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On the balance of trade

David Hume

It is very usual, in nations ignorant of the nature of commerce, to prohibit the exportation of commodities, and to preserve among themselves whatever they think valuable and useful. They do not consider, that, in this prohibition, they act directly contrary to their intention; and that the more is exported of any commodity the more will be raised at home of which they themselves will always have the first offer.

It is well known to the learned, that the ancient laws of Athens rendered the exportation of figs criminal; that being supposed a species of fruit so excellent in Attica, that the Athenians deemed it too delicious for the palate of any foreigner. And in this ridiculous prohibition they were so much in earnest, that informers were thence called *sycophants* among them, from two Greek words, which signify figs and *discoverer*. There are proofs in many old acts of parliament of the same ignorance in the nature of commerce, particularly in the reign of Edward III. And to this day, in France, the exportation of corn is almost always prohibited; in order, as they say, to prevent famines; though it is evident, that nothing contributes more to the frequent famines, which so much distress that fertile country.

The same jealous fear, with regard to money, has also prevailed among several nations; and it required both reason and experience to convince any people, that these prohibitions serve to no other purpose than to raise the exchange against them, and produce a still greater exportation.

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These errors, one may say, are gross and palpable: But there still prevails, even in nations well acquainted with commerce, a strong jealousy with regard to the balance of trade, and a fear that all their gold and silver may be leaving them. This seems to me, almost in every case, a groundless apprehension; and I should as soon dread, that all our springs and rivers should be exhausted, as that money should abandon a kingdom where there are people and industry. Let us carefully preserve these later advantages; and we need never be apprehensive of losing the former.

It is easy to observe, that all calculations concerning the balance of trade are founded on very uncertain facts and suppositions. The custom-house books are allowed to be an insufficient ground of reasoning; nor is the rate of exchange much better; unless we consider it with all nations, and know also the proportions of the several sums remitted; which one may safely pronounce impossible. Every man, who has ever reasoned on this subject, has always proved his theory, whatever it was, by facts and calculations, and by an enumeration of all the commodities sent to all foreign kingdoms.

The writings of Mr Gee struck the nation with an universal panic, when they saw it plainly demonstrated, by a detail of particulars, that the balance was against them for so considerable a sum as must leave them without a single shilling in five or six years. But luckily, twenty years have since elapsed, with an expensive foreign war; yet is it commonly supposed, that money is still more plentiful among us than in any former period.

Nothing can be more entertaining on this head than Dr Swift, an author so quick in discerning the mistakes and absurdities of others. He says, in his *Short View of the State of Ireland*, that the whole cash of that kingdom formerly amounted but to 500,000l.; that out of this the Irish remitted every year a neat million to England, and had scarcely any other source from which they could compensate themselves, and little other foreign trade than the importation of French wines, for which they paid ready money. The consequence of this situation, which must be owned to be disadvantageous, was, that, in a course of three years, the current money of Ireland, from 500,000l. was reduced to less than two. And at present, I suppose, in a course of thirty years it is absolutely nothing. Yet I know not how, that opinion of the advance of riches in Ireland, which gave the Doctor so much indignation, seems still to continue, and gain ground with every body.

In short, this apprehension of the wrong balance of trade, appears of such a nature, that it discovers itself, wherever one is out of humour with the ministry, or is in low spirits; and as it can never be refuted by a particular detail of all the exports, which counterbalance the imports, it may here be proper to form a general argument, that they may prove the impossibility of this event, as long as we preserve our people and our industry.

Suppose four-fifths of all the money in Great Britain to be annihilated in one night, and the nation reduced to the same condition, with regard to specie, as

in the reigns of the Harrys and Edwards, what would be the consequence? Must not the price of all labour and commodities sink in proportion, and everything be sold as cheap as they were in those ages? What nation could then dispute with us in any foreign market, or pretend to navigate or to sell manufactures at the same price, which to us would afford sufficient profit? In how little time, therefore, must this bring back the money which we had lost, and raise us to the level of all the neighbouring nations? Where, after we have arrived, we immediately lose the advantage of the cheapness of labour and commodities; and the farther flowing in of money is stopped by our fulness and repletion.

