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IDEALS AND REALITIES

STUDIES IN EDUCATION AND ECONOMICS

BY

SHAFAAT AHMAD KHAN, M.A., LITT. D.,

SIDNEY SUSSEX COLLEGE, CAMBRIDGE; TRINITY COLLEGE, DUBLIN;
AND THE UNIVERSITY OF LONDON.
ASSISTANT PROFESSOR OF INDIAN ECONOMICS, UNIVERSITY OF MADRAS.
SENIOR HISTORY LECTURER TO THE LONDON COUNTY COUNCIL, 1917—1919;
SPECIAL RESEARCH LECTURER TO THE UNIVERSITY OF LONDON, KING'S
COLLEGE, 1920; FELLOW OF THE ROYAL HISTORICAL SOCIETY.

Vol. I—English Education during the years 1689-1750.
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To

THE HON'BLE SIR ABDUR RAHIM.

Felix qui potuit rerum cognoscere causas,
Atque metus omnes et inexorabile fatum,
Subjecit pedibus, strepitumque Acherontis avaris.

—*Virgil.*

PREFACE.

The material of this book has been in process of collection and preparation by the author for a period covering three years, and the work represents the author's researches into the history of education during the years 1689—1750.

It is a pleasure to acknowledge with gratitude valuable assistance from the Librarians of the British Museum, Lambeth Palace, Congregational, Dr. Williams', Bodleian, and India Office Libraries.

I owe a special debt of gratitude to my teachers, Professor John Adams, Professor of Education, University of London, and Principal of the London Day Training College; Professor T. P. Nunn, Vice-Principal of the London Day Training College; Professor J. W. Adamson, Professor of Education, University of London, King's College; and Professor Culvervell, Professor of Education, Trinity College, Dublin.

I am specially indebted to Professor C. H. Firth, Regius Professor of Modern History, at Oxford, whose

encyclopædic knowledge, devotion to historical scholarship, and ready support of scholars, have been recorded by abler pens than mine; to Mr. Hubert Hall, F.S.A., Assistant Keeper of Records, Public Record Office, Chancery Lane; and to my fellow student, Mr. Douglas Waples, Ph.D., formerly Lecturer at Harvard University, now Professor of Education, Tufts College, Massachusets, U.S.A.

My thanks are due to Dr. C. W. Kimmins, Chief Inspector of Education, London County Council, and Professor F. S. Boas, for their encouragement of my researches.

INTRODUCTION

BY

PROFESSOR J. W. ADAMSON,
Professor of Education, University of London, King's College.

Professor Khan does me the honour of believing that some words from my pen may be of use, and I therefore comply with his request that I should write a short introduction to the present work.

There are at least two ways of writing or of studying the history of education. The more common and less laborious is to regard that history as coincident with the history of opinion concerning education ; to write or ponder on what certain thinkers have agreed education should be. The much more laborious, yet less common way is to try to reconstruct the past of those institutions, of those effective ideas, which have shaped education as it has been given actually, and in fact.

Dr. Khan has chosen the latter way, and has followed it in relation to a period of English history whose

interpretation is difficult. His book is the fruit of a thorough-going research into what is called "the literature" of his subject, as it exists not only in rare printed sources, but in manuscripts also. The result is a body of material which is of the highest value for the student of eighteenth century English education. Further than that, Professor Khan's method of work is a good guide to the manner in which the history of education should be studied and written. From this point of view, his work will, I am confident, be found very helpful to students of the history of Indian education and of education in India.

KING'S COLLEGE,
UNIVERSITY OF LONDON,
13th November, 1920.

J. W. ADAMSON.

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INTRODUCTION.

A Survey of Educational Principles and Methods.

What is education? Is it adjustment *to* environment, or does it involve adjustment *of* environment to the educand? There must certainly be assimilation of some sort, but we cannot determine in every case whether the educand has assimilated the environment. The perception of the fact that the mere assimilation of environment results in the production of automata, responding with monotonous regularity to the ebb and flow of environmental influences, submerging their individuality in the tedious processes of the multiform universe, and exhibiting no trace either of creative energy or of constructive ability, has led gradually to the modification of the dogma of efficiency. Education is not mere adjustment, and a man is, after all, more than a machine. The emphasis of modern American eductors on "Efficiency," and their insistence on vocational education are due partly to the intensity of industrial competition. The race for industrial supremacy is no

less keen in America than in Europe ; and the American educators are never tired of pointing out the necessity of efficiency in modern society. The doctrine of the harmonisation of all the faculties of the individual, and the theory of "formal training," which John Locke enunciated in his "Conduct of understanding," and which a succession of schoolmasters tried to realise, have been replaced by the theory of Specific education. We cannot educate a person *ad hoc*; he must be educated in a specific direction. This involves an analysis of the data of education. The mind of the "educand" must be scientifically tested ; his environment must be carefully studied ; and his heredity must be thoroughly investigated. It is, however, the examination of the mental qualities of the educands, that has received the greatest attention at the present day. Locke's theory of a "general intelligence," and the principles upon which the curricula of the majority of educational institutions during the seventeenth and eighteenth centuries were based, have been rejected by men whose primary aim is "efficiency." Efficiency is the watch-word of many an educational reformer ; and practice the ideal at which the leading school of educational thought aims. The researches of Dr. Sleight, E. O. Lewis, Whipple, Bagley, Titchener, Brown, Ballard, and others show clearly the importance of the subject. The literature on the subject is enormous. Heck's "Mental Discipline" traces the history of the Formal Training controversy, and sums up the results of the researches of this band of enthusiasts. The history of the movement could be traced back to

Locke, but the discussion on the subject was started by William James, in a well-known passage of his "Principles of Psychology." The researches on memory throw great light on the problem, and the work of the devoted hand that initiated the movement is linked up with the pious labours of modern researches. I may mention here the promising work of my friend, Mr. J. D. Collar, M.A. Mr. Collar carried on an elaborate enquiry into the tests of arithmetical ability, and devoted many months to the tabulation, and classification of the abilities of hundreds of children in his school at Peckham. The "Journal of Educational Psychology," and the "Journal of Experimental Pedagogy," of which Professor J. A. Green, of Sheffield, is the Editor, and to which all the prominent educationists of England contribute, record the progress of this movement. The latest work on the subject, Professor T. P. Nunn's "Data of Education," published this year, summarises the results of the researches into this subject. The psychologist to the London County Council has devoted several years to these inquiries, and his monograph on the correlation of the various abilities—mathematical, literary, etc. —based on the results of his researches into the mental qualities of thousands of children receiving their instruction in the London County Council Schools, has become a classic. Dr. Ballard's work, and the researches of Dr. C. W. Kimmins, Chief Inspector of Education, London County Council, are known throughout the educational world. The researches of Dr. Ballard are embodied in his latest book, published in 1920. The work of American educators need not be described here.

America has maintained her supremacy in education, and there is not a subject that has not received exhaustive, even tedious, treatment at the hands of American educational reformers. She has been foremost in the movement for the reform of the curricula, based mainly upon the results of investigations into the mental qualities of students, and she is likely to maintain her supremacy in this vast field of experimentation. Every department of Education in the American Universities—and in America, Professorships of Education are as plentiful as blackberries in September—is busy organising courses, elaborating methods, evolving apparatus, and classifying data, for the thorough, and systematic researches which only an American department knows how to conduct. Experimentation is in the air, and the budding American educationist, the youthful enthusiast and the ambitious millionaire are all co-operating in the process. The way is certainly long; and the Americans are probably the last people to deny the limitations of a number of recent investigations into the subject. Reaction is in the air, and we can perceive the shakings of wise heads, the emergence of Doubt, and her sister, Suspicion, and the appearance even of an emphatic "No," to the utility of these investigations. Bagley looks dubious, and seems to grope after some formula that would repair the seemingly irreparable damage caused to his beloved "Ideals functioning as judgment." His latest work, "Educational Values," and his other treatises, "Craftsmanship in Education," and "Discipline," glorify practice. Now, there is no contradiction between practice and

specific training, but the organisation of specific habits into character, and their manifestation in conduct, are processes whose unfolding he appears to ignore, and whose mechanism he seems unable to explain. We are reduced to the necessity of divining anew the very elements of our educational thought, and the zig-zag process of speculation drags on its never-ending course. Research is tried, and found wanting. The prospect looks gloomy, and it seems that the patient investigator will lose his patience,—the only quality which sustains him through the ever-increasing difficulties of his investigation. But we need not despair. Research is a slow process, and inquiry into the mysterious working of the mind entails an amount of labour, and necessitates a perfection of technique, that is hardly realised by the impatient public. The movement is only thirty years old, and it has already achieved substantial results. To begin with, we know now that there is no such thing as "general intelligence," or "general memory." Intelligence is as specific as memory, and your typical all-round man, excelling in everything, and combining the physical strength of Hercules, with the intellectual strength of Newton, will be regarded as a "Jack of all Trades," in this world of ours. The law of Division of Labour operates in the mental, no less than in the economic, world, and a man can no more be a "Specialist in everything," in modern society, than he can be a Centaur in the nether regions. He must choose his vocation, and try to attain supremacy in the sphere to which he is inclined, by his temperament, his *naturel*, and his character. We may follow old Seguin's advice,

adopt a careful system of diet, and thus modify our temperament; but we can no more modify our character, than we can modify our ego, the basis of our being. Specialisation is the soul of efficiency, and the culture demanded by modern society is radically different from the "learning" of which the Middle Ages had such a misty notion, and to which the ancient Greeks attached so little importance. The Aristotelian conception of education is far wider than the crude ideas of the philosophers of the Middle Ages, and Plato's "Republic" is the source from which an educational enthusiast has drawn his inspiration, and to which even the confirmed sceptic has longingly turned. It would be interesting to trace the influence of Plato on modern theories of education, and to record their transformation in the hands of Stanley Hall, whose *paido-centricism*, as enunciated in his "Adolescence," is clearly a development of Plato's ideas; or in the theories of Professor Harper, in their crystallised form.

"General memory," too, must be consigned to the limbo, and the efforts of the teacher should be directed towards the development of the specific qualities by which the educand is distinguished from other educands, and which, in fact, constitute his ego. The teacher's task will consist, therefore, in the application of psychological principles to the investigation of the mental qualities of the educand. The details of method will be found in the works of Professors Brown, Spearman and Whipple. The principle of efficiency is not, however, a safe guide, and nothing but harm would result from the application of this theory to every sphere of life.

Industrial efficiency is, no doubt, a desirable quality, but it may be purchased at too great a cost. It may, and often does, involve the sacrifice of those higher ideals, the disappearance of those noble conceptions, which have always claimed, and will ever demand, the attention, the care, and the thoughts, not only of prophets, priests, and kings, but also of ordinary work-a-day folk, "not too fine for human good." The Taylor system of Management, over which some American educationists grow lyrical, cannot be applied to education, for education is essentially a spiritual process. Material is no doubt necessary, but it is the personnel that counts, and this delicate process, whose complexity has baffled the ancients no less than the moderns, and whose depth the greatest genius, and the lowest intelligence, have attempted to fathom, can never be brought into the category of "Science." It is concerned mainly with morality, and Herbart's definition of education is as true to-day as it was about a hundred years ago. Morality is the apex of the pyramid, and no amount of investigations into "the Unconscious," inquiries into the development of the will, and researches into the mental abilities of the "educand," will ever uproot the foundation upon which the whole structure of modern society ultimately rests. Material growth is not synonymous with "spiritual" progress, and the perfection of educational apparatus, development of educational methods, and organisation of curricula, can never take the place of the reverence, the spirit of truth, the consciousness of lofty ideals, and the holy zeal for justice, which are fostered by spiritual education alone. The tendency of modern education is

in the same direction. Herman Horne bids us look ahead, and formulates philosophical principles of education. The questions of Methodology, to which discussions of education were confined from the time of Locke down to about the middle of the last century, have lost their importance. We are no longer concerned with the possibility of developing the "general intelligence" of the pupil; that fight has been fought and won; the question of Classical studies, the problem of discipline, the study of the child mind, the enunciation of laws of development—all these, and many more, problems have received the attention of a succession of writers. And no writer on education has neglected to emphasise the importance of religious education. Horne's "Philosophy of Education," Professor Welton's book entitled, "What We do mean by Education?", and his "Educational Psychology," and Dr. Hayward's "Spiritual Foundations of Education," emphasise the same tendency. The centre of gravity has shifted from the subject matter of instruction, to the object of the educative progress; and to Rousseau should be assigned the credit of first bringing into prominence the standpoint of the educand. Education is conceived as an end in itself, and not as a means to an end. Every stage in the educative process is regarded as complete in itself, and the child's life, his habits, and his passions are as highly developed, relatively to those of an adult, as are the varied grades to which he resorts. There is no hiatus, as there is no consciousness of a void. Their life, the pleasures they enjoy, and the way in which their constructive instincts are expressed, are as instructive, and self-sufficing, as are the

activities of the adult. Education is not conceived as a preparation for life; it is life itself. There is no necessity for the manipulation of educational machinery, no need for taking long view of the different processes of educational curricula, and no desire for the elaboration of a complex organization. Let the child and, *mutatis mutandis*, the adolescent be fed upon the material which accords with his feelings, his emotions, and his desires. The psychology of Pestalozzi, the *paido-centricism* of Stanley Hall, as expounded in his classical work on "Adolescence," the "New Teaching" of Professors John Dewey and John Adams, the Child-Study movement, which had such a vogue in America, and which Dr. W. C. Kimmins, the vigorous Chief Inspector of Education in London, has made familiar to us in a series of masterly speeches, are merely developments of the original ideas of Rousseau. Mr. Kenneth Richmond's "Education for Liberty," expresses the underlying idea with remarkable vigour. Professor Dewey embodied this conception in his well known "Experimental School" at Chicago. His "Schools of To-morrow;" "School and the Child;" "The Child and the Curriculum;" "Democracy and Education;" and luminous articles in the Cyclopædia of Education, bring out this tendency with a matchless lucidity and unequalled vigour. Special mention should be made of his last book, "Schools of To-morrow." It describes numerous experiments in educational methods, pedagogical devices, and psychological experiments. Professor Dewey is as vigorous as ever, and his activities are not confined to education. Logic, no less than ethics, has received attention, and philosophy is the mother who

