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"The Souls of the Children".
at the end of 4th Report of Williams's
Secular School.

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A REPLY

TO PAMPHLETS PUT FORTH IN ANSWER TO

"THE CURRENCY QUESTION CONSIDERED."

By GEORGE COMBE,

AUTHOR OF "THE CONSTITUTION OF MAN," ETC. ETC.

LONDON:
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THE CURRENCY QUESTION, considered in relation to the Act of the 7th and 8th Victoria, chap. 32, commonly called THE BANK RESTRICTION ACT. By GEORGE COMBE, Author of "The Constitution of Man," etc., etc. Seventh Edition, revised and corrected.

From "THE TIMES" (City Article) of March 4, 1856.

"A SERVICE has been rendered to the commercial public, and to all persons desirous of obtaining a concise exposition of the principles and operation of the Bank Charter Act of Sir Robert Peel, by the republication, as a pamphlet, of the series of articles on 'The Currency Question,' recently contributed to the *Scotsman* newspaper by Mr. George Combe. Its great merit is, that it supplies the want, constantly felt by many intelligent persons, of a concise and logical statement, to save them from wading through the mass of contradictory treatises daily poured forth upon the subject, and commonly supposed by modest inquirers to be profound in proportion as they are incomprehensible. No such work has hitherto been attainable. Lord Overstone, to whom Sir R. Peel was indebted for the philosophy upon which he acted, has expounded from time to time the entire principles of the system; but his writings, together with those of Mr. Norman, Colonel Torrens, and Sir Charles Wood, have appeared at intervals, as the necessity of the occasion demanded, and not in a collective form so as to be available for the uninstructed reader, desirous for the first time of grasping the argument as a whole. Mr. Combe's pamphlet fulfils, in this respect, everything that could be required; and, to their surprise, it will show many who have been deterred from the topic by regarding it as something only to be mastered by the experience of a life, that it involves nothing but what may in half an hour be comprehended by any mind free from the incurable hallucination, that there is some method for Governments to create at pleasure 'a sufficient supply of the circulating medium.' It will at the same time, until its broad and simple doctrines shall have been controverted, leave no excuse for those who may continue to trouble the community with incessant effusions on the matter, indicating nothing except a unanimity of disagreement, and that the maze in which each struggling theorist is lost, is an independent one of his own creation."

From "THE MORNING POST" (City Article) of March 31, 1856.

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SPECIMEN OF THE CURRENCY OF RESERVE [See "Prciples of Currency," by E. Hill, p. 152. Longmans, 1856].

No. (By virtue of an Act, Vic. Reg., cap. .) Dated at the Exchequer, January 1, 1866.

On or after January 1, 1867, *this Bill will entitle A B, or Order, to* One Hundre Pounds, *together with Three pounds, six and eight-pence for One Year's Interest thereon ;* payable out of any Supplies, Revenues, Aids, or Taxes, granted by Parliament after the passingof the said Act.*

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* The rate yielded by investments in Consols at 90.

THE CURRENCY QUESTION.

[*From the Daily Scotsman of* 17*th May*, 1856.]

A NUMBER of "refutations" in the shape of pamphlets have appeared of our views on the currency formerly published. No two of them agree in their own plans of currency reform, and most of them fail to trace the application of their principles to actual business transactions; or at least they appear to us to fail. Instead, therefore, of attempting the task of replying to each in detail, we shall submit a few elucidations of principles which apply to all plans and systems, and leave the public to form their own judgment on the subject. Among the publications dealing with our recent articles are a pamphlet by Lieutenant-Colonel J. H. Macdonald, entitled "Mr. George Combe's Doctrines on the Currency Question Examined and Refuted;" and an anonymous one by "Civis," entitled "A Reply to Mr. George Combe's Pamphlet on the Currency, etc." Mr. Edwin Hill has published an independent work, entitled "The Principles of Currency, etc.," and commented on our views in the London *Globe*.

Besides these we have also a *brochure* by Mr. John Haslam, late "Turgot," called "The Paper Currency of England Dispassionately Considered; with Suggestions towards a Practical Solution of the Difficulty"—a well-written and dispassionate pamphlet, clear in expression, and, on the whole, logical in thought. The following are the leading views which it contains.

