

Money

David Hume(1752)

Money is not, properly speaking, one of the subjects of commerce; only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of: It is the oil which renders the motion of the wheels more and easy. If we consider any one kingdom by itself, it is, that the greater or less plenty of money is of no; since the prices of commodities are always proportioned to the plenty of money, and a crown in HARRY VII's time served the purpose as a pound does at present. It is only the public which derives any advantage from the greater plenty of money; and that only in wars and negotiations with foreign states. And this is the reason, all rich and trading countries from CARTHAGE to GREAT BRITAIN and, have employed mercenary troops, which they hired from their neighbours. Were they to make use of their native subjects, would find less advantage from their superior riches, and from great plenty of gold and silver; since the pay of all their must rise in proportion to the public opulence. Our small of 20,000 men is maintained at as great expence as a FRENCH army as numerous. The ENGLISH fleet, during the late war, required as much money to support it as all the ROMAN legions, which kept the world in subjection, during the time of the emperors.

The greater number of people and their greater industry are in all cases; at home and abroad, in private, and in public. But the greater plenty of money, is very limited in its use, may even sometimes be a loss to a nation in its commerce with.

There seems to be a happy concurrence of causes in human affairs, which checks the growth of trade and riches, and hinders them from being confined entirely to one people; as might naturally at first be from the advantages of an established commerce. Where one has gotten the start of another in trade, it is very difficult for the latter to regain the ground it has lost; because of the industry and skill of the former, and the greater stocks, of which merchants are possessed, and which enable them to trade on much smaller profits. But these advantages are compensated, in some, by the low price of labour in every nation which has not an commerce, and does not much abound in gold and silver., therefore gradually shift their places, leaving those provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and; till they have enriched these also, and are again banished by the same causes. And, in general, we may observe, that the dearness of things, from plenty of money, is a disadvantage, which attends an commerce, and sets bounds to it in every country, by the poorer states to undersell the richer in all foreign.

This has made me entertain a doubt concerning the benefit of bank paper-credit, which are so generally esteemed advantageous to a nation. That provisions and labour should become dear by the exchange of trade and money, is, in many respects, an inconvenience; an inconvenience that is unavoidable, and the effect of that wealth and prosperity which are the end of all our wishes. It is compensated by the advantages, which we reap from the possession of precious metals, and the weight, which they give the nation in foreign wars and negotiations. But there appears no reason for that inconvenience by a counterfeit money, which foreigners do not accept of in any payment, and which any great disorder in the will reduce to nothing. There are, it is true, many people in rich state, who having large

A Universal Download Edition

sums of money, would prefer papergood security; as being of more easy transport and more safe. If the public provide not a bank, private bankers will take of this circumstance; as the goldsmiths formerly did in, or as the bankers do at present in DUBLIN: And therefore it is, it may be thought, that a public company should enjoy the of that paper-credit, which always will have place in every kingdom. But to endeavour artificially to encrease such a, can never be the interest of any trading nation; but must lay under disadvantages, by encreasing money beyond its natural to labour and commodities, and thereby heightening their to the merchant and manufacturer. And in this view, it must be, that no bank could be more advantageous, than such a one as up all the money it received, and never augmented the coin, as is usual, by returning part of its treasure into. A public bank, by this expedient, might cut off much of the of private bankers and money-jobbers; and though the state the charge of salaries to the directors and tellers of this bank (for, according to the preceding supposition, it would have no profit its dealings), the national advantage, resulting from the low of labour and the destruction of paper-credit, would be a compensation. Not to mention, that so large a sum, lying at command, would be a convenience in times of great public and distress; and what part of it was used might be replaced at, when peace and tranquillity was restored to the nation.

But of this subject of paper credit we shall treat more largely. And I shall finish this essay on money, by proposing and two observations, which may, perhaps, serve to employ the of our speculative politicians.