has begotten that lusty child, Education. Dewey's Experimental School at Chicago now forms part of the Francis Parker School, and the loss of Chicago was the gain of Columbia. The University of Columbia is the Mecca of the educational world, and the amount of research work which the members of the Faculty of Education turn out is enormous. It is the most enterprising, the most influential, and the most efficient centre of educational research in the world. Professor Rein's famous School at Jena has been overshadowed, and though the culture-epoch theory still finds defenders, the pleadings of Findlay, who seems to be a mild advocate of the theory, as expressed in his "Principles of School Teaching," and others, need not be treated seriously. Findlay has done better work in his "Experimental School" near Manchester; and his exposition and criticisms of Herbartian psychology has gone far towards rehabilitating the reputation of the pedagogues' idol. Professor John Adam's "Herbartian Psychology" roused the scholastic world from its "dogmatic slumber;" and though some of the arguments employed are crude, and constant reliance is placed upon that dangerous device, the *reductio ad absurdam* pill which many a doctor has administered before, it cannot be denied that the book took the entire educational world by storm. Its literary charm, felicitous illustrations, and peculiar humour, have made it a classic; and this position it retains to the present day. There are gaps, to be sure; and the dogmatic assertion, the Scotch humour, and the merciless treatment of that devoted animal, the Teacher, upon whose head have been heaped the curses no less

than the blessings of parents, are apt to jar upon sensitive nerves. The book is written in a controversial vein, and its skilful skirmishes have extorted the admiration even of its opponents. And it is by sheer fighting that Adams has won. The war was carried in the enemy's camp; no quarter was given, and the old enemy—the slothful, sleepy Teacher, with his humble mien, his ungainty habits, and his enormous capacity for working in a groove—the teacher at whom Montaigne poked so much fun, whom Rabelaise transformed into an omniscient person, instructing his student in numerous subjects, whom Shakespeare caricatured in some of his plays, and who has received scanty respect from many a man who has become famous in this mundane world of ours—such a teacher has been dislodged from his entrenched position. The London County Council is guided, to a certain extent, by this dapper little Scotchman; and the London Day Training College has become the chief centre of educational research in England. This is due to a large extent to the persistence, the initiative, and the energy of John Adams. His "Exposition and Illustration in Teaching," struck a new path; while his "Evolution of Educational Theory" surveyed the data, and principles of education. Perhaps the "Evolution of Educational Theory" is his masterpiece. It is, however, a very unequal production. He is perfectly correct in thinking that Monroe's classification of the various tendencies on education was faulty. But this does not justify us in placing within the same category writers who are poles apart. Chronology ought to receive certain attention, and if the evolution of a theory

is to be traced, the environmental forces ought not to be overlooked. This is specially noticeable in his discussion of "Specific Education," "Formal Training," the Mechanical view of Education," and the "Idealistic Basis" of Education. The kaleidoscopic changes which the reader experiences, the lack of order, and even confusion, which he notices are not conducive to the understanding of the subject. His view of history, too, is hazy. Max Nordans' interpretation of history is forcibly stated; criticisms of the "cataclysmic" view of history are brought; but no light is thrown on the nature of Historical Method. The whole arrangement is based on the assumption that the history of theories is radically different from political history; that theories are not moulded by the environment; and that the historian of educational thought need concern himself only with the ideas of the period. The position is unsound, both from the point of logic, and from the point of view of history. Logically, mere resemblance ought not to justify us in drawing conclusions with regard to two disparate elements; outward resemblance is deceptive, when it is analysed in the clear light of facts. Every theory has grown out of special causes; and numerous influences have co-operated in the process. Multiplicity of resemblances does not justify us in formulating a universal law. Analogies have the inconvenient habit of misleading us, and the strength of the analogy will depend upon the amount of essential resemblance which two or more theories exhibit. If we merely pick up two theories, find some resemblance, place them in one compartment, and label them in this crude way, we shall be committing the

greatest of sins against the canons of Inductive Logic. It is not outward, but essential resemblances that we want; and these can be studied only in the records of the period. This takes us to the second ground of our objection. If political history is divorced completely from educational history; if theory is conceived as an ethereal being, existing from eternity, not influenced by the gusts of passion, the lust of power, the desire for advancement, and the wish for splendour, then theory *can* be treated in this manner. But no one will deny nowadays the necessity for the classification, and the need for the scientific examination of our materials. Our theories grow naturally out of our facts. But facts too moulded by our ideas. The connection between theory and practice is intimate. If so, it ought to be exemplified in our treatment of the development of political, metaphysical, or educational thought. We cannot ignore the creative energy of the Universe, the constructive processes of Society as organised in a state, and the tedious tasks of the daily life. Theory is simply the product of these three factors, and political history is as essential to the historian of educational thought, as it is useful to the student of military history. Other technical objections—objections that would be urged by a historian, *e.g.*, a total disregard of chronology, a tendency to project the present and the future into the past—need not be urged here. They are clear to anyone who has undergone the severe process of historical research, and borne with patience the irritating data, the musty records, the dirty pamphlets, and the ragged fly-sheets of a bygone age. Moreover, Herbartianism is dislodged from its place of eminence;

his metaphysical crudities, confusing treatment of the relation between Knowledge and Will, and irritating defence of the subordination of Will to Knowledge, are consigned to the limbo. No one will trace nowadays, the origin of Will to Knowledge; and Adams, with his shrewd commonsense, his wonderful capacity for assimilating new knowledge, his keen eye, and Scotch caution, hesitated to plunge into the stormy waters. The risk was too great, the burden imposed by Herbart upon his devoted followers too heavy, to be ignored by the ordinary work-a-day folk. Herbartianism has been dislodged from its stronghold, and the teachers themselves have become conscious of the difficulties involved in the consistent application of his theories. We need not go so far as Keatinge;* but the prolific pen of Dr. Hayward has not been able to stem the tide. Dr. Hayward is an interesting example of the length to which hatred of officialdom can go. Official of officials, he is a deadly foe of officialdom; teacher of teachers, he regards the typical elementary school teacher, with his limited amount of knowledge, doled out, in Carlylean phraseology, like so much "hogwash," his lack of initiative, and his tendency to routine, with withering scorn; himself middle-aged, he regards middle age as the age of cowardice, as an indication of futility, masquerading in the guise of prudence; a Fabian to the core, he has a hankering for some aristocrat of Methodology, a superior being, or a collection of beings, as represented, of course, by the august London County Council, who

* "Suggestion in Education." Keatinge charges the teachers with glorifying Herbartianism, in order to exalt their own office.

would fix the lines of the future development of methods of teaching his pet subjects, for ever; and dragoon the poor, helpless teacher, with his empty, because weak, Societies, and his empty stomach, into following the trail. Dr. Hayward's discursive "Psychology of Administration," his "Professionalism and Originality," containing, as is his wont, thrusts at doctors, lawyers, and teachers, and his curious book of ceremonies, show that underlying many of his prejudices, and crudities, there is a small amount of solid commonsense. Perhaps he has absorbed the atmosphere of the London County Council Education Committee. London is justly proud of its County Council, and the council is as justly proud of its Education Committee. On the staff of the latter are to be found men like Ballard, an Inspector under the Council. Ballard made his name by his researches into the mental qualities of children in London. "Mental qualities" is a very cumbrous expression; but I have purposely adopted this device, to avoid the necessity of explaining highly technical terms. Ballard's monograph on "Reminiscence and Omniscience," in the "Journal of Psychology" established his reputation; and he has been working steadily since. His researches into the memory of children; his original ideas on education; and his luminous exposition of principles, and prudent application of theories, have placed him in the front rank of scientific investigators. Cyril Burt, Psychologist to the London County Council, has been engaged on the same subject; and his learned monograph on the distribution of abilities amongst the L. C. C. School children; his later researches, and pioneering devices have resulted in

a solid increase to our stock of knowledge. Dr. W. C. Kimmins has devoted his abilities to the investigation of children's dreams. He is the inspirer of the movement, and his geniality, culture, and solid knowledge of the educational needs of the London he loves have made the Education Committee the most progressive Committee in England. Another figure that rarely comes into the limelight, a figure that works deviously, through official channels, is that of Sir Robert Blair. "Bobby" Blair's paper qualifications are not high, and his years of work at Aske's School, Hatcham, London, were uneventful; but the dormant energies of the dour Scotchman were roused by his change of environment. A secondary schoolmaster's life is notoriously dull. The common-room talk palls, after a time; children seem to lose their individualities; types are gradually formed in the mind of the teacher, until the "average child" emerges. The compartment system has then its sway; and the teacher's life is one long round of monotonous tasks. "Bobby Blair" seems to have acquired fresh energy from some mysterious source, and he set about his task with the determined will of a fighter. Blair is now the most efficient administrator, as Adams is the most influential educator in London. The two are curiously alike, in some respects. Both have the redeeming virtue of the Scotchman, "practicality;" and both possess one quality which sometimes leads him astray—"logicality."

The London movement is exercising great influence on educational thought at the present time. This is due partly to the fact, that Dr. Baldwin Brown, of King's

College, and Professor Spearman, of University College, are co-operating vigorously. There is constant communication of ideas; and a Science of Education that may ultimately modify our ideas on many aspects of education, is being gradually built up.

The provincial Universities have not produced any teacher of outstanding ability. Professor James Welton's cultured pen is responsible for some good text-books—one on Principles of Teaching, another on School Discipline, and a third book on Logic. There is nothing original in any one of them. Professor Welton's criticism of Herbart, in his Principles, is helpful; but the steps of method he suggests in their place are as impracticable as the Herbartian dogmas. His "Educational Psychology" is more original. Its literary style, its apt quotations, and happy illustrations, are all delightful. But it is not well arranged; it is discursive; and it ignores many of the problems which the ordinary teacher requires. It is too philosophical for the teacher, and too concrete for the philosopher. His last work, "What do we mean by Education?" puts the eternal question. I am not sure whether I have been able to find out *his* conception of education from the book. It is a striking combination of philosophical profundity with commonsense. Welton has done well to bring out the danger of uniformity in educational machinery. The place of democracy in education is being keenly discussed at the present, and a striking book entitled "Seems So," brings out the differences in the attitude of lower and middle classes towards education. The working class view is well put by the authors; and

Welton has rendered a service by bringing it prominently into view. The same question is agitating the public mind in Germany at the present day; and even before the war, there was a movement for the "Einheitsschule." The end of the war has simplified the situation, and the reform of German Secondary Schools has already begun. Last year the London County Council published valuable extracts from the German papers, recording the progress of the movement, and the *Times* Educational Supplement has discussed it more than once. Paulsen's History of German Education contains some references to it. Other provincial Universities need not be mentioned here (1) Professor Findlay of Manchester has written a striking text book on "Principles of School Teaching." (2) Professor Green has written many articles, translated Pestalozzi, and is now editor of the Journal of Experimental Pedagogy. (3) University College, South Wales, has sent several of its lecturers to other Universities. Findlay left Cardiff for Manchester; Rayment went from Cardiff to Goldsmith's College, London; and Campagnac deserted it for an Inspectorship and the latter for the Professorship of Education at Liverpool. The Scotch Universities are probably more vigorous, mentally, than any provincial University in England, except perhaps Manchester. Professor Darroch is the presiding deity at Edinburgh. He has made solid contributions to educational theory, and his addresses throw fitful light on some of the problems.

This survey of English Educational methods and principles is sufficient for our purpose. Education in England is conducted, on the whole, along conservative

lines. The Municipal Secondary Schools have no connection with the Public Schools; while the English Preparatory Schools have no affinity with the Public Elementary Schools. The educational ladder, for which Huxley pleaded, is supplied in the form of scholarships, whereby poor students proceed to the Secondary Schools, and thence to the Universities. There is an enormous amount of literature on the subject, and it is impossible here to refer to this aspect of education. Sir Graham Balfour's well-known treatise sums up the history of this movement clearly enough. Professor Adamson's recent work on the "History of Education," his remarkable contributions to the Cambridge History of English Literature; his brochure on the seventeenth century educational history; and his recent "Guide to the History of Education" are marked by rare acumen, and show evident traces of a thorough mastery of the material. I am not, however, in complete agreement with him on many problems of English educational history. My views of the functions of Charity Schools, my conception of the Dissenters' education, and my study of the materials, have led me to a different conclusion; and this conclusion I have embodied in the text, Educational history is not different from political history. The principles of Historical method apply to both; and there is no reason why our conception of education should determine the nature of our investigations into the history of educational methods and institutions. The former sets up an ideal, to which every institution, and method, should conform; the latter deals merely what *has been*, not *with* what

ought to be. Hence it is subject to the same laws as those which a political historian obeys.

Educational History has received comparatively little attention in England. My study of the eighteenth century is based mainly on the pamphlets in the various libraries of London, but pamphlets are not histories, and very few systematic treatises have been published on the subject. The nineteenth century saw a revival of interest in England. The first Professorship of Education was founded at Edinburgh by the renowned Dr. Andrew Bell; the provincial Universities followed suit, and at present every University, except Oxford and Cambridge, has a Faculty of Education and a Professor of Education. Researches in Education were undertaken with zest; and the history of Education received an impetus from the increased intercourse of English scholars with German servants. Quick wrote a series of brilliant essays on "Educational Reformers," in various journals, and published them in a book form. Monographs and articles had, however, been written on foreign educationists, and Froebel, Jacotot, Rousseau, Pestalozzi, and Kant formed the subject of some very instructive works.