Our monetary code presents a most anomalous appearance. The Bank of England, possessing a *bonâ fide* capital of about £18,000,000, is restricted to the issue of £14,000,000 of Notes, on the security of that capital; for every note circulated above this amount it must hold gold. The 250 English country Banks are authorised to issue notes to the extent of their average issues in 1844, without reference to the amount of their capital; there being cases in which their issues exceed their capital in the proportion of three to one. Again, while the existing Banks are protected by the Act of 1844 in the enjoyment of this privilege, no new Bank, however extensive its capital, and no non-issuing Bank, however indisputable its security, is endowed with a similar prerogative. Farther, the Banks of issue, considered as a whole, are permitted to contract their issues unrepresented by gold, at their own discretion, while they are absolutely prohibited from increasing them beyond the statutory limits, under any circumstances of monetary pressure.

Mr. Haslam holds that the issue of paper money, like coining, should be a function of the State, and the profits of it appropriated to the national service. To withdraw the privilege of issuing notes unrepresented by gold is not to interfere with private rights or the freedom of trade. The issue of unrepresented paper money is, in its nature, essentially distinct, not only from the ordinary operations of trade, but of banking.

"The banker, in common with the merchant or manufacturer, derives his profits from the reproductive employment of his own capital, together with as much of the capital of his customers, as he can induce them to intrust to his care. But unrepresented paper money is not capital, and is no more the property of the banker or his customers, than it is of the merchant and manufacturer, or their respective customers. In effect, however, it is equivalent to capital, and its employment is equally profitable; any transfer, therefore, of the profits arising out of its issue to a number of private individuals, is not only an act of injustice to all the rest of the community, but is a real source of injury to every banker or dealer in money, who is excluded from the enjoyment of the privilege. For it is clearly impossible for one who is limited to the employment of his capital and credit, to compete on equal terms with rivals who are thus authorised to operate, not only on their capital and credit combined, but also on a species of fictitious capital, which they are permitted to create at pleasure. And the only mode in which this injury can be successfully averted, is by securing the profits arising out of the privilege of issue to the general body of the community at large."

In this country, there are constitutional objections to investing the Government with the power of issuing paper money, and, therefore, Mr. Haslam proposes that this should be accomplished by one distinct establishment, authorised and duly regulated by Act of Parliament, and, on the whole, he prefers remodelling and employing the Bank of England to discharge this function.

The most essential features of his proposal are the following:—

"1st. That the total paper issues of England and Wales be gradually concentrated in the Bank of England.

"2nd. That the latter be required to render a fair equivalent for the exclusive privilege of issue in the form of certain Treasury charges to be imposed on the total amount of its unrepresented circulation—i. e. its circulation of notes unrepresented by bullion.

"3rd. That the normal circulation of unrepresented notes to be issued by the Bank be fixed at the present authorised issues of the united banks of England and Wales—viz., about £22,000,000.

"4th. That in order to provide for cases of pressure, the Bank be allowed to issue in excess of its normal limit of £22,000,000, but only on condition of paying a Treasury charge sufficiently high to prevent its exceeding that limit, except when currency is scarce and the demand for it proportionally urgent.

"5th, and General Summary of the Conditions of Issue. That the Bank of England be allowed to issue £11,000,000 of unrepresented notes, subject to a minimum Treasury charge of 1 per cent., a second £11,000,000, subject to a medium charge of 2 per cent., and any discretional number of notes in excess of the total £22,000,000 subject to a maximum charge of 4 per cent."

In our discussions of the "Currency Question," we have never asserted that the Restriction Act of 1844 is perfect in all its details; and we grant to Mr. Haslam that the monetary system of the United Kingdom is one characterised by anomalies and inconsistencies, and that it may be improved. Government took it up as it found it existing, and aimed merely at preserving all that portion of it which had been found compatible with the public welfare, and abridging those self-assumed powers of issuing unsecured and unrepresented currency notes which, in their abuse, had entailed so much loss and suffering on the community. Great opposition would probably be offered to Mr. Haslam's scheme of concentrating the power of issuing notes in the Bank of England, on the ground of centralisation; and it may be reasonably maintained that local banks of issue, if properly regulated, will be more convenient and useful to the provincial public, than one huge establishment, which would naturally obey London influences, and might fall easily under Government control. But these are points of secondary importance.

The main question is, whether Mr. Haslam's object of devising "a paper currency that shall contract and expand in conformity with the requirements of commerce; that is to say, contract whenever trade is stationary and the supply of commodities in the market small, and to expand whenever trade becomes active and the supply of marketable commodities undergoes an increase;" be one that can be accomplished by his, or any other, legislative means.

