

The great economist David Hume

A review of Margaret Schabas and Carl Wennerlind, *A Philosopher's Economist: Hume and the Rise of Capitalism* (Chicago University Press, 2020; xv + 316 pages) for *Journal of Economic Methodology*

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David Hume is generally acknowledged as one of the greatest philosophers of all time – the author of ground-breaking contributions to moral philosophy, political philosophy, philosophy of mind and philosophy of science. But as an eighteenth century man of letters, he wrote on many other topics too, including economics. In this book, two leading historians of economic thought propose Hume for induction into the hall of fame of economics.

Margaret Schabas and Carl Wennerlind (SW) describe their book as ‘the first comprehensive study, in the English language, of Hume’s economics’ (p. 16). Their aim is to demonstrate that Hume ‘was engaged in thinking and writing about economics for his entire adult life and that his contributions are extensive and significant’ (p. 5), and that those contributions ‘are still underappreciated’ (p. 3). Two central themes of the book are captured respectively in its title and subtitle. On SW’s reading, Hume is a ‘philosopher’s economist’ to be ranked with Adam Smith, John Stuart Mill, Karl Marx, John Maynard Keynes and Friedrich Hayek. The thought seems to be that a *philosopher’s economist* is one who transcends the boundaries between economics and other disciplines, and (which is not quite the same thing) addresses grand questions about human nature, morality, culture and the broad sweep of human history. A unifying theme in Hume’s answers to these questions, we are told, is his ‘enthusiasm for the commercial system that we now call *capitalism*’ (p.1) – his belief that ‘his capitalist world was at the vanguard of human flourishing, that commerce and the prosperity it engendered served to promote a more polite, civil, and secular society’ (p. xv). The term ‘capitalism’ is a little anachronistic here; it would perhaps be better to say (as SW more often do) that Hume was an enthusiast for those features of the commercial societies of his time that we now know to have paved the way for capitalism.

The book is essentially a review of everything that Hume wrote on economics, organised by topic – economic methodology, property, moral improvement, money, international trade, and public finance. SW are sure-footed guides to this material, attentive

to textual detail and to historical context. Deliberately, they ‘treat Hume in the context of eighteenth-century economics and philosophy’ rather than ‘impos[ing] contemporary analytical tools on his work’ (p. 18). They give more emphasis to what Hume thought than to whether he was right. This strategy works well when SW are arguing that Hume’s reputation among his contemporaries was that of a major economist, but is less suitable for supporting the claim that his work is underappreciated by modern economists.

SW show that, by the time Hume began to write, there was a mature ‘science of commerce’, with a well-established and widely read body of literature. Despite the changes of name, eighteenth-century ‘commerce’, nineteenth-century ‘political economy’ and twentieth- and twenty-first-century economics comprise a single evolving discipline. It is therefore legitimate to ask whether Hume was a leading economist of his time. SW’s arguments for a positive answer are very convincing.

The most obvious evidence is the success of Hume’s *Political Discourses*, a collection of twelve essays published in 1752. Eight of these essays were on economic topics; they included expositions of theories of money and interest that are still appreciated by modern macroeconomists. The book sold so well that a second edition came out in the same year; by 1754 it had been translated twice into French (then the language of the intellectual world). Later editions, which continued to sell extremely well, included additional essays on other topics. Because of this publication strategy, Hume is not remembered as the author of a canonical treatment of economics, but it is important to recognise (as Hume certainly did) that his potential readers preferred short essays to monumental tomes. Hume’s first book, the relatively long *Treatise of Human Nature* (1739–40), is now seen as one of the greatest works of philosophy, but it was a publication failure; to attract readers, he felt the need to edit it down into the more essay-like format of his *Enquiries concerning Human Understanding and concerning the Principles of Morals* (1748–51).

SW show that, throughout his life, Hume thought about the world as an economist does (or at least should). In his travels around Europe, he was constantly taking note of economic conditions and recording and comparing the local prices of staple products. As SW say, he was ‘a veritable sponge for economic data, both ancient and modern’ (p. 9), from which he was ingenious in drawing economic inferences – converting the pay of Roman soldiers into eighteenth-century purchasing power, or comparing the cost of the British navy to that of the Roman legions. Although Hume’s primary occupation and source of income

was as a writer, his first employment was in commerce (as a clerk to a Bristol sugar merchant). In later life, he combined his activities as a man of letters with work as a public servant that would now be understood as practising applied economics. At the height of his intellectual reputation in the 1760s, he worked for the British embassy in Paris, overseeing the reintroduction of metallic coinage to Québec (which had recently become a British possession). Undoubtedly, then, Hume was an economist as well as a philosopher and historian, and was recognised as such during his lifetime. But, viewed in retrospect, was he a *great* economist?