Again, suppose, that all the money of Great Britain were multiplied fivefold in a night, must not the contrary effect follow? Must not all labour and commodities rise to such an exorbitant height, that no neighbouring nations could afford to buy from us; while their commodities, on the other hand, became comparatively so cheap, that, in spite of all the laws which could be formed, they would be run in upon us, and our money flow out; till we fall to a level with foreigners, and lose that great superiority of riches, which had laid us under such disadvantages?

Now, it is evident, that the same causes, which would correct these exorbitant inequalities, were they to happen miraculously, must prevent their happening in the common course of nature, and must for ever, in all neighbouring nations, preserve money nearly proportionable to the art and industry of each nation. All water, wherever it communicates, remains always at a level. Ask naturalists the reason; they tell you, that, were it to be raised in any one place, the superior gravity of that part not being balanced, must depress it, till it meet a counterpoise; and that the same cause, which redresses the inequality when it happens, must for ever prevent it, without some violent external operation.'

Can one imagine, that it had ever been possible, by any laws, or even by any art or industry, to have kept all the money in Spain, which the galleons have brought from the Indies? Or that all commodities could be sold in France for a tenth of the price which they would yield on the other side of the Pyrenees, without finding their way thither, and draining from that immense treasure? What other reason indeed is there, why all nations, at present, gain in their trade with Spain and Portugal; but because it is impossible to heap up money, more than any fluid, beyond its proper level? The sovereigns of these countries have shown, that they wanted not inclination to keep their gold and silver to themselves, had it been in any degree practicable.

But as any body of water may be raised above the level of the surrounding element, if the former has no communication with the latter; so in money, if the communication be cut off, by any material or physical impediment (for all laws alone are ineffectual), there may, in such a case, be a very great inequality of money. Thus the immense distance of China, together with the monopolies of

our India companies, obstructing the communication, preserve in Europe the gold and silver, especially the latter, in much greater plenty than they are found in that kingdom. But, notwithstanding this great obstruction, the force of the causes abovementioned is still evident. The skill and ingenuity of Europe in general surpasses perhaps that of China, with regard to manual arts and manufactures; yet are we never able to trade thither without great disadvantage. And were it not for the continual recruits, which we receive from America, money would soon sink in Europe, and rise in China, till it came nearly to a level in both places. Nor can any reasonable man doubt, but that industrious nation, were they as near us as Poland or Barbary, would drain us of the overplus of our specie, and draw to themselves a larger share of the West Indian treasures. We need not have recourse to a physical attraction, in order to explain the necessity of this operation. There is a moral attraction, arising from the interests and passions of men, which is full as potent and infallible.

How is the balance kept in the provinces of every kingdom among themselves, but by the force of this principle, which makes it impossible for money to lose its level, and either to rise or sink beyond the proportion of the labour and commodities which are in each province? Did not long experience make people easy on this head, what a fund of gloomy reflections might calculations afford to a melancholy Yorkshireman, while he computed and magnified the sums drawn to London by taxes, absentees, commodities, and found on comparison the opposite articles so much inferior? And no doubt, had the *Heptarchy* subsisted in England, the legislature of each state had been continually alarmed by the fear of a wrong balance; and as it is probable that the mutual hatred of these states would have been extremely violent on account of their close neighbourhood, they would have lorded and oppressed all commerce, by a jealous and superfluous caution. Since the union has removed the barriers between Scotland and England, which of these nations gains from the other by this free commerce? Or if the former kingdom has received any increase of riches, can it reasonably be accounted for by any thing but the increase of its art and industry? It was a common apprehension in England, before the union, as we learn from L'abbe du Bos,² that Scotland would soon drain them of their treasure, were an open trade allowed; and on the other side the Tweed a contrary apprehension prevailed: With what justice in both, time has shown.

What happens in small portions of mankind, must take place in greater. The provinces of the Roman empire, no doubt, kept their balance with each other, and with Italy, independent of the legislature; as much as the several counties of Great Britain, or the several parishes of each county. And any man 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 between one kingdom and another is not greater in this respect, than it is often between different provinces of the

same kingdom. Men naturally flock to capital cities, sea-ports, and navigable rivers. There we find more men, more industry, more commodities, and consequently more money; but still the latter difference holds proportion with the former, and the level is preserved.'