We shall endeavour to state the question in a plain and practical form. In our view, Bills of Exchange and Drafts on Bankers are instruments for paying *for things already produced, when bought and sold,* but not for calling them into existence. A manufacturer may have a capital of £10,000 invested in buildings and machinery, and £10,000 worth of raw material on credit; but without "currency" to pay wages, he could not set his machinery in motion, or produce goods. Thus, because labour is the essential element in production, and "currency" in small denominations and unquestioned value, is indispensable in paying wages, production is dependent on, and is limited by, the amount of "currency" which the manufacturer can command.

Suppose a manufacturer to have expended a thousand pounds in producing hardware articles,—that he sells them, receives the purchaser's promissory note, payable in three, four, or six months afterwards for the amount; he may buy raw produce to the value of £1000, and settle the price by indorsing the Bill to the person who supplies him; and, by repeated indorsations, it may serve as a means of paying for many purchases of things existing; but in its original form it could not be used as an instrument for farther production. The holder would find it necessary to carry it to a Banker or Bill-broker and get it discounted, in other words, to obtain for it gold, silver, or bank-notes that pass as currency; for these alone will serve to pay the wages of labour. In buying and selling also, "currency" is necessary as a means of settling small transactions; for Bills of Exchange and Bank Drafts are not suitable for payments of shillings and pence, and not even for purchases of one, two, or three pounds' value.

Mr. Haslam assumes that the whole "currency" in circulation in the hands of the public, as distinguished from fixed capital, bills, and drafts on bankers, is composed of gold, silver, and bank-notes authorised by law, and amounts to £75,000,000. We shall call this the "money capital" of the country. Parts of it are always in the hands of the working classes, of retail dealers, and of persons not engaged in trade, who use it in their small disbursements. Let us assume the aggregate of these parts to amount to £25,000,000. Farther, other portions of it will be found in the possession of manufacturers, as part of their working capital; and we may estimate the amount of these at other £25,000,000. This will leave £25,000,000 still to be accounted for. It exists in the hands of bankers and money capitalists, persons who are engaged in no trade themselves, but hold their wealth in the form of tangible currency, and make a profit of it by lending it at interest to those who employ it in trade or manufactures. This constitutes the fund out of which currency can be furnished to persons engaged in every kind of production, who require money beyond the amount of their own capital. It may be advanced as simple loans; as cash for bills discounted; or in any other form; and it may be designated "the loanable capital" of the country.

Assuming then that this loanable fund is *limited*, it is of no consequence to our argument what the precise amount of it may be. If it *have* limits at all, its limitation will serve our object in illustrating the real nature of Mr. Haslam's proposal, and that also of most other advocates of a self-adjustiug currency, whose works we have perused. Suppose then, that there has been an extraordinary expenditure in constructing railways, and manufacturing goods, such as occurred in 1845 and 1846, attended by high profits, and much buying and selling in small amounts, it is obvious that there would be large demands on the owners of loanable capital for the use of it, by the individuals engaged in these profitable enterprises. The more the production was extended, the nearer would the limit of the fund be approached; and the keener would be the competition of producers to obtain supplies of it. The exhaustion of its amount would render it more and more difficult to comply with the demands of those who desired to borrow it; and its owners, the bankers and capitalists, would then naturally be led to increase the rate of interest at which they would lend. We should thus have great and manifold transactions in business, attended by a diminished state of the "loanable capital" of the country.

We shall be told, however, that currency constantly *circulates*, and that it finds its way back to the coffers of the money-lenders as fast as it is given out. Here, however, comes fallacy the first in the argument. The owners of "loanable capital" deal only in money, and the currency which they advance finds its way back to them only in two forms—repayment of previous advances, or deposits. Now, when a loan is repaid, a vacuum is made to the extent of it, in the resources of the individual who repays it. In general, he presents a new bill, or other security, to the mouey-lender, and requests to have it restored to him as a fresh loan. If no increase in production was taking place, the repayments would furnish adequate means for re-discounting, and there would be no increased pressure on the "loanable fund." Suppose, however, that the manufacturer who holds £5000 of lent currency obtained from a banker, on discounted bills, demands a loan of other £5000 *before the repayment* of the first advance, it is clear that if the banker comply with the request, he will diminish his "loanable fund" to the extent of £5000. In times of the expansion of trade, this is the common course of action of producers in general; they are all pressing to obtain increased portions of the "loanable fund" in exchange for "securities," to enable them to increase their production; and of necessity the drain on this fund must bring it nearer and nearer to exhaustion.

