discourses*, who judged the translation ‘excellent’,\(^{52}\) and who even before he saw it asked Le Blanc if he would also translate *The History of Great Britain*. What Hume wanted at this point in his career was above all reassurance that he had achieved a genuinely European reputation. *Political Discourses* was written in a way surely intended to help it be a means to this end. Hume's purpose was not to induct the reader into a system, but to introduce trade as a topic of conversation among all who were ‘polite’, historically literate and philosophically inclined.

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