The history of education in the nineteenth century is marked by the Sociological tendency in education. Locke had propounded the idea, and proposed the erection of schools with a view solely to preparing students for the life for which they were designed. A reference to Sections on the education of the Poor and the Charity Schools will show clearly the effects of this policy on the educational methods of the period. Professor Adams has popularised the term "Specific

Education," and has used it to denote the training which different classes underwent, at various stages of historical development. "Specific Education" comprehends what may be styled "Industrial Education," and the conception of education as a process whereby the pupil is prepared for his station in life is closely akin to the idea of education as a means whereby the student can be made industrially efficient. But industrial efficiency is not synonymous with class efficiency; and the former theory looks at it mainly from the point of view of a caste, while the latter deals with it mainly from the standpoint of the industrial efficiency of the organism, of which the recipient is a unit. The one is individualistic, the other takes a broader view, and comprehends the entire community. It emphasises the necessity of preparation, and points out the connection of democracy with education. Again, the former is characterised by an aristocratic tendency; the latter is democratic in its sympathy.

Pestalozzi may be regarded as the founder of this school of thought. His schools in Switzerland, his impracticable ideas, his hazy notions of psychology, and his boundless energy have been dwelt upon by a succession of writers. Green's excellent translation of his work; the excellent sketch of his system in Monroe's "Text-book in the History of Education;" Professor Grave's lucid exposition, in his "History of Education," and other monographs, may be consulted. Pestalozzi attempted to "psychologise" education, and though he had only vague ideas as regards psychology, and did not realise his theories in any of his schools, his conception of education as a social force whereby the lower classes

could be rendered efficient was as original, as it was useful. The most prominent writers had confined themselves hitherto to the education of nobles. The syllabus which Milton outlines for his model student; the course which Rabelaise planned for his intellectual prodigy, and the methods which Montaigne recommended, were all based on the assumption that the pupil would prosecute his studies until he attained the age of 18; that the student would participate in the duties incidental to his office; and that education would foster the development of social virtues. It was the aristocrats for whom Milton wrote and Rabelaise planned.

Pestalozzis' influence was necessarily limited at first, but the realisation of his theories in numerous schools in Switzerland, prepared the ground for the realisation of his schemes in other countries. In England, the controversy was initiated by the leading Whig organ, and Sir William Hamilton penned a series of savage articles on the condition of the Universities. Cardinal Newman's defence of "liberal" education could not stem the tide of opposition. The Liberals were organised; and a Royal Commission was formed with a view to reforming the Universities. Tillyard has devoted considerable space to the two Royal Commissions on the Universities, in his book on University Reform; Professor Campbell has described the various processes through which the movement for the "Nationalisation of the Old English Universities" passed, while Huxley, Mark Pattison, and others have discussed the question of University reform in a series of luminous essays.

It was not, however, till the beginning of this century that radical changes were introduced. Lord Curzon's

"Principles of University Reform" laid down the lines along which progress was desirable, and the Commission on London University enunciated the prevailing theories of the function of University in national life.

The growth of interest in the history of modern educational institutions is due, to a great extent, to the institution of a Department of Special Enquiries and Report, in connection with the Board of Education. The Department was organised on novel lines. It was concerned with research, to be sure; but the ideals which it has realised are fundamentally different from the aims of a mere Research Institute. Education, to be successful, must be based on a consistent system of philosophy. The system must, however, be workable. The true test of theory is practice, and education is a vast experimenting ground upon which the success of theories can be tested. It offers unique opportunities to the investigator; and provides a fertile source of interest to the statesman. The Department received invaluable help from Dr. now Sir Michael Sadler, and his luminous reviews of German educational institutions, his classical treatise on Continuation Schools, and striking views on Methodology, ensured the success of this experiment. The "Special Reports" of the Board of Education are a mine of information to the student of modern educational organisation. They are accurate and impartial accounts of the leading Universities and Colleges in the British Colonies, America, and Germany. Every article is written by the highest authority, and no pains are spared to make these researches as complete as possible. Sir Michael Sadler created an atmosphere of educational

research at Manchester, and his unflagging energy brought about an educational Renaissance in the North of England. John Adam's influence in London is paralleled only by Sadler's influence in the North. Sir Michael Sadler's work at the Department of Special Inquiries has been carried out by Sir Frank Heath.

Sir Michael Sadler's conception of education is radically different from the educational theories of Newman. Both emphasise the development of a cultural spirit among the students. But Newman thinks that "culture" can be fostered by the study of the "Classics" alone; while Sadler regards all studies as equally cultural. The subject-matter is of comparatively small importance. The study of a play of Shakespeare's; the mastery of Cæsar's Commentaries, in Latin; proficiency in Latin or Greek, do not make, and have never made, a man "cultural." The humanism which Vittorino da Feltre praised so highly; the liberal education of which Pope Aeneas Sylvius spoke in rapturous terms; and the Ciceronianism which claimed countless disciples in Florence and Rome, must be replaced by a Humanism that will take account of the numerous changes which modern society has undergone. Formalisation is the besetting sin of educational theories, and the degeneration of classical Humanism into mere Ciceronianism paved the way for the Social Realism of Montaigne, the Sense Realism of Comenius, and the classical Humanism of Milton. But classical was found to be but a feeble copy of "Ciceronianism," and the Miltonic ideal was no less impracticable than the Pansophic dreams in which Bacon indulged.

To a plain man, education is synonymous with schooling. He cannot understand the complex process of methodology, or the complicated problems of educational psychology. Pedagogical maxims, psychological theories, and moral precepts are incomprehensible to him, through his failure to analyse the constituent elements or examine the significant details, of a problem. We have consequently the wide gap that separates the educated from the "practical man." Theory is held at a discount, because it is conceived to be the product of a man's own imagination; because practice is the sole criterion of success, and it is notorious that many a theory crumbles to pieces when tested by the clear light of practice; and, finally, because theory leads to that undesirable state, where thought keeps in chain the active forces that motivate life.

The force of these arguments cannot be denied and Carlyle's advice about the necessity of action, and his constant denunciation of visionaries have brought into a sharp contrast the impracticable ideas of Rousseau, and the noble dreams of Milton. We are all of us conscious of practice in modern life. The tendency of modern psychology is in the same way. Our instincts play a predominant part in our daily life, while our emotions determine to a very large extent the quality of our action. Psychology is no longer concerned with morbid introspection. Our actions are being scientifically tested; intelligence tests are being carefully formulated; and the power of will is being gradually acknowledged. Will is no longer subordinated to knowledge; the Hegelian laws of historical development, the Kantian laws of progress,

and the Herbartian dogmas of methodology, are giving way to the realistic analysis of William James, the evolutionary theories of MacDougall, and the psycho-analysis of Jung. The importance of practice is recognised by the leading American educators, Dewey, Thorndike, Monroe, Bagley, Whipple, Nicholas Murray Butler, and a host of other writers regard education as a dynamic process. It is the means whereby the individual can adapt himself to his moral, social, religious, and political environment. The Aristotelian definition may not have embraced all the features which the modern educational theories exhibit: while the Platonic conception, lacked the eminently commonsense perceptions of which Aristotle was such a consummate master. We miss the connecting link, the definite outline, and the lucid analysis which the disciple adopted. A comparison of his views with those of English and American educators leads us to the conclusion that the essential difference between modern and ancient educational thought is not so great as is generally supposed. It will be easy to show that the "*paidocentricism*," which Stanley Hall has made so famous, the "psycho analysis," which American educators are so fond of discussing, the child-study movement, which had such a vogue in America, and which still exercises considerable influence in England, had been anticipated by Plato. The resemblance is not by any means perfect. Analogies have the inconvenient habit of misleading us, and the strength of their appeal will depend upon the degree of similarity which the two phenomena exhibit. The Absolute Idealism of Hegel never lost touch with

reality, while the wildest theories of Robespierre, Marat, and St. Just contained a substratum of truth.

Commercial Education is not a *sui generis*, but a branch of education, exhibiting the essential features of a characteristic educational process. It possesses all the qualities connoted by education, together with those special qualities which mark it off from other types of education. It is concerned with "commerce," to be sure; but it deals with commerce in a different way from that employed by the merchant. Its aim is not the accumulation of mere data, or the memorising of a set of meaningless formulæ, uncouth expressions, and incomprehensible rules, but the logical arrangement of materials, based mainly upon a heirarchy of sciences, in such a way that they may be organised into a faculty. The aim of knowledge is not merely information, but also organisation, and a system of education that ignores this factor in the educational process is worse than useless; it is pernicious. Unorganised knowledge is futile; because it does not result in modification of behaviour. Our aim is not the production of Dominie Sampsons, whose mind resembles a "pawnbroker's shop," containing all sorts of information, but exhibiting no uniformity of law, no system unifying the diverse elements, and no method, explaining the essential unity of the seemingly disparate elements. Such a knowledge is not useful, because it leads to no modification of conduct; it lacks the ideal without which the most consistent educational theory is barren; and because the application of this theory will stultify our national desires, stunt our industrial growth, and drain

the rich store of spiritual energy inherited from our forefathers.

The aim of commercial education is the production of men among whom the "scientific" spirit has been generated through a carefully co-ordinated system; who analyse the problems which are made the subject-matter of study into their elements, to improve the ratio between the difficulty of the subject, and the mental vigour of the investigating mind; and who apply the principles of scientific method to the varied problems of industry and commerce.

The aim of advanced commercial education is essentially the same as that at which champions of "culture" aim. We do not aim and have never aimed, at mere accumulation of knowledge. Knowledge itself is useless unless it is applied, and the utility of a branch of knowledge is tested by the varied uses to which it can be put. The distinction between "cultural," and "practical" subjects is due to a confusion of ideas, and the word itself has lost its significance through the radical changes, which modern society has undergone. The Aristotelian distinction between liberal and non-liberal education; the modern distinction between cultural and practical subjects; and the mediæval distinction between the Major and the Minor Liberal Arts, have given way to the philosophical distinction between human and vocational studies. A study will belong to either type according to the spirit in which it is cultivated. It is not the subject matter, but the method employed, that determines the quality of education. Commercial education, if studied in the right spirit, is as cultural, as "classical education."

There is no need to emphasise the importance of advanced commercial education, at the present time. The growth of Indian industry and commerce depends ultimately upon trained workers, scientific administrators, and enterprising capitalists; and no progress is possible without a systematic training of all the workers engaged in industry; as commercial education is the sole means through which industrial expansion, and commercial progress can be attained. Nothing is more significant than the history of German education in the nineteenth century. "The organisation of the Prussian School System waited on the reorganisation of the Prussian State" (Dr. James Russell, *German High Schools*, compare Paulsen's German Universities; and his History of German Education). The phenomenal growth of German industry and commerce, and the wonderful outburst of her prosperity, were due mainly to the efficient system of her education. Her technical and commercial schools have been described by Dr. M. E. Sadler in a series of Reports to the Board of Education, and the principles are enunciated with wonderful lucidity in his classical Report on the Calcutta University Commission. The Report of the Indian Industrial Commission emphasises the same points, and stresses the importance of Commercial Education. The history of commercial education in Japan and America exhibits the same features. The leaders of the movement deliberately aimed at the realisation of the principle of social efficiency, and carried the principles of Pestalozzi to their logical conclusion. The conception of education as a process whereby the material and moral

progress of a nation can be attained, is closely akin to the idea of education as a sociological force, whereby the individual can be rendered industrially efficient. The principle is exemplified in the colleges of the United States and Japan. The former has granted altogether 86,138,473 acres of land to colleges and Schools, has voted by the Act of 1887, a perpetual endowment of 15,000 dollars a year for each experimental station connected with an agricultural college, and, by the Act of 1890, an additional endowment of 25,000 dollars a year for each of agricultural colleges themselves. The aggregate value of land and money given to the national government for education in the several states and territories is about 300 million dollars. This amount has been considerably increased, during the last 20 years.

Japan recognised the need and value of a similar institution when she started on her career of commercial prosperity. "When Jukura's embassy was in London in 1872, the attention of Mr. (now Marquis) Ito was drawn to the advisability of starting an Engineering College in Tokyo to train men for the railways, telegraphs, and industries which were to be started in Japan, and he procured, through a Glasgow Professor, the service of Mr. Henry Dyer, to organise this College, eventually merged in the University of Tokyo" (The Educational System of Japan, by W. H. Sharp, 1906). Higher Commercial Schools have been established at Ósaka, Kobe, Nagasaki, and Yamaguchi, and at the Waseda University. In banks and other firms, graduates of Commercia Schools have been employed in ever increasing numbers. "Formerly it was held that no advanced education was

needed for a merchant. But to-day stern reality shows that the management of any large scale enterprise must be undertaken only by the highly educated." The growth of Indian industry and trade during the war, the renewal of that spirit of enterprise which the Indians have never lacked, and of which their past commercial history affords abundant examples, the insistent demand for the vigorous prosecution of financial policy, exhibiting in all its fulness the various elements that modify its character and the recommendations of the Indian Industrial Commission, will necessitate an entire reorganisation of our economic life. Progress is impossible without change, and no sound conception of the ultimate foundations of education can be formed unless there is constant adaptation of our educational theory to our political, economic, religious, and social environment. Commerce is bound to gain admittance to the portals of our Universities, and exercise an ever increasing influence on the organisation of our curricula, the arrangements of our Colleges, and the character of our instruction.