It was a shrewd observation of ANACHARSIS the SCYTHIAN, who had seen money in his own country, that gold and silver seemed to of no use to the GREEKS, but to assist them in numeration and. It is indeed evident, that money is nothing but the of labour and commodities, and serves only as a method rating or estimating them. Where coin is in greater plenty; as a quantity of it is required to represent the same quantity of; it can have no effect, either good or bad, taking a nation itself; any more than it would make an alteration on a's books, if, instead of the ARABIAN method of notation, which few characters, he should make use of the ROMAN, which a great many. Nay, the greater quantity of money, like the characters, is rather inconvenient, and requires greater trouble to keep and transport it. But notwithstanding this conclusion, must be allowed just, it is certain, that, since the discovery the mines in AMERICA, industry has encreased in all the nations of, except in the possessors of those mines; and this may justly ascribed, amongst other reasons, to the encrease of gold and. Accordingly we find, that, in every kingdom, into which money to flow in greater abundance than formerly, every thing takes a face: labour and industry gain life; the merchant becomes more, the manufacturer more diligent and skilful, and even the follows his plough with greater alacrity and attention. This is easily to be accounted for, if we consider only the influence a greater abundance of coin has in the kingdom itself, by the price of Commodities, and obliging every one to pay a number of these little yellow or white pieces for every thing purchases. And as to foreign trade, it appears, that great plenty money is rather disadvantageous, by raising the price of every kind labour.

To account, then, for this phenomenon, we must consider, that the high price of commodities be a necessary consequence of the of gold and silver, yet it follows not immediately upon that; but some time is required before the money circulate the whole

state, and makes its effect be felt on all ranks of. At first, no alteration is perceived; by degrees the price, first of one commodity, then of another; till the whole at last a just proportion with the new quantity of specie which is inkingdom. In my opinion, it is only in this interval or situation, between the acquisition of money and rise of, that the encreasing quantity of gold and silver is favourable industry. When any quantity of money is imported into a nation, it not at first dispersed into many hands; but is confined to the of a few persons, who immediately seek to employ it to. Here are a set of manufacturers or merchants, we shall, who have received returns of gold and silver for goods which sent to CADIZ. They are thereby enabled to employ more workmen formerly, who never dream of demanding higher wages, but are glad employment from such good paymasters. If workmen become scarce, they give higher wages, but at first requires an encrease of; and this is willingly submitted to by the artisan, who can now and drink better, to compensate his additional toil and fatigue. carries his money to market, where he, finds every thing at the price as formerly, but returns with greater quantity and of kinds, for the use of his family. The farmer and gardener, that all their commodities are taken off, apply themselves alacrity to the raising more; and at the same time can afford to better and more cloths from their tradesmen, whose price is the as formerly, and their industry only whetted by so much new gain. is easy to trace the money in its progress through the whole; where we shall find, that it must first quicken the of every individual, before it encrease the price of labour.

And that the specie may encrease to a considerable pitch, before have this latter effect, appears, amongst other instances, from the operations of the FRENCH king on the money; where it was found, that the augmenting of the numerary value did not a proportional rise of the prices, at least for some time. In last year of LOUIS XIV, money was raised three-sevenths, but augmented only one. Corn in FRANCE is now sold at the same, or for the same number of livres, it was in 1683; though silver then at 30 livres the mark, and is now at 50. Not to mention the addition of gold and silver, which may have come into that since the former period.

From the whole of this reasoning we may conclude, that it is of no consequence, with regard to the domestic happiness of a, whether money be in a greater or less quantity. The good policy the magistrate consists only in keeping it, if possible, still; because, by that means, he keeps alive a spirit of in the nation, and encreases the stock of labour, in which all real power and riches. A nation, whose money decreases, actually, at that time, weaker and more miserable than another, which possesses no more money, but is on the encreasing hand. will be easily accounted for, if we consider, that the in the quantity of money, either on one side or the other, not immediately attended with proportionable alterations in the of commodities. There is always an interval before matters beto their new situation; and this interval is as pernicious to, when gold and silver are diminishing, as it is advantageous these metals are encreasing. The workman has not the same from the manufacturer and merchant; though he pays the same for every thing in the market. The farmer cannot dispose of his and cattle; though he must pay the same rent to his landlord. The, and beggary, and sloth, which must ensue, are easily.