Our jealousy and our hatred of France are without bounds; and the former sentiment, at least, must be acknowledged reasonable and well-grounded. These passions have occasioned innumerable barriers and obstructions upon commerce, where we are accused of being commonly the aggressors. But what have we gained by the bargain? We lost the French market for our woollen manufactures, and transferred the commerce of wine to Spain and Portugal, where we buy worse liquor at a higher price. There are few Englishmen who would not think their country absolutely ruined, were French wines sold in England so cheap and in such abundance as to supplant, in some measure, all ale, and home-brewed liquors: But would we lay aside prejudice, it would not be difficult to prove, that nothing could be more innocent, perhaps advantageous. Each new acre of vineyard planted in France, in order to supply England with wine, would make it requisite for the French to take the produce of an English acre, sown in wheat or barley, in order to subsist themselves; and it is evident, that we should thereby get command of the better commodity.

There are many edicts of the French king, prohibiting the planting of new vineyards, and ordering all those which are lately planted to be grubbed up: So sensible are they, in that country, of the superior value of corn, above every other product.

Mareschal Vauban complains often, and with reason, of the absurd duties which load the entry of those wines of Languedoc, Guienne, and other southern provinces, that are imported into Brittany and Normandy. He entertained no doubt but these latter provinces could preserve their balance, notwithstanding the open commerce which he recommends. And it is evident, that a few leagues more navigation to England would make no difference; or if it did, that it must operate alike on the commodities of both kingdoms.

There is indeed one expedient by which it is possible to sink, and another by which we may raise money beyond its natural level in any kingdom; but these cases, when examined, will be found to resolve into our general theory, and to bring additional authority to it.

I scarcely know any method of sinking money below its level, but those institutions of banks, funds, and paper-credit, which are so much practised in this kingdom. These render paper equivalent to money, circulate it throughout the whole state, make it supply the place of gold and silver, raise proportionably the price of labour and commodities, and by that means either banish a great part of those precious metals, or prevent their farther increase. What can be more short-sighted than our reasonings on this head? We fancy, because an individual would be much richer, were his stock of money doubled, that the same good effect

considering, that this would raise as much the price of every commodity, and reduce every man, in time, to the same condition as before. It is only in our public negotiations and transactions with foreigners, that a greater stock of money is advantageous; and as our paper is there absolutely insignificant, we feel, by its means, all the ill effects arising from a great abundance of money, without reaping any of the advantages.'

Suppose that there are 12 millions of paper, which circulate in the kingdom as money, (for we are not to imagine, that all our enormous funds are employed in that shape) and suppose the real cash of the kingdom to be 18 millions: Here is a state which is found by experience to be able to hold a stock of 30 millions. I say, if it be able to hold it, it must of necessity have acquired it in gold and silver, had we not obstructed the entrance of these metals by this new invention of paper. *Whence would it have acquired that sum?* From all the kingdoms of the world. *But why?* Because, if you remove these 12 millions, money in this state is below its level, compared with our neighbours; and we must immediately draw from all of them, till we be full and saturate, so to speak, and can hold no more. By our present politics, we are as careful to stuff the nation with this fine commodity of bank-bills and chequer-notes, as if we were afraid of being overburthened with the precious metals.

It is not to be doubted, but the great plenty of bullion in France is, in a great measure, owing to the want of paper-credit. The French have no banks: Merchants bills do not there circulate as with us: Usury or lending on interest is not directly permitted; so that many have large sums in their coffers: Great quantities of plate are used in private houses; and all the churches are full of it. By this means, provisions and labour still remain cheaper among them, than in nations that are not half so rich in gold and silver. The advantages of this situation, in point of trade as well as in great public emergencies, are too evident to be disputed.

The same fashion a few years ago prevailed in Genoa, which still has place in England and Holland, of using services of China-ware instead of plate; but the senate, foreseeing the consequence, prohibited the use of that brittle commodity beyond a certain extent; while the use of silverplate was left unlimited. And I suppose, in their late distresses, they felt the good effect of this ordinance. Our tax on plate is, perhaps, in this view, somewhat impolitic.

Before the introduction of paper-money into our colonies, they had gold and silver sufficient for their circulation. Since the introduction of that commodity, the least inconveniency that has followed is the total banishment of the precious metals. And after the abolition of paper, can it be doubted but money will return, while these colonies possess manufactures and commodities, the only thing valuable in commerce, and for whose sake alone all men desire money.

What pity Lycurgus did not think of paper-credit, when he wanted to banish gold and silver from Sparta! It would have served his purpose better than the

lumps of iron he made use of as money; and would also have prevented more effectually all commerce with strangers, as being of so much less real and intrinsic value.