The history of educational theory supplies us with abundant instances of the salutary effects of the introduction of commercial subjects into the University curricula. Nor is it silent as regards the effects of a rigid system of literary training. Educational formulæ become mechanical, formalisation sets in with alarming rapidity, and no change is possible without a rich content. The minds of the student ought to be stored with a variety of knowledge, and every effort should be made to organise the various elements into a coherent and consistent whole. If right psychological principles are employed,

if the teachers of commercial subjects place this ideal of education—an ideal that is common to all forms of education, and not to commercial education only—constantly before them; and if an attempt is made to train students in real research work, and to develop the scientific spirit which is the characteristic feature of all forms of research; then, commercial education will be more cultural than a purely literary education. We have only now become conscious of the effects of an exclusively literary education, and have neglected to profit by the lessons which the history of German, French, and English education teaches us. We would have avoided many of the mistakes which educators are never tired of pointing out to us, if the history of European education in the Middle Ages, and the seventeenth and eighteenth centuries had been known to us. The blighting effects of narrow Scholasticism, and the benumbing influence of 'formal' education would have been removed in Europe, if educational theory had kept pace with economic theory, and if the Logomachies of mediæval "philosophers," the subtleties of the logicians, and the crude educational maxims of a typical seventeenth century pedagogue, had been modified by the invigorating spirit of commercial enterprise, the pioneering devices of the captains of industry, and the daring ideas of Bacon. A readjustment of educational technique did undoubtedly take place in England; but the amount of attention devoted to modern subjects in a typical English educational institution is still ridiculously small, and English educationists, Sir Norman Lockyer, Dr. Sadler, Professor John Adams, Dr. Gray, and others,

are never tired of pointing out to us the need of a new conception of education. Education must represent life in all its complexity, and the University must mirror our economic environment. The development of modern educational institutions in India would hardly be understood without a clear recognition of the part played by this tendency in education. Literary education was fostered because the knowledge of English was absolutely essential to the growth of the spirit of co-operation and sympathy between the two races; industry was in an incipient stage; and the educators themselves had been trained according to the same principles, and had imbibed the free spirit of Hellas.

Indian education received a specific mould from the theories held consciously or unconsciously by the pioneers of English education in India. It is undeniable that the education imparted by the Indian Universities served a useful purpose. It familiarised them with the noblest thoughts of the West, and placed ideals of conduct, standards of judgment, and norms of criticism, that are unparalleled in the history of literature of India. But, new times necessitate new methods, and educational theory must be adjusted to commercial practice, political growth, and social progress. We must take stock of our intellectual resources, and apply the lessons yielded by the modern sociological tendency in education, to Indian educational problems. The growth of municipalities; the problems of the Indian Budget; the complexities of the labour problem; the intricacies of Indian Currency; and the enunciation of the principles of Indian Tariff policy, these are some of the problems which India will

have to face. We cannot succeed, our industry cannot grow, unless efforts are directed towards the solution of these problems; unless commerce is studied as a science, and its problems investigated in a spirit of truth.

Sources for the History of English Education in the Eighteenth Century.

The study of the history of Education in England received a great stimulus from the painstaking researches of Mr. Leach. His laborious investigations into the history of education during the Reformation period; the wealth and suggestiveness of his elaborate collection of documents on educational history; and the keen insight which he displayed into the complex problems of English educational history, have placed all historians of English education under a heavy debt of gratitude to that author. The reconstruction of the early history of English education from the mass of manuscripts is not an easy process, and our admiration for his work increases with the increase of our knowledge of the subject. The works of Professor Adamson, Foster-Watson, and others, have been instrumental in clearing the darkness in which much of the history of seventeenth century education was enveloped. We have now an accurate account of the educational theories and institutions of the period. The seventeenth century itself has received unusual attention from the historians.

The first 60 years have been surveyed by that master-mind, S. R. Gardiner; Macaulay's attempt to vivify History by pleasant little touches of ironic humour,

by abundant use of antitheses, by forced analogies, and by the substitution of what may be called the "philosophic" aspect of history for the concrete details, can hardly be called a failure, as he acted merely upon the principles which he had expounded in his Essay on History. Some hints may, no doubt, be picked up here and there; but the bulk of the work is valueless, from a purely historical point of view, and requires careful clipping. Professor Firth's recent articles in the Scottish Historical Review on Macaulay's treatment of Scottish History; the chapters in the Cambridge Modern History and a few monographs on the period are all that we possess for the present. Mr. G. B. Gooch's "History of English Democratic Ideals;" Mr. Seaton's "Theory of Toleration;" the works of Professor Andrews, Mr. Beer, Mr. Kaye, and other American writers on seventeenth century economic History; the ecclesiastical Histories of Abbey and Overton, Hutton, Dale, Braithwaite (the Beginnings of Quakerism; The Second Period of Quakerism); Rufus M. Jones (The Quakers in American Colonies); and the writings of Nicholson and Axson (The Older Nonconformity in Kendal), Nightingale (The Ejected of 1660 in Cumberland and Northumberland), of Dr. Whitley (Contributions of Nonconformity to Education), Norman Penny (Journal of the Friends' Historical Society), Rev. Alexander Gordon (Articles in the D. N. B. "Freedom after Ejection," "History of Dunkinfield Chapel;" "Cheshire Classics;" "Heads of Unitarian History"); and of Dr. William Shaw (Cambridge History of English Literature, Volume 10), are all valuable for our period.

Educational history is valueless without political and ecclesiastical History, for education is essentially a spiritual process, and though good methods of teaching and improvements in the environment of the teacher and the taught, influence the direction and force of an educational measure, the foundation of educational principles and institutions are mainly spiritual. Hence, the history of Education must take account of the various forces that co-operate in the process. Political theory is nearly always based upon the conditions of society at a particular period, and economic, no less than educational theory, must be viewed mainly from the point of Politics. The ecclesiastical controversy in the reign of Queen Anne; the educational controversy in the same period, and the Bangorian and Deistic controversies are merely an expression of the inner forces that were transforming the original conception of the function of the State, and moulding the policy of the various elements that composed society in the early part of the eighteenth century. Several striking changes are perceptible to the student of the period. The history of the various Societies, such as the Society for the Reformation of Manners, the S. P. C. K., and the S. P. G., has been traced by Garnet V. Portus and W. O. B. Allen; but the former has left out some very valuable sermons in Dr. Williams' Library, while the latter does not bring out the salient features of the Charity Schools with sufficient clearness. Plummer's History of the English Church, Hutton, Stoughton, Dale, Gilbert Burnet, Abbey and Overton, and Bogue and Bennett, have supplied us with a fairly good account of

the religious life of the period, but there is no really good book dealing comprehensibly with every aspect of the controversy that raged for over forty years, and that brought forth an abundant crop of pamphlets. Sir Leslie Stephen has given a masterly survey of the movement in his History of English Thought in the Eighteenth Century, while the Manchester University Publications, Historical and Theological Series, have dealt with some of the aspects of this question. The works of Nightingale, Colligan, and Alexander Gordon are well-known. Monographs on prominent leaders abound, and there are several Lives of Queen Anne, of Bolingbroke, and of Swift. All of them are helpful, as all of them supply information which cannot be picked up from an Act of Parliament or the Speeches from the Throne. But they do not furnish us with an explanation of the real causes that led to the formulation of a new line of policy, or the application of the old principle to new experiences. Our primary sources must be the pamphlets and the Manuscripts of the period. The most important pamphlets in the British Museum should be consulted, and an attempt made to systematize the scattered material and form it into a coherent, and consistent whole.

Dobb's recent book on Education has not proved very helpful, as its treatment is rather vague, and it lacks significant details; Seaton's "Theory of Toleration" has proved extremely useful, while Mr. Wickham-Leggs' new book, entitled, "English Church Life," has thrown fitful light upon some important aspects of educational history. Mr. Legg has his own theories upon a number of subjects, and he is not afraid to express

them in vigorous terms. The works of Cunningham, Sidney Webb, Scott, and others, on English economic history, have proved useful; while the Histories of English Poor Law, by Nicholls and Eden, have thrown a flood light on the state of English education during the period. None of them, however, treats the subject satisfactorily, and we are reduced to the necessity of consulting the original pamphlets on the subject. I have reconstructed the history of the education of the Poor from the Charity Sermons, the Statutes of the Realm (edition 1820), the works of Sir Matthew Hale, Sir Joshua Childe, Cary, Henry Fielding, John Locke, the writings of Defoe, Cobbett's Parliamentary History, and the works of John Bellers. The influence of English Charity Schools, and other Societies on the growth of British education in India can be traced with comparative facility, as the India Office Library supplies us with some very valuable data upon the subject: It is possible to state with accuracy the exact number of charity schools; the number of students; the support rendered by the local authorities, and the methods employed in the instruction of children. The British Museum pamphlets are unfortunately scattered under different headings in the General Catalogue. Probably the most useful heading is under London: Miscellaneous Institutions, p. 119. There are, however, other avenues. I have been able to collect the following volumes of sermons dealing with the Charity schools. The sermons themselves are tedious and rambling: much more interesting is the Account of Charity Schools appended to each charity sermon. These accounts are of

importance for a right understanding of the position which the Charity Schools occupied in the Eighteenth Century. We get valuable information on nearly everything connected with the schools. The authorities are as follows:—Sermons, B. M. 1112. e. 19. The Christian Schoolmaster, B. M. 8306. bb. 23. Twenty-five Charity Sermons, B. M. 4476. bb. 94. Secretan, Life of Nelson, pp. 118—34. Pietas Hallensis, B. M. 8355. a. 44. A Continuation of the Account, B. M. 8275. a. 30. Pietas Hallensis, Part I, 1705, B. M. 861. 3. 20. Charity Sermons, B. M. 694, p. 12. Sherlock's Occasional Sermons, 694. g. 8. Charity Sermons, 694. i. 6. Charity Sermons, H. M. 225, p. 9. Sermons, B. M. 226, p. 8. Sermons, 816. m. 24. Account of the Charity School at Oxford, British Museum. These Collections of Sermons are of varying degrees of importance. The Sermons generally are dull and commonplace. There is nothing original in the majority of them. It is in the Accounts of Charity Schools established during the year that their importance lies.

Dr. Williams' Library contains a mass of Charity sermons, which throw a searching light on the history of the Charity Schools. For the Religious and Reformation Societies too, the library is of importance, as it contains an exceedingly useful collection of sermons from 1696 to 1719. Mr. Garnet V. Portus has described these societies in "Caritas Anglicana," but his neglect of this invaluable material seriously diminishes the value of the work.

The British Museum Library contains a host of pamphlets, broadsides, and Journals of the period; and

my study of the period is based primarily upon the resources which this fountain of knowledge places at the disposal of all students, and my warmest thanks are due to Mr. Sharp, Superintendent of the Reading Room, British Museum. The Friends' Library at Bishopsgate, London, E. C., contains probably the most representative collection of documents on the Quakers in the world; and it has achieved this partly through the unflagging energy of Mr. Norman Penney. The Quakers have played a noble part in English history, and many of the reforms for which they fought in the past, have been carried into effect in modern times. It is, however, in their devotion to social service that the clearest expression of their policy is found. The seventeenth century was a period of storm and stress; and it was not till about a century afterwards that the noble theories of Geoge Fox could be realised. The multifarious social duties which the Friends performed can be studied in the Friends' Library alone. My study of the Quakers' school is based primarily upon the MSS., and printed books, in the Library. My warmest thanks are due to Mr. Penney for the facilities he provided for the prosecution of my research.

What the Bishopsgate Library is to the Quakers, Dr. Williams' foundation is to the Presbyterians. No study of the Dissenters' schools would be complete without the documents in that Library. Miss Irene Parker has utilised some of the documents, but it is an inexhaustible mine, and future historians of education will take advantage of the facilities which the Librarian affords to every inquirer. The congregational Library at Farringdon street contains a number of valuable

pamphlets on the controversity over conformity, and Mr. Crippen, the Librarian, places his materials at the disposal of any student who desires to carry on research.

The Bodleian Library has a few MSS. on the education of Dissenters, and a fund of information is derived from its catalogues of books relating to the University of Oxford. But I have been able to consult only a few. The Lambeth Palace Library contains a few striking pamphlets on the early Academies. The Goldsmith's Library, South Kensington, contains a unique collection of sources for economic history, and no study of the eighteenth century would be complete without the rich, and rare collection which Professor Foxwell's generosity placed at the disposal of student. The book is based primarily upon documents in the above Libraries. I have derived valuable information from the writings of Professor Adamson, Dr. Shaw, Professor Foster-Watson, and Revd. Alex Gorden. Other books dealing with various aspects of eighteenth century have been utilised. A reference to the footnotes will reveal the nature of my obligation to various writers, and the extent of the information I have been able to gather from published and unpublished documents in the British Museum, Lambeth Palace, Dr. Williams', Friends', Congregational and Goldsmith's Libraries.

In the footnotes to this book, B. M. refers to the British Museum Press Marks, while D. N. B. stands for the Dictionary of National Biography.

ENGLISH EDUCATION
DURING THE YEARS 1689 TO 1750.

SECTION I.

THE ACADEMIES FOUNDED BY THE PRESBYTERIANS, THE BAPTISTS, AND THE INDEPENDENTS.

The reign of Queen Anne is often regarded as a period of violent controversy. Political quarrels, party warfare, religious disputes, foreign wars and personal rivalry inflamed the populace, excited the statesman and intensified the struggle between the Anglican and the Dissenter. Religious controversy assumed an entirely new shape. It sharply divided the Dissenter from the Low Churchman, the Low Churchman from the "High-Flier" and the Arian from the Trinitarian.

The British Museum Library contains more than 200 pamphlets on Sachervell alone; the Arian Controversy claims about 200 more; while the amount of material on the Bangorian Controversy, the Controversy over the rights of the two houses of Convocation, the Controversy over the Occasional Conformity of Dissenters, and the never-ending disputes between the Whig and the Tory,

the champions of the Divine Right of Kings, and the defenders of Constitutional Monarchy, is enormous.