II. The second observation which I proposed to make with regard to, may be explained after the following manner. There are some, and many provinces in EUROPE,

(and all of them were once in the same condition) where money is so scarce, that the landlord cannot get at all from his tenants; but is obliged to take his rent in, and either to consume it himself, or transport it to places he may find a market. In those countries, the prince can levy no taxes, but in the same manner: And as he will receive small sums from impositions so paid, it is evident that such a kingdom has little force even at home; and cannot maintain fleets and armies to the same extent, as if every part of it abounded in gold and silver. There is surely a greater disproportion between the force of, at present, and what it was three centuries ago, than therein its industry, people, and manufactures. The AUSTRIAN dominions the empire are in general well peopled and well cultivated, and are of great extent; but have not a proportionable weight in the balance of EUROPE; proceeding, as is commonly supposed, from the scarcity of. How do all these facts agree with that principle of reason, that the quantity of gold and silver is in itself altogether? According to that principle wherever a sovereign has a great number of subjects, and these have plenty of commodities, he should of course be great and powerful, and they rich and happy, independent of the greater or lesser abundance of the precious metals. These admit of divisions and subdivisions to a great extent; and where the pieces become so small as to be in danger of being lost, it is easy to mix the gold or silver with a baser metal, as is practised in some parts of EUROPE; and by that means raise the pieces to a bulk more convenient. They still serve the same purposes of, whatever their number may be, or whatever colour they may be to have.

To these difficulties I answer, that the effect, here supposed to flow from scarcity of money, really arises from the manners and customs of the people; and that we mistake, as is too usual, an effect for a cause. The contradiction is only apparent; but requires some thought and reflection to discover the principles, by which we can reconcile reason to experience.

It seems a maxim almost self-evident, that the prices of every thing depend on the proportion between commodities and money, and that considerable alteration on either has the same effect, either of raising or lowering the price. Increase the commodities, they become cheaper; increase the money, they rise in their value. As, on the other hand, a diminution of the former, and that of the latter, contrary tendencies.

It is also evident, that the prices do not so much depend on the quantity of commodities and that of money, which are in a, as on that of the commodities, which come or may come to, and of the money which circulates. If the coin be locked up in, it is the same thing with regard to prices, as if it were; if the commodities be hoarded in magazines and granaries, like effect follows. As the money and commodities, in these cases, meet, they cannot affect each other. Were we, at any time, to conjecture concerning the price of provisions, the corn, which the farmer must reserve for seed and for the maintenance of his family, ought never to enter into the estimation. It is only the, compared to the demand, that determines the value.

To apply these principles, we must consider, that, in the first more uncultivated ages of any state, ere fancy has confounded her with those of nature, men, content with the produce of their own, or with those rude improvements which they themselves can work them, have little occasion for exchange, at least for money, by agreement, is the common measure of exchange. The wool of the farmer's own flock, spun in his own family, and wrought by a weaver, who receives his payment in corn or wool, for furniture and cloathing. The carpenter, the smith, the, the tailor, are retained by wages of a like nature;

A Universal Download Edition

and the himself, dwelling in the neighbourhood, is content to receive in the commodities raised by the farmer. The greater part of he consumes at home, in rustic hospitality: The rest, perhaps, disposes of for money to the neighbouring town, whence he draws the materials of his expence and luxury.

But after men begin to refine on all these enjoyments, and live always at home, nor are content with what can be raised in their, there is more exchange and commerce of all kinds, and money enters into that exchange. The tradesmen will not be paid in corn; because they want something more than barely to eat. He goes beyond his own parish for the commodities he purchases, cannot always carry his commodities to the merchant who supplies. The landlord lives in the capital, or in a foreign country; and his rent in gold and silver, which can easily be transported to him. Great undertakers, and manufacturers, and merchants, arise in commodity; and these can conveniently deal in nothing but in. And consequently, in this situation of society, the coin enters into many more contracts, and by that means is much more than in the former.

