THE

PHILOSOPHICAL WORKS

OF

DAVID HUME.

INCLUDING ALL THE ESSAYS, AND EXHIBITING THE MORE IMPORTANT ALTERATIONS AND CORRECTIONS IN THE SUCCESSIVE EDITIONS PUBLISHED BY THE AUTHOR.

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ESSAY IV.

OF INTEREST.

Nothing is esteemed a more certain sign of the flourishing condition of any nation than the lowness of interest: and with reason, though I believe the cause is somewhat different from what is commonly apprehended. Lowness of interest is generally ascribed to plenty of money. But money, however plentiful, has no other effect, if fixed, than to raise the price of labor. Silver is more common than gold, and therefore you receive a greater quantity of it for the same commodities. But do you pay less interest for it? Interest in Batavia and Jamaica is at 10 per cent., in Portugal at 6, though these places, as we may learn from the prices of every thing, abound more in gold and silver than either London or Amsterdam.

Were all the gold in England annihilated at once, and one and twenty shillings substituted in the place of every guinea, would money be more plentiful, or interest lower? No, surely: we should only use silver, instead of gold. Were gold rendered as common as silver, and silver as common as copper, would money be more plentiful, or interest lower? We may assuredly give the same answer. Our shillings would then be yellow,
and our halfpence white; and we should have no guineas. No other difference would ever be observed; no alteration on commerce, manufactures, navigation, or interest; unless we imagine that the color of the metal is of any consequence.

Now, what is so visible in these greater variations of scarcity or abundance in the precious metals, must hold in all inferior changes. If the multiplying of gold and silver fifteen times makes no difference, much less can the doubling or tripling them. All augmentation has no other effect than to heighten the price of labor and commodities; and even this variation is little more than that of a name. In the progress towards these changes, the augmentation may have some influence, by exciting industry; but after the prices are settled, suitably to the new abundance of gold and silver, it has no manner of influence.

An effect always holds proportion with its cause. Prices have risen near four times since the discovery of the Indies; and it is probable gold and silver have multiplied much more: but interest has not fallen much above half. The rate of interest, therefore, is not derived from the quantity of the precious metals.

Money having chiefly a fictitious value, the greater or less plenty of it is of no consequence, if we consider a nation within itself; and the quantity of specie, when once fixed, though ever so large, has no other effect than to oblige every one to tell out a greater number of those shining bits of metal for clothes, furniture, or equipage, without increasing any one convenience of life. If a man borrow money to build a house, he then carries home a greater load; because the stone, timber, lead, glass, &c. with the labor of the masons and carpenters, are represented by a greater quantity of gold and
silver. But as these metals are considered chiefly as representations, there can no alteration arise from their bulk or quantity, their weight or color, either upon their real value or their interest. The same interest, in all cases, bears the same proportion to the sum. And if you lent me so much labor and so many commodities, by receiving five per cent. you always receive proportional labor and commodities, however represented, whether by yellow or white coin, whether by a pound or an ounce. It is in vain, therefore, to look for the cause of the fall or rise of interest in the greater or less quantity of gold and silver, which is fixed in any nation.

High interest arises from three circumstances: a great demand for borrowing, little riches to supply that demand, and great profits arising from commerce: and the circumstances are a clear proof of the small advance of commerce and industry, not of the scarcity of gold and silver. Low interest, on the other hand, proceeds from the three opposite circumstances: a small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: and these circumstances are all connected together, and proceed from the increase of industry and commerce, not of gold and silver. We shall endeavor to prove these points; and shall begin with the causes and the effects of a great or small demand for borrowing.

When a people have emerged ever so little from a savage state, and their numbers have increased beyond the original multitude, there must immediately arise an inequality of property; and while some possess large tracts of land, others are confined within narrow limits, and some are entirely without landed property. Those who possess more land than they can labor, employ those who possess none, and agree to receive a deter-
minate part of the product. Thus the landed interest is immediately established; nor is there any settled government, however rude, in which affairs are not on this footing. Of these proprietors of land, some must presently discover themselves to be of different tempers from others; and while one would willingly store up the produce of his land for futurity, another desires to consume at present what should suffice for many years. But as the spending of a settled revenue is a way of life entirely without occupation; men have so much need of somewhat to fix and engage them, that pleasures, such as they are, will be the pursuit of the greater part of the landholders, and the prodigals among them will always be more numerous than the misers. In a state, therefore, where there is nothing but a landed interest, as there is little frugality, the borrowers must be very numerous, and the rate of interest must hold proportion to it. The difference depends not on the quantity of money, but on the habits and manners which prevail. By this alone the demand for borrowing is increased or diminished. Were money so plentiful as to make an egg be sold for sixpence; so long as there are only landed gentry and peasants in the state, the borrowers must be numerous, and interest high. The rent for the same farm would be heavier and more bulky: but the same idleness of the landlord, with the high price of commodities, would dissipate it in the same time, and produce the same necessity and demand for borrowing.*