Of the various causes that produced the devastating criticisms, the futile logomachies, and the endless digressions which are such leading features of these quarrels, Religion may safely be regarded as the most important. It interfered in Politics, and the cynical Bolingbroke had to adopt the political principles of the High Churchman before he could be certain of their support. It moulded the foreign policy, it affected the literature of the period, and it deeply influenced the economic policy of England. In no other sphere was its influence more widely felt than in Education. Religion and Education, as pointed out by Mr. Leach, were inextricably mixed.[1] For close on 1100 years, from 508 to 1670, all educational institutions were under exclusively ecclesiastical control; and the law of education was a branch of the Canon Law. By Canon 77 of 1603, "no man shall teach either in public school or private house, but such as shall be allowed by the bishop of the diocese, or ordinary of the place," etc. That the Canon of 77 was not a dead letter is proved by the fact that in "*Cory* vs. *Pepper*" a consultation was granted in the County King's Bench, against one who taught without license in contempt of the Canons; and, (says the reporter) the reason given by the Court was, that the Canons of 1603 are good by the Statute 25 Hen. 8, c. 1-*a*, so long as they do not impugn the common law or the prerogative royal.[2] The arguments in Cox's Case

[1] Educational Charters, Introduction, p. xii.

[2] See 2 Levins's Reports, p. 222; and Gibson's Codex, p. 1100.

are important, as they throw a flood of light on the claims of the English Church to the monopoly of Education in England. The case occurred in the year 1700, and concerned a schoolmaster who was libelled against, in the Spiritual Court at Exeter for teaching school without license from the bishop; and on motion before the Lord Chancellor, an order was made that cause should be shown why a prohibition should not go. On showing cause, it was moved to discharge the said order. Lord Keeper Wright asserted that the Canons of a Convocation do not bind the laity without an Act of Parliament, though he added that the "Keeping of school is by the old laws of England of ecclesiastical cognisance." It was, however, pointed out to him that the order concerned the teaching in an ordinary school, and that consequently the Court Christian could not have jurisdiction over "writing schools, reading schools, dancing schools, or such like." The upshot of these vexatious proceedings was that the jurisdiction of the ecclesiastical courts was confined mainly to the Grammar schools, and that the Dissenters could teach in other types of schools without fear of molestation by the Spiritual Courts. (This power of the Ordinary was confirmed and strengthened by Sections 7, 15 and 24 of the 3 and 4 Victoria, c. 77.)[1] By Canon 137 of 1603, every schoolmaster shall, at the bishop's first visitation, or at the next visitation after his admission, exhibit his license, to be "by the said bishop either allowed, or (if there be just cause) disallowed and rejected," while by Canon 78 of

[1] See Chitty's Statutes.

1603, "in what parish church or chapel soever there is a curate which is a Master of Arts, or Bachelor of Arts, or is otherwise well able to teach youth, and will willingly do so for the better increase of his living, and training up of children in principles of true religion, we ordain that the license to teach youth of the parish where he serveth be granted to none by the ordinary of that place, but only to the said curate." "In the records of the See of Canterbury," says Bishop Gibson,[1] "I find two inhibitions to schoolmasters not to teach school in *praejudicium liberae scholae*—one in the time of Archbishop Bancroft, and one other in the time of Archbishop Laud."

The above summary of the chief canons of the Church affecting education shows clearly that the power exercised by the Church was still considerable, and that the prohibition of Dissenters from keeping schools was a logical deduction from the principles that had been acted upon for more than a thousand years. The main end of the Act of Uniformity was the establishment of a uniform system of worship, with a view solely to securing the peace—religious, no less than political—of which the country was so much in need. The sad results of the importation of religious zeal into the political actions of the parties under the Commonwealth; the perception of the fact that the school is the most important channel through which the needs of the State could be articulated, and the conviction that the permission to the Dissenters to establish schools would defeat the main ends for

[1] Codex, p. 1101.

which the Act was designed:—these are the causes that help to explain the motives of the leading churchmen of the age. Such schools would, in the opinion of a member of the Church of England, perpetuate Schism, by rearing Nonconformists in their principles, breed a race of fanatical Republicans, and destroy the continuity of the traditions of the Anglican Church. The Nonconformist writers have laid too great a stress on the hardships endured by the expelled ministers, and our sympathy is enlisted on the side of those heroic pioneers. Their hardships, the sufferings they endured, the gross indignities to which they were subjected, and the keen, religious fervour which shines like a star amid the grovelling details, and the nauseating treatment of these rugged leaders, cannot but win our sympathy. Theirs was an unequal struggle, and though their cause survived, and they handed down their glorious traditions and the memories of their days of persecution to their children, the supremacy of the State was nevertheless ensured by the State. For the question was at bottom a political one. If the modern State is the creation of the Reformation,[1] the conception of Sovereignty is the inevitable result of the growth of political theory. The religious confusion and civil disorders that followed the death of Cromwell, the administrative Nihilism, and the political dissolution that characterised the proceedings and policies of the Parliament and the Parliament men of the type of Lambert and Desborough, created an abiding

[1] See Figgis, Cambridge Modern History, Vol. III, Chapter XXII, and compare his "Divine Right of Kings," and "From Gerson to Grotius"

distrust of "license" among the people in general. Religious liberty, if not controlled, would lead to intellectual and political anarchy, and the champions of State Sovereignty showed no hesitation in painting in lurid colours the disastrous consequences of such a "liberty." It is this political aspect of religious struggle that was the determining factor in the policy of the State towards the Dissenters during the years 1660—1715. Many of the Dissenters of the time of Charles II would have been regarded as pious and zealous divines of the Church of England in the time of Elizabeth, and many of the expelled ministers might have been brought within the ample fold of the English Church if more tact had been exercised, and greater forbearance shown by both parties.[1] There were doctrinal differences, to be sure; but they were not so fundamental as to prevent the two parties from harmonising their views, and agreeing to their "Comprehension" by the Church of England.

These considerations point to one conclusion—the significance of the political factor in this religious struggle. The Act of Uniformity of Charles II was as political in origin as the Act of Uniformity of Elizabeth. Both aimed at the maintenance of the solidarity of the nation through uniformity in religion, and both desired the establishment of peace and security in the land, through the rigorous exercise of the theory of Sovereignty. In the minds of the members of the Restoration Parliament,

[1] Compare Abbey and Overton, English Church in the Eighteenth Century, Chapter VI, pp. 379—407.

the untold miseries of the kingdom under the Commonwealth had been brought about through the lack of an executive recognised by law. The concentration of authority in the State seemed to them to be the sole means whereby the confusion and disorder of the Commonwealth could be prevented; and as uniformity was then regarded as the essence of Sovereignty, the permission to Dissenters to build schools, and to teach therein, would have nullified the provisions of the Act, rendered the various measures of the Cavalier Parliament nugatory, and perpetuated a race of schismatics. This was, it is clear, nothing else but the application of the theories of Hobbes. Hobbes had insisted on the necessity of uniformity, not because he was a convinced Anglican, but because he was strongly impressed with the necessity of securing orderly government through the concentration of all the available sanctions in the civil power. Hobbes' theories were the extreme logical outcome of the ideas that were transforming the original conception of Sovereignty. The writers of the Restoration period knew well the difference between what may be called the political and the religious aspect of the quarrel. They were quite aware of the change in the religious opinions of the times, and had defended toleration during the earlier part of the reign of Charles I. Chillingworth, Falkland, and Hales had pleaded the cause of toleration in no measured terms. Their impassioned eloquence, cogent arguments, and logical reasoning, would have carried conviction if times had not changed; if the bitter memories of the Civil War, the virtual suppression of the Anglican Church under the Commonwealth, and, what was of far more

importance, the unparalleled disorder and confusion that followed the death of Cromwell, had not directed the minds of all the people to the importance of a sovereign authority, invested with absolute power, and wielding its authority both over civil and religious affairs. Ecclesiastical history is futile unless studied in conjunction with political history, and no account of the history of the Dissenters' education would be complete unless it estimated properly the influence of the period of anarchy upon the Restoration Parliament. Only thus can a right perspective be gained. Men confuted, ridiculed, lampooned and vilified the "Monster of Malmesbury"[1] and opposition to Hobbes was one of the great forces which moulded the opinions of the Cambridge Platonists. But his influence cannot be measured by the growth of a distinctly hostile movement. The best test of its success, and the surest guarantee of the soundness of the essential elements of his theory of sovereignty is to be found mainly in the fact that the various Acts passed against the Dissenters were justified not on religious, but on political grounds; and by the fact that the leaders of what is generally termed the "Latitudinarian" movement in the English Church defended them upon political grounds. Bishop Stillingfleet's "Irenicum, or a weapon-salve for the Church's Wounds" shows this tendency admirably. The "Irenicum" upon its political side is little more than mitigated Hobbism. It is this view that is generally ignored by the Nonconformist writers of the present day. The whole struggle may be said to revolve round the

[1] See Hunt, J., Religious Thought in England, Vol. I, p. 407.

question of Sovereignty, and it was Hobbes' signal merit to have cleared this question from a mass of irrelevant details, and vague generalisations.

The Act of Uniformity expressed in a concrete form the theory held consciously, or unconsciously, by all the Anglicans.

The ecclesiastical controversies that distinguished the reign of Queen Anne must, therefore, be viewed mainly from this standpoint. It was not so much a quarrel about the dogmas, as about the political principles of the Anglican and the Dissenter. While the defence of the Anglican rested mainly upon political Sovereignty, the Nonconformist appealed from the Law of Man, to the Law of Nature, and the Law of God. The writings of John Owen[1] and William Penn[2] bring out vividly the theory which the Dissenters championed with passionate vigour, and to which they clung with great tenacity. In things within the power of men, says Owen, the Law of Nature commands that individuals should make concessions for the good of the community, but some things, uniformity of stature and visage, for example, are not within the power of men. Hence, "the diversity of men's apprehensions of things spiritual and supernatural" is to be reckoned among the unavoidable differences. William Penn's advocacy of toleration was based upon higher grounds. He asserted that government over

[1] A Peace Offering, Indulgence and Toleration Considered, etc.

[2] The case of Liberty of Conscience once more debated, England's Present Interest Considered, A Persuasive to Moderation, The Reasonableness of Toleration, etc.

conscience is the incommunicable gift of God, that it constitutes a claim to infallibility, and that the operation of God's Spirit alone can beget faith. The main defect of these treatises lies in the fact that they ignore the political aspect of the question. The Latitudinarians were willing to concede liberty of conscience in the abstract, but toleration was not synonymous with sedition, and they were too wary to subordinate the political element of their religious theory to the ethical factor involved in the formulation of the fundamental principles of their theories of toleration.

In their opinion concession of toleration would lead to the splitting up of Sovereignty into fragments, and to the establishment of rival States within the Commonwealth. The legacy of the Great Rebellion was too damaging to prevent the people from regarding sedition as the essence of Dissent; hence the question of toleration was waged with a ferocity and bitterness that are unparalleled in the history of English Controversies.

The principles upon which the Dissenters acted would, if viewed mainly in their political aspect, appear to be unsound; but their main justification lies in their reliance upon a higher principle. It was the spiritual vigour, the heroic courage, and the lofty morality, which they followed in their actions that guaranteed the permanence of their theories.

In no other sphere of activity was the influence of that principle so far reaching as in education. It is possible that the increased interest in educational

methods, which, as Professor Foster Watson [1] has clearly shown, was developed during the Commonwealth, quickened their zeal, and encouraged them to establish academies. The main causes were, however, the necessity of training ministers; the straitened circumstances of the majority of the Nonconformist ministers; the exclusion of the Nonconformists from the old Universities owing to the imposition of an oath, and the absence of any provision for what may be called "modern studies," from the Universities. The laborious researches of Professor G. Lyon Turner provide us with a multitude of data from which to reconstruct the early history of the Schools. Our primary authorities for the history of the early Nonconformists are the Episcopal Returns of 1665, 1669 and 1676; and the Indulgence Documents granted by Charles II to the Dissenters in 1672. The documents do not differentiate the schoolmasters from the ministers; nor is there any evidence to show that the principle of division of labour which ultimately led to the differentiation of functions, was operative at the time. "Teachers" and "Preachers" were interchangeable terms. It is significant that they are never called "Ministers." [2] There is no evidence to show that schoolmasters formed a distinct class at the time; and the evidence of some of the documents forces one to the conclusion that the majority of the "Teachers" or "Preachers" besides preaching and ministering to their parishioners, kept schools where they trained students for the ministry.

[1] English Historical Review, Vol. XV, pp. 58—72.

[2] Turner, Vol. III, p. 31.

The most prominent of the Dissenting teachers, Matthew Warren, Isaac Chauncey, Joseph Hallett, Henry Newcome, John Bryan, Charles Morton, Edward Veal, Thomas Cole, Samuel Cradock, Peregrin Phillips, etc., are referred to as Teachers, and not as Schoolmasters. The information supplied by these documents on the early education of Dissenters is of great value for the right understanding of the place these institutions occupied in the national system of education.

The total number of Teachers who received, in 1672, licenses to preach and, presumably, to teach in a School, is estimated by Professor Turner[1] at 1,601; while Mr. Daniel[2] calculated their number at 1,459. The enormous increase in the number of applicants for licenses shows the growth of the Dissenting Academies, and testifies to their popularity with the people.

The returns supplied by the Bishop of Exeter for 1665, throw vivid light on the history of the Nonconformist Schoolmasters. Nearly all the Schoolmasters mentioned by the Bishop[3] were unlicensed; while some were also "Excommunicate." Women teachers are also mentioned. We are told that "there are also several women teachers in St. Martin's, Eastlow, Felicit, Likeyaw," in the diocese of Exeter, and that they were "disaffected persons."[4] At Fowey an unlicensed School-

[1] Turner, Vol. III, p. 732.