The necessary effect is, that, provided the money increase not in nature, every thing must become much cheaper in times of industry and refinement, than in rude, uncultivated ages. It is the proportion of the circulating money, and the commodities in the market, determines the prices. Goods, that are consumed at home, or with other goods in the neighbourhood, never come to market; affect not in the least the current specie; with regard to it are as if totally annihilated; and consequently this method of them sinks the proportion on the side of the commodities, and the prices. But after money enters into all contracts and, and is every where the measure of exchange, the same nation has a much greater task to perform; all commodities are then in market; the sphere of circulation is enlarged; it is the same case if that individual sum were to serve a larger kingdom; and, the proportion being here lessened on the side of the, every thing must become cheaper, and the prices gradually fall.

By the most exact computations, that have been formed all over, after making allowance for the alteration in the number of the denomination, it is found, that the prices of all things only risen three, or at most, four times, since the discovery of WEST INDIES. But will any one assert, that there is not much more four times the coin in EUROPE, that was in the fifteenth century, the centuries preceding it? The SPANIARDS and PORTUGUESE from mines, the ENGLISH, FRENCH, and DUTCH, by their AFRICAN trade, by their interlopers in the WEST INDIES, bring home about six a year, of which not above a third goes to the EAST-INDIES. sum alone, in ten years, would probably double the ancient stock of money in EUROPE. And no other satisfactory reason can be given, why prices have not risen to a much more exorbitant height, except which is derived from a change of customs and manners. Besides more commodities are produced by additional industry, the same come more to market, after men depart from their ancient manners. And though this increase has not been equal to that of money, it has, however, been considerable, and has preserved proportion between coin and commodities nearer the ancient.

Were the question proposed, Which of these methods of living in people, the simple or refined, is the most advantageous to their public? I should, without much

A Universal Download Edition

scruple, prefer the latter, in view to politics at least; and should produce this as an additional for the encouragement of trade and manufactures.

While men live in the ancient simple manner, and supply all their from domestic industry or from the neighbourhood, they can levy no taxes in money from a considerable part of his; and if he will impose on them any burthens, he must take in commodities, with which alone they abound; a method with such great and obvious inconveniencies, that they need here be insisted on. All the money he can pretend to raise, must from his principal cities, where alone it circulates; and these, it is evident, cannot afford him so much as the whole state could, did and silver circulate throughout the whole. But besides this diminution of the revenue, there is another cause of the of the public in such a situation. Not only the sovereignless money, but the same money goes not so far as in times of and general commerce. Every thing is dearer, where the gold silver are supposed equal; and that because fewer commodities come market, and the whole coin bears a higher proportion to what is topurchased by it; whence alone the prices of every thing are fixed determined.

Here then we may learn the fallacy of the remark, often to be met in historians, and even in common conversation, that any state is weak, though fertile, populous, and well, merely because it wants money. It appears, that the want money can never injure any state within itself: For men are the real strength of any community. It is the simple of living which here hurts the public, by confining the gold silver to few hands, and preventing its universal diffusion and. On the contrary, industry and refinements of all kinds sit with the whole state, however small its quantity may: They digest it into every vein, so to speak; and make it enter every transaction and contract. No hand is entirely empty of it. as the prices of every thing fall by that means, the sovereign has double advantage: He may draw money by his taxes from every part of state; and what he receives, goes farther in every purchase and.

We may infer, from a comparison of prices, that money is not more in CHINA, than it was in EUROPE three centuries ago: But immense power is that empire possessed of, if we may judge by the and military establishment maintained by it? POLYBIUS tells us, provisions were so cheap in ITALY during his time, that in some the stated price for a meal at the inns was a semis a head, more than a farthing! Yet the ROMAN power had even then subdued whole known world. About a century before that period, the ambassador said, by way of raillery, that no people lived sociably amongst themselves than the ROMANS; for that, in every, which, as foreign ministers, they received, they still the same plate at every table. The absolute quantity of the metals is a matter of great indifference. There are only two of any importance, namely, their gradual encrease, and thorough concoction and circulation through the state; and the of both these circumstances has here been explained.

In the following Essay we shall see an instance of a like fallacy that above mentioned; where a collateral effect is taken for a, and where a consequence is ascribed to the plenty of money; it be really owing to a change in the manners and customs of people.