It may be asked, however, whether fresh loans may not be supplied from "deposits." Unfortunately not; because in brisk times, when production is highly profitable, bank deposits are withdrawn, and applied in a more lucrative field.

The result of these combined circumstances is the following. There is a large amount of currency in the hands of the producing and trading members of society; and among them money is said to be plenty; but there is a corresponding scarcity of it in the coffers of bankers and money-lenders.

[*From the Daily Scotsman of* 20*th May*, 1856].

In our paper of the 17th of May, we traced the evolutions of the currency to that point in which, from briskness of trade, there is a large amount of it in the hands of the public, and a corresponding scarcity of it in the coffers of bankers and money-lenders.

What then follows? Under the present system, manufacturers and traders in general press on in the career of increasing production, and accumulating stocks, as long as profit is realised. Although the demand for broad-cloth, cotton goods, hardware, and other commodities, has limits, they never pause, but proceed in calling more and more of them into existence, until they produce a larger quantity than the public, at the time, desire to consume. The merchants buy goods and increase their stocks in a similar way.

The producers now find a difficulty in selling: and when the days of payment arrive, if they have used in their production money borrowed for short periods, say for three, four, or six months, they are forced to lower the price of their goods to induce those who still hold disengaged currency to buy from them; for they must pay in currency. When many persons find themselves placed in these circumstances, there are many sellers and few buyers. The sellers have already obtained possession of the greater portion of the loanable capital of the country, and expended it in goods; and they are pressed for more currency with which to pay their debts. The currency has not ceased to exist, but it is diffused through the mass of the people, and has not yet found its way back into the coffers of its owners, the capitalists who live by lending it; and they, therefore, cannot supply more of it in loan.

At this point, then, a commercial crisis commences; but there are generally other attendant circumstances which augment its pressure. During the period of high profits and ever expanding production, large quantities of raw materials for manufacturing purposes, of manufactured articles of luxury, such as silk, wine, &c., are imported from foreign countries. As home prices are high, foreigners restrict their purchases in English markets, and thus England gets into debt to foreign nations. In 1846, a failure of the potato crop caused a famine, and we bought large quantities of corn also from foreigners, which greatly augmented our debts to them. In order to discharge these, a demand for gold for exportation arose, and every sovereign exported was so much withdrawn from the "currency," which, as already stated, constitutes at once the fund for paying for labour, and also that out of which loans are made by money capitalists to producers. If £10,000,000 of gold were exported, as happened in 1847, while the producers and merchants had invested in goods all their own currency, and a large portion of the "loanable capital" of the money-holders, under the obligation to repay it at short dates, the pressure for loans on the part of such of them as were in debt would be intense, while the means of complying with their demands would be greatly abridged. In these circumstances a money crisis reaches its height.

What next ensues? The debtor class are forced to reduce the prices of their goods, in order to tempt the few persons who have been so prudent as retain money capital unengaged to buy from them; and the proportion of the numbers who are forced to sell in relation to those who are capable, and who are disposed to buy for cash, will determine the extent of the fall in prices. If there are many sellers and few buyers, those who are in debt will be compelled to make great sacrifices; and the knowledge among money-holders that the debtor-class is numerous and hard pressed, will induce them to hold off from purchasing, until they think the lowest level in prices has been reached. A rational regard to their own interest obviously dictates reserve in purchasing; for if prices continue to fall, they will lose the difference between the price they pay and that of the lowest depression.

These, then, are the phenomena which constitute a manufacturing and commercial crisis. Let us now inquire into their causes and consequences. The chief cause appears to us to be the error committed by the great majority of producers and merchants of "hastening to be rich." Those producers and merchants who have not extended their business on capital borrowed at short dates, are not forced to make these sacrifices. They have no debts pressing on them, and are able to hold their stocks until the crisis has passed away. But they feel the pressure of it in the stagnation of their sales, and in falling prices. Even these prudent producers are forced to place their workmen on half-time, or cease working altogether; and the prudent merchants limit or suspend their purchases. These restrictions produce a crisis in the condition of the workmen, and also in that of manufacturers, who depend on mercantile orders for the employment of their establishments. Labour ceases to be in demand, and wages fall; and in some districts, by the suspension of production, they fail altogether. The crisis immediately extends to shopkeepers and tradesmen—such as tailors, shoemakers, and others, who depend on the orders of workmen for their support; and thus the evil spreads.