[2] Calendar of State Papers, Domestic, 1672–1673, Introduction, pp. xxxvi—lxv.

[3] Turner, Vol. I, pp. 178—191.

[4] Turner, Vol. I, p. 178.

master, Mr. Michael Prestwood by name, kept a school, where he taught "English, Writing, Arithmetic."[1] This is not all. The good Bishop had evidently taken pains with his Returns, and impressed upon the clergy of the diocese the necessity of complying with Section four of Archbishop Sheldon's "Orders and Inquiries."[2] Every important part of the Diocese seems to have been carefully searched, and the Dissenters hunted out. The Schoolmasters were not spared. A number of unlicensed Schoolmasters are mentioned, and their tenets denounced in short, pithy sentences. "Mr. John Williams, resident in Plimpton Morris," in the diocese of Exeter, kept, we are told, "a private School, and preacheth there, a person disaffected to the Government and Discipline of the Church of England, and unlicensed." Another Schoolmaster, Daniel Upton, of Ipplipen Deanery, was, we are informed, "not Licensed and under Excommunication."[3] All the Schoolmasters referred to were unlicensed. The returns concerning the Schoolmasters were supplied by only one diocese, and they were confined to the year 1665. The increase in the number of Dissenting Academies may be measured by comparing the number of Teachers given in the Returns for 1665, with the number of Teachers to whom licenses to teach were granted in 1672. The difference in the number of Teachers who were granted licenses, points to a rapid increase in the number, and a decided improvement in the quality of these institutions.

[1] Turner, Vol. I, p. 178.

[2] Turner, Vol. III, contains the text of the Orders on pp. 62—64.

[3] Turner, Vol. I, p. 188.

It is clear from the Indulgence documents that the Academies were going through a period of transition; that though they were designed at first mainly for training students for the Ministry, their original aim was undergoing modification, through the necessity of imparting advanced instruction to Nonconformist students of University standing.

The applications of the Nonconformists for the license of Schoolhouses and Free Schools were on a different footing from the licenses to teach. The fourth paragraph of the Declaration had, no doubt, promised them this privilege, and their correspondence on the subject [1] shows that the peremptory refusals of the Government [2] checked the rising tide of loyalty among the Dissenters.[3]

The main stages through which the Dissenters' Academies passed may be classified as follows:

(1) *The Initial stage.*—In this stage, the separation between the schoolmaster and the minister is scarcely noticeable, and academies are established with a view mainly to continuing the traditions of Nonconformity through the training of ministers. This lasted from

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[1] Turner, Vol. I, pp. 193—623.

[2] Turner, Vol. III, p. 649.

[3] The progress of the Dissenters' Academies can be traced in the records of the period, with comparative accuracy. The writings of Nightingale and Nicholson; the Journals of the Congregational and Friends' Historical Societies, the Transactions of the Baptists' Historical Society, and the MSS. in Dr. Williams' Library enable us to estimate the progress, and assess the value of these institutions.

about 1660 to 1672. In this stage, we come across well-known teachers, such as Theophilus Gale, Richard Frankland, Henry Hickman, Samuel Jones of Bryn Wymarch, Obadiah Grew of Coventry fame. It is noticeable that several women teachers are to be found in the list, as Mary Mullins, who taught at Tavistock; Margaret Underton, who taught at Barnstaple, and others.

Altogether about 70 schools were established by the Dissenters during this period.

(2) *The Preparatory Stage, from* 1672 *to* 1687.—The progress of the movement was checked by the repressive measures of Charles II, towards the end of his reign.

(3) *The Intermediate Stage, from* 1688 *to* 1714.—This was the most flourishing period in the history of the Dissenters' Schools. The grant of toleration to Dissenters was no doubt the primary cause of this wonderful outburst of educational activity; but other causes are not difficult to trace. Altogether, about 70 academies were established during the period. The Society of Friends had 15 recognised schools at Ayton, Chiswick, Croydon, Fearnhead, Hemel Hampstead, Kendal, Penketh, Rawden, Shacklewell, Sibford, Weston, Wigton, Worcester and Yealand. It is noticeable that Charity Schools were established by the Dissenters in various places, and that some of them were supervised by representative bodies. We come across the honoured names of John Chorlton, Samuel Benion, W. Evans, Joseph Hallett, John Kerr, Samuel Jones of Tewkesbury, Timothy Jollie,

M. Towgood and Joshua Oldfield in the list for the period.

(4) *The Final Stage, from* 1714 *to* 1779.—During this period about 66 schools were established. This is by far the most important period, from the point of view of experiments in education. English becomes the medium of instruction, old scholasticism gives way to "modern" subjects, and students are definitely prepared for a profession. The private school of "Dotheboys" type exists to be sure; but it cannot meet the fierce competition of public bodies, with comparatively large resources and greater prestige. The most important schools are controlled directly or indirectly by the representative bodies of the Dissenters, and they reflect the enterprising spirit, the commercial progress, and the intellectual enlightenment of the period. The names of John Ward, who became a Professor at Gresham College, Caleb Ashworth, Philip Doddridge, B. Wadsworth and John Eames of Moorfields figure prominently on our list for the period.

It is noticeable that each of the above periods exhibited a new tendency, and embodied a new idea. The beginnings of these institutions are marked by the indefiniteness which characterises all the early attempts at every important undertaking. The founders are not conscious of any distinct aim. Training of Ministers is the primary object; but with this are mixed motives of a different character.

"A considerable number of ministers had properties of their own, some of large extent. Often they held

land, freehold or leasehold, which they farmed. Many kept schools; even some who were diligent in missionary preaching late at night and in the early morn, were schoolmasters during the day."[1] The combination of various duties was carried to such an extent that it was almost the rule in the eighteenth century "that the Dissenting minister kept a private boarding school for boys."[2] The later periods, especially periods 1688—1714, and 1714—1719, witnessed the introduction of new methods, the development of the academies on a new basis, and the adaptation of the curricula to the varying needs of the students.[3]

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[1] See Alexander Gordon's "Freedom after Ejection," 1690—1692, pp. 177, 178.

[2] Nicholson and Axon, The Older Nonconformity in Kendal, p. 319.

[3] The Dictionary of National Biography contains articles on the following Dissenting teachers; I have not consulted the bibliographies of teachers whose academies were established after 1715; but the bibliographies appended to the Articles on the following Dissenting teachers have all been utilised:—

(1) Timothy Jollie, 1659—1714; (2) Matthew Warren, 1642—1706; (3) Henry Grove, 1684—1738; (4) Francis Tallent, 1619—1708, (5) James Owen, 1654—1706; (6) Joshua Owen, 1711 (?)—1755; (7) Isaac Chauncey, 1632—1712; (8) Joseph Hallett, 1628—1689; (9) John Moore, 1642—1717, (10) Matthew Towgood, 1710—1746; (11) Samuel Jones, 1680—1719; (12) Henry Newcome, 1627—1695; (13) John Chorlton, 1666—1705; (14) James Coningham, 1670—1716; (15) John Bryan, died 1676; (16) Obadiah Grove, 1607—1689; (17) Joshua Oldfield, 1656—1729; (18) Long, 1662—1727; (19) Charles Morton, 1627—1698; (20) Stephen Lobb, died 1699; (21) Theophilus Gale, 1628—1678; (22) Thomas Rowe, 1657—1705; (23) Thomas Doolittle, 1632 (?)—1707; (24) Thomas Vincent, 1634—1678; (25) John Shuttlewood, 1632—1689; (26) Thomas Cole, 1627—1697; (27) Samuel Cradcock, 1621—1706; (28) Ralph Button, died 1680; (29) Edward Veel, 1648—1674 (?); (30) Benjamin Robinson, 1666—1724; (31) Thomas Goodwin, 1650—

The most characteristic feature in the history of these academies is their rapid growth under William and Anne. This was, no doubt, the result of the Act of Toleration; but it was only an indirect—not a direct—effect of the Act. The Act itself had been based upon mere temporary considerations, there being a very strong wish to consolidate the Protestant interest against Papal aggression. Its benefits were strictly confined to the orthodox Protestant dissenters; and even they were left under many oppressive disabilities. A great principle

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1716; (32) John Flavel, 1630—1691; (33) Hugh Owen, 1639—1700; (34) Marmaduke Matthews, 1601—1683; (35) Peregrin Philips, 1623—1691; (36) David Crosley, 1670—1741; (37) Thomas Gouge, 1609—1681; (38) Hanserd Knollys, 1598 (?)—1691; (39) Thomas Crosby, —1740; (40) John Holt, 1743—1804; (41) Thomas Delaune, died 1685; (42) Richard Adams, 1626—1698; (43) Joseph Stennett, 1692—1758; (44) John Ward, 1679—1758; (45) John Collett Ryland, 1723—1792.

Most of the articles are written by the Rev. Alexander Gordon, and are of primary importance for the true understanding of the work done by these men. The Transactions of the Congregational Historical Society contain short accounts of the notable Academies. The articles dealing with Frankland's Academy and Gale's Academy do not contain very valuable information. They seem to have been based mainly on Bogue and Bennett. The later volumes are of greater interest. Volume IV contains an important article on the "Coventry Academy," while other volumes discuss Wesley's account of the Academies.

Other sources of primary importance are Nicholson and Axon's "The Older Nonconformity in Kendal;" Nightingale's "The Ejected of 1660 in Cumberland and Northumberland" (Manchester University Historical Series); Murch's "History of the Presbyterians," the Transactions of the Congregational and Historical Societies; the Journal of Friends' Historical Society, etc., Nightingale's Lancashire Nonconformists, 6 vols. My information about the academies has been derived mainly from the above sources, and from the MSS. and pamphlets in Dr. Williams' Library, Congregational Library, and Friends' Library, Bishopsgate.

had been conceded, and a great injustice materially abated. Henceforth, English Dissenters whose ministers had duly attested their allegiance, and duly subscribed to the thirty-six doctrinal Articles of the Church of England, might attend their certified places of worship without molestation from vexatious penal laws. "It was bare toleration, accorded to certain favoured bodies; and there for a long time it ended."[1] Mr. deMontmorency[2] has cited *Cox's case*, 1700, by which it was held "that there was not, and never had been any ecclesiastical control over any other than Grammar schools." This does not refer to control exercised by the Church, on the authority of the Act of Uniformity. The Judge's decision very probably did increase the number of schools established by the Dissenters. The Official Report of the Commission of Inquiry into Charities, given in Horace Mann's Popular Education in Great Britain, includes 1,000 endowed schools that were founded between 1660—1730, and existed in 1851. Legally, however, the Dissenters remained liable to prosecution for keeping academies. Dr. Doddridge's prosecution was undertaken in the 18th century, and he would have been prohibited from teaching, had not the King intervened, and put a stop to the proceedings.[3]

Calamy's account of the sufferings endured by Dr. Oldfield brings vividly before us the hardships

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[1] Abbey and Overton, English Church in the Eighteenth Century, Introduction, Vol. I, p. 18.

[2] The Progress of Education, p. 42.

[3] Bogue and Bennett, Vol. II, pp. 341, 342.

inflicted by the old laws, and the liability of Dissenting teachers to arrest. "Mr. Oldfield, who had according to Law declared against Popery, and also sworn allegiance to Government was, upon a suspicion of his instructing youth in some sort of learning cited on the 6th of October, 1697, to appear in the ecclesiastical Court to be held at Coventry. Where upon the Judge's charge of Teaching without License, he demanded a Copy of the Libel or articles against him that was put off and forced to attend again for it twenty miles off, at Lichfield. There he received a Libel *ex officio* for teaching without a License, and without subscription to the whole Book of Common Prayer, and 39 Articles of the Church entire, contrary to the 77 Canon."[1] Frankland's excommunication by Archbishop Lamplugh showed that the Toleration Act did not prevent the prosecution of Dissenting schoolmasters. On the 2nd February, 1691, he was excommunicated for not appearing before the Chancellor in the Archbishop's Court at York, in answer to a citation issued 30th May, 1690. Government no doubt protected him, and the Secretary of State requested the Archbishop to absolve him from the excommunication. The request was granted and persecution ceased for a time.

A year later, the clergy of Craven formally petitioned Sharp—Lamplugh's successor—to suppress the Academy. The Archbishop was evidently at a loss what to do and consulted his brother of Canterbury, who, having been a Presbyterian, might be expected to know how to deal with such men. Tillotson's advice to Sharp to refuse a license

[1] Calamy's Abridgement of Baxter's History, 1713, pp. 551 *et seq.*

to Frankland on the grounds that he ought not to set up a school where a free school is already established,[1] and that "his instructing of young men in so public a manner in University learning, is contrary to his oath to do so," loses all its force when we remember that Sharp himself was not inclined to take extreme measures, and that the jurisdiction of the ecclesiastical courts was frequently called in question by the Civil lawyers.[2] Clear and definite rules had been laid down for the guidance of the spiritual courts. But the latter were not unwilling to extend the sphere of their authority; and tried to check the growth of these institutions, by every means at their disposal. The organisation of systematic refusals of licenses to Nonconformist schoolmasters would have been brought about, had not the growing spirit of free inquiry, the liberal tendencies of the Whig administration and the overwhelming success achieved by the academies, proved a serious obstacle to the realisation of these desires.

Bishop Patrick of Ely had congratulated the rector of Dodington on "stopping the progress of the Anabaptist faction by applying yourself to the justices to call the unlicensed schoolmasters to account," and had told him how he himself refused a license at Littleport, and was trying to organise systematic refusals. Fresh suits were instituted in the Courts, John Owen of Welwyn being

[1] See Nicholson The Older Nonconformity, pp. 159—174; Thos. Birch's Life of Tillotson, p. 290; Newcome's Life of Sharp, Vol. I, pp. 358-359.