It must, however, be confessed, that, as all these questions of trade and money are extremely complicated, there are certain lights, in which this subject may be placed, so as to represent the advantages of paper-credit and banks to be superior to their disadvantages. That they banish specie and bullion from a state is undoubtedly true; and whoever looks no farther than this circumstance does well to condemn them; but specie and bullion are not of so great consequence as not to admit of a compensation, and even an overbalance from the increase of industry and of credit, which may be promoted by the right use of paper-money. It is well known of what advantage it is to a merchant to be able to discount his bills upon occasion; and every thing that facilitates this species of traffic is favourable to the general commerce of a state. But private bankers are enabled to give such credit by the credit they receive from the depositing of money in their shops; and the bank of England in the same manner, from the liberty it has to issue its notes in all payments. There was an invention of this kind, which was fallen upon some years ago by the banks of Edinburgh; and which, as it is one of the most ingenious ideas that has been executed in commerce, has also been thought advantageous to Scotland. It is there called a Bank-credit; and is of this nature. A man goes to the bank and finds surety to the amount, we shall suppose, of a thousand pounds. This money, or any part of it, he has the liberty of drawing out whenever he pleases, and he pays only the ordinary interest for it, while it is in his hands. He may, when he pleases, repay any sum so small as twenty pounds, and the interest is discounted from the very day of the repayment. The advantages, resulting from this contrivance, are manifold. As a man may find surety nearly to the amount of his substance, and his bank-credit is equivalent to ready money, 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. If a man borrow a thousand pounds from a private hand, besides that it is not always to be found when required, he pays interest for it, whether he be using it or not: His bank-credit costs him nothing except during the very moment in which it is of service to him: And this circumstance is of equal advantage as if he had borrowed money at much lower interest. Merchants, likewise from this invention, acquire a great facility in supporting each other's credit, which is a considerable security against bankruptcies. A man, when his own bank-credit is exhausted, goes to any of his neighbours who is not in the same condition; and he gets the money, which he replaces at his convenience.

After this practice had taken place during some years at Edinburgh, several companies of merchants at Glasgow carried the matter farther. They

associated themselves into different banks, and issued notes so low as ten shillings, which they used in all payments for goods, manufactures, tradesmen's labour of all kinds; and these notes, from the established credit of the companies, passed as money in all payments throughout the country. By this means, a stock of five thousand pounds was able to perform the same operations as if it were six or seven; and merchants were thereby enabled to trade to a greater extent, and to require less profit in all their transactions. But whatever other advantages result from these inventions, it must still be allowed that, besides giving too great facility to credit, which is dangerous, they banish the precious metals: and nothing can be a more evident proof of it, than a comparison of the past and present condition of Scotland in that particular. It was found, upon the recoinage made after the union, that there was near a million of specie in that country: But notwithstanding the great increase of riches, commerce, and manufactures of all kinds, it is thought, that, even where there is no extraordinary drain made by England, the current specie will not now amount to a third of that sum.

But as our projects of paper-credit are almost the only expedient, by which we can sink money below its level; so, in my opinion, the only expedient by which we can raise money above it, is a practice which we should all exclaim against as destructive, namely, the gathering of large sums into a public treasure, locking them up, and absolutely preventing their circulation. The fluid, not communicating with the neighbouring element, may, by such an artifice, be raised to what height we please. To prove this, we need only return to our first supposition, of annihilating the half or any part of our cash; where we found, that the immediate consequence of such an event would be the attraction of an equal sum from all the neighbouring kingdoms. Nor does there seem to be any necessary bounds set, by the nature of things, to this practice of hoarding. A small city, like Geneva, continuing this policy for ages, might engross nine tenths of the money of Europe. There seems, indeed, in the nature of man, an invincible obstacle to that immense growth of riches. A weak state, with an enormous treasure, will soon become a prey to some of its poorer, but more powerful neighbours. A great state would dissipate its wealth in dangerous and ill-concerted projects; and probably destroy, with it, what is much more valuable, the industry, morals, and numbers of its people. The fluid, in this case, raised to too great a height, bursts and destroys the vessel that contains it; and mixing itself with the surrounding element, soon falls to its proper level. [...]