Here, then, although prudent manufacturers and merchants are not pressed in their own finances by the crisis, all their operative workmen, and the shopkeepers dependent on them, inevitably suffer.

To us there appear to be three natural means of averting or palliating these evils, viz.—1st, Prudence on the part of producers and merchants restraining them from manufacturing and purchasing more commodities than the consuming public are able and willing to purchase at the time; Secondly—Forbearance in using capital borrowed for short periods, with a view to avoid the necessity of resorting to compulsory sales; and thirdly—That the operatives should save part of their earnings when wages are high, to support them while the surplus produce of their labour is in the course of being consumed.

These precautionary measures, if all employed, would in our opinion prevent, or greatly mitigate manufacturing and commercial crises; but all these require the exercise of human reflection, foresight and self-restraint in the pursuit of wealth, and a perception that trade, like the tides and seasons, is placed under natural laws, which being obeyed lead to prosperity, and when disobeyed to ruin;

and also religious and moral convictions sufficiently distinct and strong to enforce obedience to these laws as *duties*.

These considerations, however, figure very little, or not at all, in most of the proposals for averting commercial disasters, by a self-regulating currency. If prosperity has been made by divine Providence to depend on industry, governed by intelligence religion and morality, and the currency doctors aim at securing it by mechanical regulations, they must fail, for their means are not adapted to the end. Let us, then, investigate and analyse their machinery for dispensing with the exercise of moral and intelligent principles in human enterprise, when directed to the production or acquisition of wealth; for this is their real aim, although they do not acknowledge it themselves.

They will say, that the obvious cause of the crisis is the exhaustion of the "loanable fund," and that if the Bank of England, and other Banks of issue, were only authorised to issue more currency notes, the evil would be prevented; and they recommend that such power should be given to them. This appears to us to be fallacy the second. Let us trace, then, the operation of this proposed measure if carried into effect. As already observed, prudent producers and merchants, who are not in debt, and are able to hold their stocks, do not require the creation of more currency notes: nay, they deprecate it as highly injurious to their interests, because its supply would tempt, and also enable the debtor class to proceed in producing commodities which are already redundant, and thus cause an increasing fall in prices. If the debtor class were restrained, those individuals who possessed large capitals still unengaged, could continue manufacturing; because they could purchase the raw material and obtain labour at greatly reduced prices, and hold the accumulated produce until the markets were cleared. But those who were in debt could not do so, unless fresh loans for indefinite periods were constantly supplied to them. The continued production of goods *by them* would therefore be an unmixed evil.

In our next article, however, we shall grant to our opponents the privilege of increasing the currency as they desire, and inquire into the consequences which will follow.

[*From the Scotsman of* 24*th May*, 1856].

Waving all other considerations, let us now grant to the opponents of the Bank Restriction Act the privilege of allowing the Bank of England and all other Banks to issue notes unrestricted in amount, and without any other security than the issuer's promise to pay, and we ask, How would the newly-created bank notes reach the *debtor class?* The bankers and money-holders would not *buy* their goods; for they do not deal in commodities, but only in lending money. What, then, would be their inducements to *lend to them*; for no other class will ask them, in the midst of a crisis, to lend at the high rate of interest then prevailing? The debtor class are pressed for currency because they have engaged to repay money already borrowed, and cannot do so, on account of their goods not being saleable at prices which will reimburse the money expended in their production. Bankers and money-lenders perceive this fact, and also distinctly see that a great fall in prices will render insolvent every individual whose stock has been produced chiefly on borrowed money. They are, therefore, far more anxious to recover possession of their lent capital, than to increase their risks by lending more to such persons. They call on them to pay up the loans at the dates when their obligations come to maturity.

In point of fact, if the owners of the money lent would consent to postpone indefinitely exacting repayment of it, and refuse to make farther advances, the debtor class would be more effectually relieved than by fresh loans; because, the want of currency would force them to suspend production, and there being no pressure on them to repay their borrowed capital, they could hold their goods until the natural progress of consumption rendered them again saleable. But no one has proposed to institute this remedy by Act of Parliament; and the money lenders are not likely to furnish it voluntarily. When their debtors cannot pay, they become uneasy, and are led by the instinct of self-preservation to urge them to refund. They see clearly that the debtor is pressed for money, and fear that he is either already insolvent, or in danger of becoming so, by having increased his stock of goods beyond the limits of his own capital, on money which he has borrowed and cannot refund unless he sell his goods at such a depreciation as may render him unable to meet his engagements.