[2] See Phillimore's Ecclesiastical Law of the Church of England, Vol. II, Chapter XIII.

prosecuted, and the plea was urged that the right of teaching of school belongs to the minister.[1] The Nonconformists were never free from the sceptre of prosecution, and though Chief Justice Holt had laid down that the law "was aimed at Papists," and not at Protestant Dissenters, the Act of Toleration remained legally ineffective so far as education was concerned. It was not till the upheaval produced by the American Declaration of Independence that the law requiring the Dissenting schoolmasters to sign the articles was repealed.

The Academies of the First Two Periods 1660—1688.

The accuracy of the number of the expelled ministers which Calamy furnishes has formed the subject of elaborate investigation by several Nonconformist writers of repute. Mr. Alexander Gordon says, "Calamy's own volumes record the names of 2,465 including after-Conformists. Palmer has added others. Neither Calamy nor Palmer is exhaustive." In every country where the list has been tested by modern research, it has been extended. Thus in Cheshire, Calamy and Palmer give 52 names; Urwick produces an authority for 62. For Norfolk and Suffolk, Calamy and Palmer supply 182 names; Browne[2] adds 14, on the authority of ecclesiastical registers. Oliver Heywood estimated the number of those permanently disabled by the Act of Uniformity at 2,500, while Baxter stated that about 1,800 entered on

[1] See Stoughton: Church of the Revolution, 1874, p. 418.

[2] In his History of Congregationalism in Norfolk and Suffolk, 1877.

active work in the Nonconformist Ministry. Recent investigations are by no means unanimous on the point. Mr. Frank Bate[1] thinks the number was 1,800, but these figures do not include "schoolmasters and clergy who were merely silenced."

The Academies of the first two periods received a specific mould from the personality of their founders. The uncertainty of the life which many of the ministers were condemned to lead; the dangers involved in the instruction of youth; the absence of any adequate facilities for the organisation of the schools on a systematised plan. The opposition of the country clergy and their liability to arrest by the country magistrates, these and many other causes, hampered their activities, and seriously affected the character of their Academies.

There were frequent migrations, and students moved from academy to academy, and place to place. These migrations are of importance, as they left a permanent impression on the organisation, and curriculum of the academies. The ministers expelled by the Act of Uniformity did not start with a model scheme. The organisation of the new schools was necessarily crude at first. Classification of students according to their respective abilities, and the assignment of appropriate subjects were not possible at a time when their very existence was at stake, and when magistrates were empowered to break up their meetings. This elasticity of organisation rendered possible their adaptation to the varying needs of the locality and the students. The students reproduced some of the

[1] Declaration of Indulgence.

features of "Wandering Scholars" in their daily life, following their respective teachers and suffering hardships and indignities at the hands of informers, spies, and fanatics. The product of these institutions differed in no small degree from that of the old Universities. They neglected no opportunity of seeking knowledge from the best available source and utilised their opportunity by assiduous attention to their studies. Many of them went to Holland, after finishing their studies at the Academies; while some joined the Scotch Universities. Calamy's "Life"[1] shows that many students carried on their studies in Holland[2] while Samuel Wesley bewailed the fact that "several thousands have been and are still drained from the Universities." He complained that "several of their students have gone from those academies, and taken Degree, either in Scotland or Holland, as is notorious from their printed exercises, which are in so many hands at the present."[3]

The Minutes of the Presbyterian Fund supply us with names of 59 students who were educated at foreign and Scotch Universities during the years 1690—1754.[4]

There were, no doubt, numerous other students receiving instruction at the Scotch and Dutch Universities. Students on the foundation of Presbyterian Fund were placed at the Universities of Utrecht, Leyden and Halle, during the years 1690—1716 and at the Universities of Scotland chiefly those of Glasgow and Edinburgh, from

[1] By Rutt, Vol. I, Chapter II, pp. 132—220.

[2] See a short list on page 142, *op. cit.*

[3] Wesley's "Reply to Palmer's Vindication, 1707," p. 36.

[4] See Jeremy's Presbyterian Fund of Dr. Williams' Trust, p 17.

1690 to 1754.[1] Among the earliest exhibitioners who went abroad may be mentioned, Dr. Edmund Calamy, Roger Griffith, and John Toland, theological and political writer.

The contact of these students with Universities of a different type, and with teachers of renown, produced a very beneficial result. "Their contact with the University liberalised their theology." The effect of access to the varied contents of the University was also productive of good. Thomas Emlyn left John Shuttleworth's Academy to study at Cambridge, because the latter had very few good books, "and then chiefly of one sort."[2] Before the Act of Toleration, each Academy was influenced by the ideas, and prejudices of its founders. There was no organisation, little co-operation, and less control. Each Tutor managed his institution in the way he thought fit. He was left completely to his own devices and there was no external authority that could correct his faults, or establish uniformity of method. Yet the inspiring and unselfish character of the heroic men surmounted these obstacles, and evolved a system that met the needs for which it was designed. Each Tutor impressed the leading features of his personality on the Academy he founded and breathed the spirit by which their rugged Tutors were animated. The enthusiasm of the teachers, their fiery energy, and their devotion to the cause for which they had suffered, were paralleled only by the intellectual keenness and the dogged determination of the students.

[1] Jeremy, p. 17.

[2] Alexander Gordon, Cheshire Classics, 1691—1745, 1919, p. 137.

It is this new spirit that strikes us in our study of the documents of the period. The tie between the students and the Tutors was a personal one. They seem to have possessed in an eminent degree the power of inspiring devotion to knowledge and lofty moral ideas. Samuel Wesley cannot mention the name of Morton without gratitude; Defoe's character of his tutor is painted with a loving hand; the exquisite account of Jollie's Academy leaves a pleasant impression upon our minds; while the touching piety which breathes through the pages in which Bogue, and Toulmin trace the rise of the Academies expresses the holy zeal which sustained them.

It must be admitted that the isolated position of the Academies exposed them to dangers to which institutions of that type are always liable. The existence of a public body, curbing and controlling the activities of its servants, and prescribing unnecessary rules and regulations, has always proved fatal to initiative, and we ought to be thankful that the Academies were not interfered with by outside authorities. They evolved their own method, and administered in their own way. But the method was fraught with grave dangers, and some of the students suffered irreparable loss, through the failure of the Tutor to maintain discipline. The difference between the Academies of the early period, and those of the later period will best be made clear, by treating them under

I.—DISCIPLINE.

II.—METHOD.

I. *Discipline.*—Wesley's charges against the academies will be examined presently. It may be said here that he exaggerated the faults, which were inseparable from the existence of an institution of that character. There is sufficient evidence to show that the students in the Academies were free from the crimes of which he accuses them. It cannot be denied, however, that the discipline of some of the Academies was unsatisfactory. Defoe found that many of the students were sent to the Academies more from charity than fitness for the ministry; that for want of libraries and polite conversation, too many of them became merely pedants, rather than Christian gentlemen of high learning.[1] Palmer's denial of Wesley's assertion that Bonnell, a student at Cole's Academy, was perverse, averse to instruction and reproof, and his assertion that the passage quoted by Wesley, was not sincere, were unfortunate. "Both the denial and the assertion he (Palmer) was afterwards obliged to retract."[2] It is clear from the writings of the advocates of the Dissenting Academies that the discipline in some of the Academies was lax. They excused it on the ground that the Tutors had no authority, and that they could not be compared with the Universities in this respect.[3] The later Academies show a great improvement in this respect. The results of about 40 years' experience were utilised, and the "Academies founded in the early 18th

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[1] See Lee's Life of Defoe, Vol. I.

[2] Transactions of the Congregational Historical Society, Vol. IV, January 1909 to September 1910, p. 41.

[3] Compare Walter Wilson's Life of Defoe, Vol. I, Chapter I.

Century had a strict code of laws, and exacted prompt obedience.

The account of the Shrewsbury Academy given to us by the biographer of Owen is highly favourable;[1] while Archbishop Secker's account of Jones' Academy gives a pleasing picture of the relations that subsisted between the tutor and the student. "We are obliged to rise at five of the clock every morning; and to speak Latin always, except when belowstairs amongst the family. We pass our time very agreeably, betwixt study and conversations with our tutor, who is always ready to discourse freely of anything that is useful; and allow either then or at lecture, all imaginable liberty of making objections against his opinion, and prosecuting them as far as we can. In this, and everything else, he shows himself so much a gentleman, and manifests so great an affection and tenderness for his pupils, as cannot but command respect and love."[2] John Reynolds' pious care for his "little Academy," and the atmosphere of learning and exalted spirit of devotion which every page of his beautiful "Life" breathes[3] show the extent to which the devotion of the tutor to his Academy was carried.

The accounts of other prominent Dissenting Academies are no less favourable. True, we come across individual cases of incompetence. We are told, for instance, that Dr. Abraham Tailor, tutor of an academy

[1] Transactions of the Congregational Historical Society, Vol. V, p. 14.

[2] Gibbons' Memoirs of Dr. Isaac Watts, p. 346, *et. seq.*

[3] See the pious prayer of John Reynolds in his "Life," pp. 121—124.

under the patronage of the Independents, "was well qualified as to literary acquirements, but his discipline approached to that which was exercised in the universities about a century before, when corporal punishment was administered to offenders, of which, it is said, the immortal Milton had his share." We are informed that "imprudence in the management of his finances removed him from his important offices and by consigning him to unserviceableness, penury and dishonour, taught him the importance of economy."[1]

The Arian controversy did not leave the Academies untouched. Some of the tutors took a leading part in the controversy, and championed their cause with zeal and learning. It was not to be expected that the students under their charge would remain uninfluenced by the fury and heat of that type of warfare. We are told, for instance, "that Mr. Grove was not sound in faith; and as he advanced in years, he became more averse to evangelical doctrines. The greater part of the students imbibed the spirit of their tutor, and going forth with their new divinity, they starved and scattered the flourishing Churches, which the pure doctrine of Christ had gathered and increased. The writer of the manuscript account of the London Churches complains bitterly of their evil principles, and useless or pernicious labours."[2]

[1] Bogue and Bennett's "History of Dissenters," 1833, Vol. II, pp. 218, 219.

[2] Bogue and Bennett's "History of Dissenters," Vol II, p. 209. The writers' account should be verified by some other authority. It is clear that they were prejudiced, and that the principles which Grove's pupils imbibed from him would hardly be "evil," from the ethical point of view, see Colligan's "Arian Movement in England."

There are other cases of the dissolution or removal of the Academies owing to the change in the religious opinions of their Tutors. An Arian tutor was little fitted to train students for the Baptist ministry, and we are not, therefore, surprised to find either the removal of the Academy, or the resignation of the Tutor. Dr. William Shaw's list of Academies[1] shows clearly that some of the Academies were seriously affected, and that the controversy led to the dissolution or removal of a few flourishing institutions.

The change from the first period academies to the second period is marked by several interesting features. The unorganised, inchoate efforts of the early teachers gave way to an organised system. The new Academies utilised the experiences of a generation of successful teachers, while their tutors followed in the van of progress and adapted the curriculum of the Academies to the varying needs of the students. The tutors were not bound down by the rules of the Society which controlled their Academies, but initiated reforms, framed laws, and controlled the Academy. The importance of the change of the private Academies into public institutions lies in the fact that the society could insist on the observance of uniform laws, on the provision by the Academies of facilities for meeting new demands, and on the maintenance of proper discipline. They ceased to be the private property of the tutor, and were transformed into public institutions, supplying the wants of students of all classes, and setting up an example of devotion to culture

[1] Cambridge History of English Literature, Vol. X.

that was rarely followed by the older Universities at the time.

The results of these changes were reflected not only in the discipline, but also in the curricula and methods of those Academies.

II. *The Methods and Curricula of the Dissenting Schoolmasters.*—The methods employed by the Dissenting teachers did not differ, to any considerable extent, from the system with which many of the most prominent teachers were acquainted. The majority of Dissenting teachers applied the methods, and taught the subjects that had been learnt by them at the Universities. The course of study at Frankland's Academy was similar to that at the Universities, and included all the comparatively limited range of subjects which were then regarded as essential to a learned man. All teaching at both the Academy and the University was done in Latin. "The scholars who had passed through Frankland's Academy and its successors were men of at least as much culture as those who had been at the Universities."[1]

Their heterogeneity, their liability to attacks by the magistrates, the inadequate resources of their tutors, and the exclusion of their students from the old Universities, combined to make the Academies a training-ground for educational reformers. The latter did not start with set formulae, applicable to every case, and essential to every School. Some of them may have

[1] Nicholson and Axon, The Older Nonconformity in Kendal. A very sympathetic account of Richard Frankland, pp. 128–139.

heard of S. Hartlib's books, while the name of Comenius may have been familiar to a few. Bogue and Bennett's statement that "the tutors having received their education in the Universities, and been engaged in the business of tuition in their Colleges, naturally adopted the same methods of instruction which were used by themselves before, and which were regularly employed in the Universities as best adapted to the improvement of studious youth," may be regarded as approximately true.[1]

Many of the features of the University method were reproduced in the Academies of the first period. At the outset, there was no great difference in the average age of students of the two types of institutions, while the subjects taught, and the text-books read in the Academies did not differ materially from those in the Universities. Nor was there any striking difference between the method adopted by the tutors in the Academies. Some of them, as Tallent, Gale, Cole, Cradock, Button and Samuel Jones, had been Fellows of their Colleges, while a few had held high offices in the Universities. It was but natural that they should apply the same method, teach the same subjects, and establish the same laws, as those with which they were familiar. It was manifestly impossible to reproduce all the features of the old Universities in these Academies. The class of students with which the Academies deal differed considerably from that of which the Universities took cognisance. Again, there was no external body to control the Academies. The founder was generally the sole authority to whom appeal

[1] Bogue and Bennett, History of Dissenters, p. 345.

could be made. The most important difference, however, consisted in the fact that the two Universities were national institutions, possessing large resources, and receiving the support of the King and Parliament. The Academies, on the other hand, were proscribed by the Church, molested by the magistrate, and neglected by the people. Some of them could boast of the patronage of the rich, but the students in the majority of the early Academies came from poor classes. Morton's Academy was probably an exception, though Defoe testifies to the existence of the evil in many of the other institutions.[1]

Their inadequate resources, the paucity of their students, and the lack of suitable libraries are all complained of by Defoe and Palmer. "Their superiority," said Palmer,[2] "does not consist in the wondrous Learning of the Publick Tutors, or that our Private ones must needs be ignorant, but on account of the advantages of Publick Libraries, besides the happy advantage of being able to write M. A. upon a title page. If the Riches and Honour of the Universities, if their Laboratories, Gardens and Noble Libraries are to be brought into Balance, I know no Dissenter that is Fool enough to deny their superiority." Defoe's account of the Academies[3] confirms the statements of Palmer; while a host of writers on the educational controversy *(see below)* make references to the same defects of the dissenting

[1] Defoe, quoted above, on the poor ministers.