* I have been informed by a very eminent lawyer, and a man of great knowledge and observation, that it appears, from ancient papers and records, that about four centuries ago, money in Scotland, and probably in other parts of Europe, was only at five per cent., and afterwards rose to ten, before the discovery of the West Indies. The fact is curious; but might easily be recon-
Nor is the case different with regard to the second circumstance which we proposed to consider, namely, the great or little riches to supply the demand. This effect also depends on the habits and way of living of the people, not on the quantity of gold and silver. In order to have, in any state, a great number of lenders, it is not sufficient nor requisite that there be great abundance of the precious metals. It is only requisite that the property or command of that quantity, which is in the state, whether great or small, should be collected in particular hands, so as to form considerable sums, or compose a great moneyed interest. This begets a number of lenders, and sinks the rate of usury; and this, I shall venture to affirm, depends not on the quantity of specie, but on particular manners and customs, which make the specie gather into separate sums or masses of considerable value.

For, suppose that, by miracle, every man in Great Britain should have five pounds slipped into his pocket in one night; this would much more than double the whole money that is at present in the kingdom; yet there would not next day, nor for some time, be any more lenders, nor any variation in the interest. And were there nothing but landlords and peasants in the state, this money, however abundant, could never gather into sums, and would only serve to increase the prices of every thing, without any further consequence. The prodigal landlord dissipates it as fast as he receives it; and the beggarly peasant has no means, nor view, nor am-

ciled to the foregoing reasoning. Men in that age lived so much at home, and in so very simple and frugal a manner, that they had no occasion for money; and though the lenders were then few, the borrowers were still fewer. The high rate of interest among the early Romans is accounted for by historians from the frequent losses sustained by the inroads of the enemy.—Editions F, G, H.
bition of obtaining above a bare livelihood. The over-
plus of borrowers above that of lenders continuing still
the same, there will follow no reduction of interest.
That depends upon another principle; and must pro-
ceed from an increase of industry and frugality of arts
and commerce.

Every thing useful to the life of man arises from the
ground; but few things arise in that condition which is
requisite to render them useful. There must, therefore,
beside the peasants and the proprietors of land, be
another rank of men, who, receiving from the former
the rude materials, work them into their proper form,
and retain part for their own use and subsistence. In
the infancy of society, these contracts between the arti-
sans and the peasants, and between one species of arti-
sans and another, are commonly entered into immedi-
ately by the persons themselves, who, being neighbors,
are easily acquainted with each other's necessities, and
can lend their mutual assistance to supply them. But
when men's industry increases, and their views enlarge,
it is found, that the most remote parts of the state can
assist each other as well as the more contiguous; and
that this intercourse of good offices may be carried on
to the greatest extent and intricacy. Hence the origin
of merchants, one of the most useful races of men, who
serve as agents between those parts of the state that are
wholly unacquainted, and are ignorant of each other's
necessities. Here are in a city fifty workmen in silk
and linen, and a thousand customers; and these two
ranks of men, so necessary to each other, can never
rightly meet, till one man erects a shop, to which all the
workmen and all the customers repair. In this province,
grass rises in abundance: the inhabitants abound in
cheese, and butter, and cattle; but want bread and corn, which, in a neighboring province, are in too great abundance for the use of the inhabitants. One man discovers this. He brings corn from the one province, and returns with cattle; and, supplying the wants of both, he is, so far, a common benefactor. As the people increase in numbers and industry, the difficulty of their intercourse increases: the business of the agency or merchandise becomes more intricate; and divides, subdivides, compounds, and mixes to a greater variety. In all these transactions, it is necessary and reasonable, that a considerable part of the commodities and labor should belong to the merchant, to whom, in a great measure, they are owing. And these commodities he will sometimes preserve in kind, or more commonly convert into money, which is their common representation. If gold and silver have increased in the state, together with the industry, it will require a great quantity of these metals to represent a great quantity of commodities and labor. If industry alone has increased, the prices of every thing must sink, and a small quantity of specie will serve as a representation.

There is no craving or demand of the human mind more constant and insatiable than that for exercise and employment; and this desire seems the foundation of most of our passions and pursuits. Deprive a man of all business and serious occupation, he runs restless from one amusement to another; and the weight and oppression which he feels from idleness is so great, that he forgets the ruin which must follow him from his immoderate expenses. Give him a more harmless way of employing his mind or body, he is satisfied, and feels no longer that insatiable thirst after pleasure. But if the employment you give him be lucrative, especially if the
profit be attached to every particular exertion of industry, he has gain so often in his eye, that he acquires, by degrees, a passion for it, and knows no such pleasure as that of seeing the daily increase of his fortune. And this is the reason why trade increases frugality, and why, among merchants, there is the same overplus of misers above prodigals, as among the possessors of land there is the contrary.