The debtor class, therefore, are thrown by necessity on the alternative of demanding fresh loans; and it is to obtain these, that they call for an extension of the currency. Suppose, then, that their demands were complied with, what would ensue? They must borrow from Peter to pay Paul; for borrow they must, or sell their goods at depreciated prices to redeem their obligations, which is the very evil they seek to avoid when they call for an extension of the currency. But would Peter be disposed to lend *them* money, supposing that he had abundance of the newly created bank notes in his coffers? When he understood that it was to be employed in paying Paul, he would see that this would just be transferring his money into Paul's pockets, and taking on his own shoulders the risks which had led Paul to force his debtor to pay!

No extension of the currency, therefore, can provide a remedy for the evil which a manufacturer or merchant brings upon himself when, by "hastening to be rich," he runs in debt and encumbers himself with stock which he cannot sell except at a loss. It would not be expedient to create an inexpensive artificial currency, such as bank notes, and to advance it to this class of persons, merely to enable them to avoid loss by sales of their goods at depreciated prices; for if the currency is to be redeemed in gold, or in anything of value, who is to encounter the risks inseparable from such advances? Will the Bankers do so? Certainly not; for when a Banker discounts a Bill, say at sixty or ninety days, and gives for it his own promissory notes payable on demand, what does he do? He stakes his own capital to enable the discounting trader to pay a debt or to make a purchase; for, be it observed, that although the banknotes issued in discounting the trader's bill, have cost the Banker nothing beyond the price of the paper and the stamp, they constitute a claim on his own capital, the moment they come into the hands of a *bonâ fide* holder. When presented, he must pay them in currency, whether the discounted Bill has reached maturity and his advance on it been refunded, or not. We ask, then, will any legal permission to a Banker to pledge his own resources in the form of banknotes, induce him freely to place them in the hands of embarrassed debtors, to extricate them from their difficulties? In point of fact, he does not require an act of Parliament to allow him to do this. If solid Bankers, on receiving a commission, will sell letters of guarantee pledging themselves to pay on demand certain sums to the bearer of the letters, and give these to their customers in exchange for their mercantile Bills at sixty or ninety days, they will aid them as effectually, and in precisely the same manner, as if they printed and issued banknotes for the same sums. Why, then, are letters of guarantees from Bankers not resorted to, as means of averting a crisis? Simply because prudent Bankers would decline to grant them to traders involved in debt, and whose solvency is contingent on rates of prices, which no individual can foresee or control; and this is precisely the reason why prudent Bankers would decline to issue banknotes to such customers, although authorised by Act of Parliament to do so.

Will Government, then, on receiving such securities as embarrassed debtors can afford, be justified in issuing notes payable in currency on demand, to relieve them from their difficulties? They would betray the interests of all the prudent and solvent members of the community, if they should lend notes guaranteed by the taxes contributed by these members, to the imprudent and over-sanguine, who had embarrassed themselves in reckless pursuit of gain.

Moreover, even assuming that the Bankers or Government should supply this class with currency to enable them to pay their debts and to hold their goods, it must necessarily be on the condition that the merchant shall suspend his purchases, and the manufacturer his production, until their stocks are sold and the advances repaid. To furnish them with currency to enable them to proceed in augmenting their stocks, would be *felo de se*, increasing the very evil which is threatening them with ruin. But if they suspend buying and manufacturing, what will be the condition of those persons who depend for subsistence on their purchases and production? These dependent persons will lose employment and the means of subsistence; and no ingenuity can save them from this calamity. A commercial crisis, therefore, has natural causes, and if we call these into operation, no human power can avert the effects, in suffering and disaster, which they will produce.

Shall we supply the humbler classes, too, with artificial currency to enable them to live idle, to buy the redundant goods, and thus to bring things round without anybody suffering inconvenience? If the currency thus advanced to them is to be redeemed by those who issue it, they must have some security for reimbursement from those to whom they lend it. If the labourers have been prudent, they will have money in the savings'-banks sufficient to enable them to live over the period of stagnation, and will not require advances of artificial currency. If they have not been prudent, and are penniless, those who advance the currency to them must bestow it on them out and out; and if so, they must either repudiate the currency notes so issued and applied, or redeem them out of their own capital!