From these principles we may learn what judgment we ought to form of those numberless bars, obstructions, and imposts which all nations of Europe, and none more than England, have put upon trade; from an exorbitant desire of amassing money, which never will heap up beyond its level, while it circulates; or from an ill-grounded apprehension of losing their specie, which never will sink below it. Could any thing scatter our riches, it would be such

impolitic contrivances. But this general ill effect, however, results from them, that they deprive neighbouring 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.

Our modern politics embrace the only method of banishing money, the using of paper-credit; they reject the only method of amassing it, the practice of hoarding; and they adopt a hundred contrivances, which serve to no purpose but to check industry, and rob ourselves and our neighbours of the common benefits of art and nature.

All taxes, however, upon foreign commodities, are not to be regarded as prejudicial or useless, but those only which are founded on the jealousy above-mentioned. A tax on German linen encourages home manufactures, and thereby multiplies our people and industry. A tax on brandy increases the sale of rum, and supports our southern colonies. And as it is necessary, that imposts should be levied, for the support of government, it may be thought more convenient to lay them on foreign commodities, which can easily be intercepted at the port, and subjected to the impost. We ought, however, always to remember the maxim of Dr Swift, That, in the arithmetic of the customs, two and two make not four, but often make only one. It can scarcely be doubted, but if the duties on wine were lowered to a third, they would yield much more to the government than at present: Our people might thereby afford to drink commonly a better and more wholesome liquor; and no prejudice would ensue to the balance of trade, of which we are so jealous. The manufacture of ale beyond the agriculture is but inconsiderable, and gives employment to few hands. The transport of wine and corn would not be much inferior.

But are there not frequent instances, you will say, of states and kingdoms, which were formerly rich and opulent, and are now poor and beggarly? Has not the money left them, with which they formerly abounded? I answer, If they lose their trade, industry, and people, they cannot expect to keep their gold and silver: For these precious metals will hold proportion to the former advantages. When Lisbon and Amsterdam got the East-India trade from Venice and Genoa, they also got the profits and money which arose from it. Where the seat of government is transferred, where expensive armies are maintained at a distance, where great funds are possessed by foreigners; there naturally follows from these causes a diminution of the specie. But these, we may observe, are violent and forcible methods of carrying away money, and are in time commonly attended with the transport of people and industry. But where these remain, and the drain is not continued, the money always finds its way back again, by a hundred canals, of which we have no notion or suspicion. What immense treasures have been spent, by so many nations, in Flanders, since the revolution, in the course of three long wars! More money perhaps than the half of what is at present in Europe. But what has now become of it? Is

it in the narrow compass of the Austrian provinces? No, surely: It has most of it returned to the several countries whence it came, and has followed that art and industry, by which at first it was acquired. For above a thousand years, the money of Europe has been flowing to Rome, by an open and sensible current; but it has been emptied by many secret and insensible canals: And the want of industry and commerce renders at present the papal dominions the poorest territory in all Italy.

In short, 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. Or if it ever give attention to this latter circumstance, it ought only to be so far as it affects the former.

Notes

1 There is another cause, though more limited in its operation, which checks the wrong balance of trade, to every particular nation to which the kingdom trades. When we import more goods than we export, the exchange turns against us, and this becomes a new encouragement to export; as much as the charge of carriage and insurance of the money which becomes due would amount to. For the exchange can never rise but a little higher than that sum.

2 *Les Interets d'Angleterre Malentendus.*

3 It must carefully be remarked, that throughout this discourse, wherever I speak of the level of money, I mean always its proportional level to the commodities, labour, industry, and skill, which is in the several states. And I assert, that where these advantages are double, triple, quadruple, to what they are in the neighbouring states, the money infallibly will also be double, triple, quadruple. The only circumstance that can obstruct the exactness of these proportions, is the expense of transporting the commodities from one place to another; and this expense is sometimes unequal. Thus the corn, cattle, cheese, butter, of Derbyshire, cannot draw the money of London, so much as the manufactures of London draw the money of Derbyshire. But this objection is only a seeming one: For so far as the transport of commodities is expensive, so far is the communication between the places obstructed and imperfect.

4 We observed in Essay III [not included here] that money, when increasing, gives encouragement to industry, during the interval between the increase of money and rise of the prices. A good effect of this nature may follow too from paper-credit; but it is dangerous to precipitate matters, at the risk of losing all by the failing of that credit, as must happen upon any violent shock in public affairs.