Commerce increases industry, by conveying it readily from one member of the state to another, and allowing none of it to perish or become useless. It increases frugality, by giving occupation to men, and employing them in the arts of gain, which soon engage their affection, and remove all relish for pleasure and expense. It is an infallible consequence of all industrious professions to beget frugality, and make the love of gain prevail over the love of pleasure. Among lawyers and physicians who have any practice, there are many more who live within their income, than who exceed it, or even live up to it. But lawyers and physicians beget no industry; and it is even at the expense of others they acquire their riches; so that they are sure to diminish the possessions of some of their fellow-citizens, as fast as they increase their own. Merchants, on the contrary, beget industry, by serving as canals to convey it through every corner of the state: and, at the same time, by their frugality, they acquire great power over that industry, and collect a large property in the labor and commodities, which they are the chief instruments in producing. There is no other profession, therefore, except merchandise, which can make the moneyed interest considerable; or, in other words, can increase industry, and, by also increasing frugality, give a great command of that industry to particular members of the society.
Without commerce, the state must consist chiefly of landed gentry, whose prodigality and expense make a continual demand for borrowing; and of peasants, who have no sums to supply that demand. The money never gathers into large stocks or sums, which can be lent at interest. It is dispersed into numberless hands, who either squander it in idle show and magnificence, or empty it in the purchase of the common necessaries of life. Commerce alone assembles it into considerable sums; and this effect it has merely from the industry which it begets, and the frugality which it inspires, independent of that particular quantity of precious metal which may circulate in the state.

Thus an increase of commerce, by a necessary consequence, raises a great number of lenders, and by that means produces lowness of interest. We must now consider how far this increase of commerce diminishes the profits arising from that profession, and gives rise to the third circumstance requisite to produce lowness of interest.

It may be proper to observe on this head, that low interest and low profits of merchandise, are two events that mutually forward each other, and are both originally derived from that extensive commerce, which produces opulent merchants, and renders the moneyed interest considerable. Where merchants possess great stocks, whether represented by few or many pieces of metal, it must frequently happen, that, when they either become tired of business, or leave heirs unwilling or unfit to engage in commerce, a great proportion of these riches naturally seeks an annual and secure revenue. The plenty diminishes the price, and makes the lenders accept of a low interest. This consideration obliges many to keep their stock employed in trade, and rather
be content with low profits than dispose of their money at an undervalue. On the other hand, when commerce has become extensive, and employs large stocks, there must arise rivalships among the merchants, which diminish the profits of trade, at the same time that they increase the trade itself. The low profits of merchandise induce the merchants to accept more willingly of a low interest when they leave off business, and begin to indulge themselves in ease and indolence. It is needless, therefore, to inquire, which of these circumstances, to wit, low interest or low profits, is the cause, and which the effect? They both arise from an extensive commerce, and mutually forward each other. No man will accept of low profits where he can have high interest; and no man will accept of low interest where he can have high profits. An extensive commerce, by producing large stocks, diminishes both interest and profits, and is always assisted, in its diminution of the one, by the proportional sinking of the other. I may add, that, as low profits arise from the increase of commerce and industry, they serve in their turn to its further increase, by rendering the commodities cheaper, encouraging the consumption, and heightening the industry. And thus, if we consider the whole connection of causes and effects, interest is the barometer of the state, and its lowness is a sign, almost infallible, of the flourishing condition of a people. It proves the increase of industry, and its prompt circulation, through the whole state, little inferior to a demonstration. And though, perhaps, it may not be impossible but a sudden and a great check to commerce may have a momentary effect of the same kind, by throwing so many stocks out of trade, it must be attended with such misery and want of employment
in the poor, that, besides its short duration, it will not be possible to mistake the one case for the other.