In short, as we before remarked, a commercial crisis is the result of the action of human beings; and there is a natural connection between the course they pursue and the ends they reach, which no human power or ingenuity can alter. There is only one apparent exception to the truth of this proposition. A crisis may be caused by a famine, which forces the nation to export gold largely to pay foreigners for food. This will cause contraction of the currency, and embarass those who are in debt; and it may be said, that this will happen irrespective of their own imprudence. But it is known that deficient crops occur from time to time, and a thoroughly prudent man will include this contingency in his calculations. Besides, it is only by exporting largely that the currency withdrawn can be recalled; and diminished prices are the grand inducements to foreigners to purchase and export our produce. In this case, therefore, if the calamity be natural, a fall in prices must be submitted to as the remedial means dictated by nature. To supply by issues of artificial currency the vacuum caused by this natural drain, to sustain prices at home and thus prevent exportation, would lead only to an increase of the evils sought to be avoided.

Similar observations apply to a crisis produced by war. Men must regulate their conduct in buying and producing by a rational consideration of the effects of war; and it is vain to seek to dispense with this, and at the same time to secure prosperity by artificial evolutions.

It would be a great public advantage if all manufacturers and importing merchants were compelled to report at the end of every month the amount of goods they had produced and imported during it. The Government publishes accounts of *exports;* and by comparing the two, prudent men would be supplied with some data that might help them to discern the approach of a crisis in the increase of stocks, and to prepare for it.

Raising the rate of interest by Bankers and money-lenders, in proportion as the loanable capital in their hands is diminished, is a natural course of action: the thing they deal in is scarce, and is greatly in demand, and it is right that he who can give them the best security and pay the highest interest, should have the use of it. There is no call on them to supply it on indifferent security to persons whose ability to refund is doubtful, and to whom a high rate of interest is ruinous. Moreover, a high rate of interest is the natural check to overproduction on borrowed money. When eight per cent. must be paid on loans, the commercial and manufacturing profit must be high indeed to render production remunerative under this burden. Buying and producing then ceasing to be lucrative, self-interest will supply the place of prudence, and over-production and over-buying will be checked. The grand object, however, of the advocates of an increase of artificial currency in such circumstances, is to keep interest low and money plenty, and thereby, render restriction unnecessary. Were this possible, which it is not, they would only aggravate the evil under which the debtor class suffers.

There is great confusion in the minds of many persons about the circumstances in which money becomes plentiful and scarce. When merchants and manufacturers have accumulated large stocks of goods on borrowed money, the loanable capital in the hands of money-lenders is low, and currency is scarce in the hands of these persons. But if there has been no foreign drain, the currency in the hands of the working classes and retail dealers, which they have acquired from their employers, must necessarily be considerable. *They* will not feel the pressure until their supply has been cut off by the embarrassments of their employers; and then, as their expenditure must proceed that they may live, it will become scarce with them also. What next ensues? The money-lenders call on their debtors to pay up their loans, and while the solvency of many dealers is doubtful, they lend little. Money, then, becomes very scarce among merchants, manufacturers, workmen, and retail dealers; and, in time, abundant in the coffers of Bankers and other money-lenders. When this state of things has been reached, there is much loanable capital and few satisfactory borrowers; and interest naturally falls. After the manufacturing and commercial world has been weeded, and the solvent and insolvent have been separated, confidence is at last restored, and the money-holders becoming anxious to turn their now accumulated capital to account, extend their advances. If the security be good, they lend on easy terms. Low interest, and confidence on the part of lenders lead to new loans, to new production, and the revival of trade. Interest then rises in proportion as the loanable capital is absorbed, and as goods accumulate. If those who play this game of borrowing and producing will shut their eyes to its natural rules, dispense with forethought, self-restraint, and all moral and intellectual considerations in the blind pursuit of gain, a new crisis will inevitably occur—a new pressure in the money market—a new cry for extended currency—and so forth to the end of time; or until men learn to understand their own true interests, and to pursue them like rational and accountable beings.

In our schools we omit to instruct the young in the natural laws which regulate the production and distribution of wealth; and these are not taught in the merchants' or manufacturers' establishments in which the practical details of trade are learned. Generally speaking, therefore, men enter into business unconscious that such laws exist, or that they are concerned in knowing them; and this ignorance is one great cause of the recurrence of commercial convulsions. While the public continue to view sectarian dogmas as the basis of a sound practical education, and are indifferent to the teaching things that relate to individual and social well-being in this life, improvement in this respect appears lamentably distant. The sufferings which we have now been contemplating appear to us to be the inevitable penalties of our errors, yet we fly to every imaginable device for evading them except that of removing their natural causes.