SW are on strongest ground when they consider his work on money, interest and banking (topics on which Wennerlind is a particular specialist). While acknowledging that Hume built on a pre-existing economic literature, SW characterise this work as ‘brilliant’ (p. 175) by virtue of developing a ‘more sophisticated analytical framework’ than that used by its predecessors (p. 175). I was fully persuaded. In opposition to the mercantilist understanding of money as ‘specie’ (gold and silver), Hume analyses money as an aspect of the human convention of making and keeping promises (a practice that features in his analysis of conventions in the *Treatise*). Money has value by symbolising a chain of promises. Thus, pieces of paper can serve as money, provided their supply is restricted and people have confidence in their continued acceptability in exchange. Because money *facilitates* exchanges, its introduction into a subsistence or barter economy can be a catalyst for economic growth (as Hume predicts will be the case as money begins to circulate in the Scottish Highlands), but it is not wealth in itself.

Hume shows his brilliance as a theorist in formulating the quantity theory of money and the specie-flow mechanism. His famous thought experiment about the effect of an influx of silver to Cádiz is a masterpiece of economic modelling, in which the key idea is of an equilibrium induced by arbitrage. Initially, the increase in money in Spain increases prices in Spain; because of the imbalance between Spanish and French prices, merchants or smugglers trade French goods for Spanish money; equilibrium is reached when prices are equalised across countries, and this requires that the amount of money in each country is proportional to the volume of economic activity. I was overcome by admiration for the boldness and elegance of Hume’s argument that the real output of the European economy had doubled between 1492 and 1750, based on historical records of prices, estimates of the inflow of specie from the Americas, and the quantity theory of money.

SW also make a strong case for Hume as articulating a coherent mental picture of how a market-driven process of global economic development might work, and of how that process was in fact going on around him. Although he did not foresee the Industrial Revolution (who did?), he understood the economic and technological forces that were then at work in the Agricultural Revolution. In broad terms, at least, he understood the mechanisms of comparative advantage and division of labour, and how these are brought into play by the expansion of markets. He understood how those mechanisms depend on individuals' pursuit of their private interests. More so even than Smith, Hume attributes moral value to market exchanges. In relation to the merchant who makes a profit by buying corn where it is cheap and selling it where it is dear, Hume asks whether 'any thing be more useful than to make thus an Equal Distribution of that Commodity, so essential to Life, and thereby enabling one Part of the Community to assist another' (quoted by SW, p. 127).

I was less moved by SW's emphasis on Hume's belief that commercial societies were at the vanguard of human flourishing, promoting politeness, civility and virtue. Certainly this *was* what Hume thought, but *doux commerce* was a common trope in the intellectual community of the time: to my ear, there is more of complacency than of greatness in Hume's repeated use of it. As SW acknowledge, there are occasional passages in Hume's essays that suggest an intellectually lazy endorsement of prevailing ideas, such as some of the supposed facts presented in his 1748 essay *Of National Characters*. What, one might ask, is the evidence base for Hume's assumption that the French and Egyptian national characters are characterised by gaiety, and the Spanish and Chinese by gravity? A more disturbing aside in that essay is a casual suggestion that the achievements of Francis Williams, a free black Jamaican poet and educator who had studied at Cambridge University, were analogous to those of a parrot speaking a few words of human language. Although such opinions were probably common enough in the eighteenth century, there were other men of letters who immediately recognised the unreasonableness of Hume's remark (SW, pp. 191–192 and 262n31).

Disappointingly, SW have a blind spot towards some of Hume's strongest claims to greatness as an economist. SW reveal the source of this blind spot in a passage that precedes their declaration that they will treat Hume in the context of eighteenth-century economics and philosophy. They say: 'There is, perhaps, a tendency among some scholars to attribute too much rigor to Hume's account of human agency, to see him as a progenitor, for example, of formal modelling, game theory, or rational choice theory. It is easy to be seduced by Hume's

brilliance and agility with abstract analysis...’ (p. 18). Since I am one of the authors who are said to have taken this wrong track, I must declare an interest. But if science is a process of discovery, one of the hallmarks of greatness is to have discovered and described truths that one’s contemporaries failed to understand, but that later research confirmed. If those truths are now incorporated into received theories, it may be necessary to use concepts from those theories to explain the significance of the original contributions. Much of modern economics has developed through rigorous abstract analysis. In many cases, it is precisely because of Hume’s astonishing agility with such analysis that his theoretical work was so far ahead of its time.