Those who have asserted, that the plenty of money was the cause of low interest, seem to have taken a collateral effect for a cause, since the same industry, which sinks the interest, commonly acquires great abundance of the precious metals. A variety of fine manufactures, with vigilant enterprising merchants, will soon draw money to a state, if it be anywhere to be found in the world. The same cause, by multiplying the conveniences of life, and increasing industry, collects great riches into the hands of persons who are not proprietors of land, and produces, by that means, a lowness of interest. But though both these effects, plenty of money and low interest, naturally arise from commerce and industry, they are altogether independent of each other. For suppose a nation removed into the Pacific ocean, without any foreign commerce, or any knowledge of navigation: suppose that this nation possesses always the same stock of coin, but is continually increasing in its numbers and industry: it is evident that the price of every commodity must gradually diminish in that kingdom; since it is the proportion between money and any species of goods which fixes their mutual value; and, upon the present supposition, the conveniences of life become every day more abundant, without any alteration in the current specie. A less quantity of money, therefore, among this people, will make a rich man, during the times of industry, than would suffice to that purpose in ignorant and slothful ages. Less money will build a house, portion a daughter, buy an estate, support a manufactory, or maintain a family and equipage. These are the uses for which men borrow money; and
therefore the greater or less quantity of it in a state has no influence on the interest. But it is evident that the greater or less stock of labor and commodities must have a great influence; since we really and in effect borrow these, when we take money upon interest. It is true, when commerce is extended all over the globe, the most industrious nations always abound most with the precious metals; so that low interest and plenty of money are in fact almost inseparable. But still it is of consequence to know the principle whence any phenomenon arises, and to distinguish between a cause and a concomitant effect. Besides that the speculation is curious, it may frequently be of use in the conduct of public affairs. At least it must be owned, that nothing can be of more use than to improve, by practice, the method of reasoning on these subjects, which of all others are the most important, though they are commonly treated in the loosest and most careless manner.

Another reason of this popular mistake with regard to the cause of low interest, seems to be the instance of some nations, where, after a sudden acquisition of money, or of the precious metals by means of foreign conquest, the interest has fallen not only among them, but in all the neighboring states, as soon as that money was dispersed, and had insinuated itself into every corner. Thus, interest in Spain fell near a half immediately after the discovery of the West Indies, as we are informed by Garcilasso de la Vega; and it has been ever since gradually sinking in every kingdom of Europe. Interest in Rome, after the conquest of Egypt, fell from 6 to 4 per cent., as we learn from Dion.*

* Lib. ii.
The causes of the sinking of interest, upon such an event, seem different in the conquering country and in the neighboring states; but in neither of them can we justly ascribe that effect merely to the increase of gold and silver.

In the conquering country, it is natural to imagine that this new acquisition of money will fall into a few hands, and be gathered into large sums, which seek a secure revenue, either by the purchase of land or by interest; and consequently the same effect follows, for a little time, as if there had been a great accession of industry and commerce. The increase of lenders above the borrowers sinks the interest, and so much the faster if those who have acquired those large sums find no industry or commerce in the state, and no method of employing their money but by lending it at interest. But after this new mass of gold and silver has been digested, and has circulated through the whole state, affairs will soon return to their former situation, while the landlords and new money-holders, living idly, squander above their income; and the former daily contract debt, and the latter encroach on their stock till its final extinction. The whole money may still be in the state, and make itself felt by the increase of prices; but not being now collected into any large masses or stocks, the disproportion between the borrowers and lenders is the same as formerly, and consequently the high interest returns.

Accordingly we find in Rome, that, so early as Tiberius's time, interest had again amounted to 6 per cent.* though no accident had happened to drain the empire of money. In Trajan's time, money lent on mortgages

* Columella, lib. iii. cap. 3.
in Italy bore 6 * per cent.,* on common securities in
Bithynia 12;† and if interest in Spain has not risen to
its old pitch, this can be ascribed to nothing but the
continuance of the same cause that sunk it, to wit, the
large fortunes continually made in the Indies, which
come over to Spain from time to time, and supply the
demand of the borrowers. By this accidental and ex-
traneous cause, more money is to be lent in Spain, that
is, more money is collected into large sums, than would
otherwise be found in a state, where there are so little
commerce and industry.

As to the reduction of interest which has followed in
England, France, and other kingdoms of Europe that
have no mines, it has been gradual, and has not pro-
ceeded from the increase of money, considered merely
in itself; but from that of industry, which is the
natural effect of the former increase in that interval,
before it raises the price of labor and provisions; for
to return to the foregoing supposition, if the industry
of England had risen as much from other causes, (and
that rise might easily have happened, though the stock
of money had remained the same,) must not all the
same consequences have followed, which we observe at
present? The same people would in that case be found
in the kingdom, the same commodities, the same indus-
try, manufactures, and commerce; and consequently
the same merchants, with the same stocks, that is, with
the same command over labor and commodities, only
represented by a smaller number of white or yellow
pieces, which, being a circumstance of no moment,
would only affect the wagoner, porter, and trunk-
maker. Luxury, therefore, manufactures, arts, indus-

* Plinii Epist. lib. vii. ep. 18. † Id. lib. x. ep. 62.
try, frugality, flourishing equally as at present, it is evident that interest must also have been as low, since that is the necessary result of all these circumstances, so far as they determine the profits of commerce, and the proportion between the borrowers and lenders in any state.