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OUR RULE IN INDIA.

BY GEORGE COMBE.

NOTE.

IN "The Constitution of Man," and "The Relation between Science and Religion," the doctrine is propounded, that there is a real practical Divine government of the world; that it is not miraculous or supernatural, but is conducted through the qualities, modes of action, and relations bestowed upon things and beings by Divine power and wisdom; that it is scrutable, intelligible, and moral; and that it determines the conditions on which persons, communities, and nations may either attain to, and preserve physical and mental well-being, or plunge themselves into suffering, and that in each case the intensity and duration of the good or evil evolved will correspond to the extent of obedience to, or departure from, the requirements of the Divine laws.

In 1847 these principles were applied to the case of India, in the 8th edition (post 8vo) of "The Constitution of Man," then published in the following words:—"History has not yielded half her fruits, and cannot yield them until mankind shall possess a true theory of their own nature, and a religion in harmony with the order of Providence. England has still much to learn in this respect. Her conquest and dominion of India is immoral; and as God's laws can neither be abrogated nor evaded, serious social evils must, at this moment, be flowing to herself from the immoral action, in her own social circles, of the selfish and domineering propensities which have prompted her to make and to retain that violent acquisition. At the same time, these conquests could not occur without weakness and immorality predominating in the subjected nation. Their fate is the consequence of their own low moral, intellectual, and physical condition; and apparently the scourge, even of foreign oppression, is intended to stimulate its victims to greater energy of action, or to sweep them away as encumberers of the soil. The first aim of Nature seems to be to develop strength, and to give the world to the energetic. Among moral beings, however, that strength must be regulated by morality, or they must suffer. The immoral may *possess*, but the natural law declares they shall not *enjoy*, the earth.

"If I might hazard a conjecture in regard to India, I should hope, that before the close of another century, the public mind of Great Britain will have made so great a progress in the knowledge of, and belief in, the moral order of God's providence, that it will compel her rulers, either to relinquish that conquest as prejudicial equally to England and India, or to administer it on the principles of morality for the benefit of the Indian people themselves. It may be affirmed that this is already done, and that under British sway India is now more prosperous and happy than she ever was under her native princes. English testimony, however, is not competent to establish this proposition; and we have never heard it confirmed by the general voice of the conquered people. Besides, it is notorious that we rule India as a conquered nation, and deprive her people of all high places of honour and authority in the administration of their own affairs. A moral government of India would imply a thorough education of her people in the natural laws, and training them to reverence and obey them; the employment of them in the administration of their own government; placing them on a footing of equality, in rights and rank, with the British; and preparing them to become a free, moral, and intellectual people. If we should ever bring them into this condition, and be contented to act towards them on the principles of beneficence and justice, we might withdraw our armies, and enjoy all the profits of their commerce from the bonds of interest, respect, and affection, which such conduct would evoke.

"These ideas will probably appear chimerical and utopian to most readers, but the other alternative is not fanciful. While the British public mind continues to disbelieve in God's moral government of the world, and to sanction the present system of domination in India, British institutions will never become thoroughly moral at home; and so long as they continue immoral, her religion will prove a rope of sand to bind her people to virtue; her wealth will be a snare, and her power will have a canker at its core that will eat out its strength, and add her empire to the list of those that have fallen by their defiance of God's moral providence, and their reliance on their own animal and intellectual superiority."

These observations were presented, not as random prophecies, or as the results of superior discernment, but as inductions from the principles of the work when applied to history; and it is only as such that they possess any value. They are here cited, to show that the views expressed in the following Letters were not ~~stated~~ *à posteriori*, by the ^ suggested late events in India, but that they flow from the principles stated *à priori*, in 1847. The only difference between the conclusions then drawn, and those contained in the Letters, consists in the prospect of our being able to govern India with advantage to the natives and honour and profit to ourselves, being rendered darker by the late disclosures, than it was when the inferences rested only on the basis of general principles.

The Letters appeared in the *Daily Scotsman* of the 19th of February 1858; and as requests for copies continue to reach me, they are reprinted for circulation.*

* Sold by Simpkin, Marshall, & Co., London; and by Maclachlan & Stewart, Edinburgh. Price 2d.

ERRATUM.—At ninth line from foot of page, *for* stated *à posteriori*, *read* suggested *à posteriori*.