Here I am thinking in particular of two lines of thought in the *Treatise* – the game-theoretic aspects of Hume’s analysis of justice, and the empirical psychology that forms the core of his theory of human nature. In a whole chapter on ‘Hume’s imprint on economics’, there is nothing about his contributions to game theory. The idea that Hume’s theory of human nature might invoke psychological principles that are now part of behavioural economics is touched on in only one sentence of SW’s book, incongruously alongside a reference to John Rawls’s theory of justice (pp. 5–6).

A typical example of this blind spot can be found in SW’s discussion of Hume’s theory of justice, as presented in the *Treatise*. SW note that this theory is concerned only with property rights, and that many modern readers find this ‘perplexing’. SW seem to accept that this is a limitation of Hume’s theory, but say that it is understandable ‘as part of his pronounced enthusiasm for the advent and spread of trade and commerce and the moral benefits of economic growth’, and remind us about the *doux commerce* thesis that commerce engenders ‘refinement, prudence, and liberty’, to which they add ‘civility, friendship, and humanity’, and (for good measure) ‘honesty, politeness, and beneficence’ (p. 96). I think SW are missing the rigour and logic of Hume’s analysis. At the time Hume was writing, the word ‘justice’ *meant* the rules of property. Hume is looking for an empirical explanation of what he takes to be two social facts – that people generally adhere to the rules of property, and that they generally view that adherence as virtuous. Justice is not the only virtue that is important in human life; humanity and benevolence are others. For Hume as a theorist, what distinguishes justice is that, unlike those others, it is not a ‘natural’ virtue – that is, one that has a direct correlate in a natural human sentiment, and hence a direct psychological explanation. Rather, it is a *convention* – a concept for which Hume gives a precise definition. The brilliance of Hume’s explanation of justice lies in the rigour of its abstract analysis and in

the parsimony and credibility of its psychological assumptions. Whatever Hume may have thought about the morally improving tendencies of commerce, these are not part of his theory.

That Hume's analysis of conventions is implicitly game-theoretic was first shown by David Lewis (1969), and is now widely accepted among scholars working at the boundary of economics and philosophy. That Hume's theory of individual decision-making, as presented in the *Treatise*, is based on empirical psychology and anticipates ideas that are now fundamental to behavioural economics, is a more controversial claim, but one that I have defended (Sugden, 2006). When SW summarise what they 'find most valuable in Hume', they list 'his account of human nature' alongside 'his measured skepticism, and his efforts to connect his philosophical principles to the global trajectory of human advancement over the centuries' (pp. 18–19). But in their discussions of Hume's theory of human nature, SW do not recognise it as a path-breaking contribution to what is now the science of psychology, and thereby to behavioural economics.

It is significant that, in claiming that Hume made discoveries whose importance was not appreciated in his lifetime, the material I cite is from the *Treatise*. Hume wrote the *Treatise* in his twenties, before he had established an intellectual reputation, and it failed to sell. Everyone who writes about Hume's career recognises the force of his ambition to gain recognition in the Republic of Letters. He had a strong desire, not only to produce work of lasting quality, but for that work be widely read and acclaimed. The lack of response to his first book may even have undermined his confidence in its style of abstract reasoning. If so, that would be an example of a psychological mechanism explained in the *Treatise* itself:

No quality of human nature is more remarkable ... than that tendency we have to sympathise with others, and to receive by communication their inclinations and sentiments, however different from or even contrary to our own. This is not only conspicuous in children, who implicitly embrace every opinion proposed to them, but also in men of the greatest judgment and understanding, who find it very difficult to follow their own reason or inclination in opposition to that of their friends and daily companions. (Hume, 1739-40/ 1978, p. 316)

It should not be surprising that Hume adapted his writing to the tastes of his potential readers, choosing topics and modes of analysis that they would be likely to appreciate. I cannot help thinking that the later Hume sometimes censored his own more brilliant thoughts. But Schabas and Wennerlind's overall judgement is surely correct: Hume is one the great economists.

References

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