[2] A Vindication of the Learning, Loyalty, Morals and most Christian Behaviour of the Dissenters. B. M. 698, i. 36, 1705. Compare also "A Defence of the Private Academies."

[3] The Present View of the parties in Great Britain, 1712.

teachers. James Clegg tells us in his excellent diary, that the students at Chorlton's Academy, of whom he was one, visited the Cheetham Library at Manchester, and helped themselves to quartos of Episcopius, and the folios of Socius and Crellius.

The complaint was voiced by other Nonconformists in the eighteenth century, and the evidence of records would lead us to believe that no serious attempt was made to remove the main drawbacks to which attention had been directed.

The methods of the Dissenting schoolmasters were necessarily influenced by their early training, the individual character of the founders, by the state of parties in the United Kingdom, and by the character of students. Various factors co-operated in the process, and the final form which the method received at the hands of a noted schoolmaster was often different from the original design of which even the originator was only vaguely conscious. There is no gradual progress, as there is no united action. Each schoolmaster shaped the policy, and moulded the character of the academy over which he presided, in his own way. Co-ordination was impossible for the obvious reason that organisation was non-existent. Regulation was, therefore, out of the question. Hence a study of the methods and curricula of the Academies will have to take account of the work performed by each schoolmaster. For this purpose small academies may be left out of account, for, though many Dissenting teachers worked independently, and there was little or no direct influence of the work of a leading educator upon another, the former successfully copied many of the devices of which

the latter had been the originators. In some cases, lectures used by a successful Tutor, were employed by other tutors; and the methods adopted by men of the type of Frankland, Kerr and others were followed by other Nonconformist teachers. Frankland's Academy exercised so great an influence, the students he trained played so prominent a part in the history of English Nonconformity, that a short account of his method is essential to the formation of a right judgment upon the place occupied by these institutions in English educational life.[1]

"The method observed in the Academy was this:—The whole family was called to Prayer exactly at seven in the morning, summer and winter. About an hour after breakfast, the several classes according to their seniority, were called into the Lecture Room, and the Tutor, and his Assistant, continued reading lectures to them till noon. After dinner, the students that minded their business retired to their closets till six at night, and were then called to Prayers. After supper, the most diligent and studious met, eight or ten in a chamber, to confer about their reading and any difficulties they had met with in it." On Thursdays the students exhibited Theses, on such subjects as were given them, and disputed in public on questions chosen by the Tutor. "They had

[1] See Clegg's Diary, edited by H. Kirke, 1899. Nicholson and Axon, the Older Nonconformity in Kendal, pp. 113—199, Transactions of the Congregational Historical Society, Vol. I, pp. 422—429. D.N.B.; Calamy's Account and Continuation; the Diary of Oliver Heywood, by J. Haskoll Turner, especially Vol. IV; Wilson's Dissenting Churches; Bogue and Bennett's History of Dissenters; Latham's Funeral Sermon on Daniel Maddock; Monthly Repository for 1811; and Joshua Toulmin's "Historical View of the State of the Protestant Dissenters."

often disputations in their chambers, on such questions as they agreed to debate. On Saturdays, before the evening prayer, one read in public what was called an Analysis, or methodical and critical dissertation on some verse of a psalm, or some chapter of the New Testament." And he continued at the Academy till he had gone through the usual course of "Logic, Metaphysics, Somatology, Pneumatology, Natural Philosophy, Divinity, and Chronology, during which he went over the accurate tables his tutor had drawn for instructing his pupils in those sciences, which cost him no little time and pains."

Clegg's Diary describes with childlike simplicity the life led by the students in the Academy. There are references to his addiction to "levity and keeping company"; notices of "bulky young men," not of the strictest morals, complaints of "growing remiss in my studies, being unhappily drawn aside by the cunning of a young woman in the house who had a design to procure me to marry her," and remarks on the effects of conversing too much "with some gentlemen in the neighbourhood too much given to tipling." The impression produced is not a pleasant one. Disciplinary difficulties continued to harass the Nonconformist schoolmaster down to the end of the Eighteenth century, and references to the "wicked pranks" "gross insubordination," "scornful insolence" are by no means infrequent in the annals of some of the Nonconformist associations.[1]

[1] See the Account of Warrington Academy in the monthly Repository for 1813, a sketch of its history read by H. A. Bright, Esq., before the Lancashire and Cheshire Historical Society, November 11, 1858; and Dr. Halley's "Lancashire Puritanism and Nonconformity."

We need not attach any importance to the account of the student life which Clegg furnishes, as the discipline in other schools was sometimes worse than that which Clegg and others describe. The majority of students seem to have been imbued with a strong desire to take advantage of their opportunity, as will be apparent from the study of his diary. "About a dozen of us agreed that one should sit up all night and call the rest up, next morning about four o'clock, and we went to bed at ten or eleven. This we took by turns and spent about fourteen hours each day in hard study, during which time I ate very little, and drank less."

James Clegg's character of his tutor is drawn with a loving hand and his "unaffected gravity, sweetened with candour, meekness and humility" are dwelt upon with pleasure.

Clegg's account of his Academy may be compared with that of Samuel Palmer, who wrote a detailed account of John Kerr's Academy, in his "Defence of the Dissenters' education." After mentioning the usual text-books in Logic, Palmer proceeds, "The next superior class read Metaphysics, of which Fromenius Synopsis was our manual, the highest class were engaged on Natural Philosophy, of which Le Clerk was our system, whom we compared with the Antients and other Moderns."

They disputed every other day in Latin upon the several philosophical controversies and read "some one of the Greek or Latin Historians, Orators, or Poets," after dinner. Freedom of enquiry was the motto of this, as of many other, Academies, and though freedom

sometimes degenerated into license, and some of the academies were infected with Arianism, and were consequently closed, its effects at this stage were invariably good. Kerr, in all "controverted points never offered to impose upon the judgment of his Pupil. He was the same Encourager of free and large thoughts in every part of our studies. Thus he filled up the character of a curious Critick, Penetrating Philosopher, a Deep and Rational Divine, and an Accurate Historian." As regards the "Order of our House, and our moral Conversation" this was, says Palmer, unexceptionable. He admits, however, that "some pupils broke through" the rules, but he asserts that "the strictness of our conversation either reformed these, or else drove them from us, who immediately took Sanctuary in the Church of England." This was a palpable hit at Samuel Wesley, and the indefatigable Vicar of Epworth was not slow in taking up the challenge.

James Owen's Academy, and the Sheriffhale's Academy were carried on traditional lines. His biographer describes the methods pursued by Owen. "Morning prayers at six, with reading and exposition of a chapter of the Greek Testament. Lectures commenced at nine; Latin being the language employed. One day in the week each class had a set disputation in Latin, the rule was that if a topic was theological the heterodox disputant must present his arguments as that of another, not as his own." On some occasions orations were made, and original verses recited, with Latin and English. Thoroughness was the order of the day, and "on Saturday

evenings before prayer the students repeated in turn analytical discourses on set portions of Scripture. On Sunday morning at time of prayers a student repeated memoriter the substance of last Sunday's sermon; and on Sunday evening one of them repeated the sermon of the day." His successor, Samuel Benion, was more original, for he drew up several schemes of the sciences, "Logic, Pneumatology, Natural Philosophy, Ethics, and Applied Mathematics," and was said to "have hit upon a better plan of educating than his predecessor."[1]

In Woodhouse's Academy, the students read Burgerdicius' Logic, with Heereboord's Commentary; the mathematical authors were principally Galtruchius, Leyhourn, Nagirus, Rhegius, Rohault, De Stair. Their text-books in Logic were Sanderson, Wallis, Ramus, Burgerdicius with Heereboord's Commentary; for History they read Puffendorf; while for Metaphysics, Fromenius, Facchacus, and Baronius were consulted, in addition to Blank's "Theses" and Davenant or Ward's "Determinationes." All the students were obliged to read in natural theology Grotius' de Veritate Christianae Religiones, Wilkins' "Principles of Natural Religion," Baxter's "Reasons of the Christian Religion," and Stillingfleet's "Origines Sacrae."[2]

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[1] See Eng. Hist. S. Transactions, Vol. V, p. 18.

[2] Toulmin, Historical View of the Protestant Dissenters, 1814, pp. 226—230. Toulmin based his account of Woodhouse's Academy on "MSS. papers with which John Woodhouse Crompton, Esq., favoured the author," p. 230.

A comparison of the above books with those used in the Universities brings out the remarkable fact that there was no striking difference between the two. The text-books were those ordinarily used by University students.[1] Henry Fleming, an undergraduate at Queen's College, Oxford, who went up in 1678, read the same books that were used at Sherrifhales and Shrewsbury.

There were, however, certain features in the Academy which tended to differentiate it from the University. It laid greater emphasis on modern subjects. The students were conducted through a course of lectures not only on the usual subjects, but also on Anatomy. "In Anatomy, with Gibson was joined the perusal of Blancardi Anatomia Reformata, and Bartholine." This was not all. "A law lecture was read one day in the week to those who had entered at the Inns of Court, or were designed for the law; and they who were intended for the pulpit were conducted through a course of theological reading."

While Kerr laid emphasis on the Classics, Morton specialised in Mathematics and Science.[2] His Academy was distinguished by many novel features. It was, said Wesley, the most considerable, "having annext a fine

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[1] Wordsworth gives a list of the most important text-books used in the Universities. Compare "The Flemings in Oxford," Vol. I, pp. 250—255; 321.

[2] See Palmer's "Nonconformist Memorial," Vol. I, pp. 347, 348 and Samuel Wesley's pamphlets.

Garden, Bowling Green, Fish Pond and within, a laboratory and some not inconsiderable rarities with air-pump, thermometer, and all sorts of mathematical instruments." Defoe supplies us with further information on the Academy. At Newington, he wrote, "the master or tutor read all his lectures, gave all his systems, whether of philosophy or divinity, in English, and had all his declaimings and dissertations in the same tongue. And though the scholars from that place were not destitute in the languages, yet it is observed of them, they were by this made masters of the English tongue, and more of them excelled in that particular than of any School at that time."[1] His controversies with John Tutchin, and Dean Swift, who regarded him as illiterate, and who "reproached my learning to applaud their own," give us an insight into the educational methods of the period. "I have been in my time pretty well master of five languages, and have not yet lost them, though I write no bill over my door, nor set Latin quotations on the foot of the Review. I have also made a little progress in science."[2] To the above subjects, Logic, Euclid's Elements, Physics, or natural philosophy, geography and astronomy are added. He acknowledged himself "blockhead enough to have lost the fluency of expression in Latin," but he asserted that Mathematics, Science, and Modern Languages were as educative, and liberal, as Latin and Greek. Defoe's controversy with Swift and

[1] Defoe, the Present State of Parties in Great Britain, p. 319 (1712).

[2] Compare Defoe's Review, Vol. II, pp. 149, 150, Vol. VII, pp. 454, 455.

Tutchin shows clearly the spirit that animated the Academies of the period. He does not state whether all these subjects were taught at his Academy; nor is it clear whether Morton attached equal importance to the three subjects mentioned above. A comparison of Wesley's three pamphlets with Defoe's "Review," Vols. II and VII, and "Present State of Parties," will, however, lead one to the conclusion that Morton was not unaware of the importance of these subjects, that they were sedulously cultivated, and that many facilities were provided for the teaching of science.[1]

It is instructive to compare Timothy Jollie with Charles Morton. While Morton was extremely fond of Mathematics and encouraged its study by every means in his power, Timothy Jollie "forbade the Mathematics, as tending to scepticism and infidelity, though many of the students by stealth made considerable progress thereat."[2]

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[1] Calamy has left us an account of Morton's leave-taking, which is grand in its simplicity, and recalls Virgil's lines, in which Dido is explaining to Aeneas the Fall of Troy. The old warrior, harassed by persecutions, and worried by the ecclesiastical Courts, sought safety in emigration from the country he loved so well. Calamy's, "Own Life," by Rutt, Vol. I, p. 131.

[2] The statement of Jollie's pupil, Mollishead, quoted by the writer of an article in the Transactions of the Congregational Historical Society, Vol. IV, pp. 333–342. This is confirmed by other authorities, *e.g.*, article on Jollie in the Dictionary of National Biography, by the Rev. Alexander Gordon; Wilson's Dissenting Churches in London, Vol. I, pp. 345, 346; Bogue and Bennett, Vol. I, p. 301; compare also the Monthly Repository for 1811, pp. 9, 10, for list of Students; Oliver Heywood's Diary, edited by Haskoll Turner, Vol. IV, pp. 240, 242, 243, 256, 260, etc. Toulmin, Historical View of the Protestant Dissenters, pp. 230–232.

He was intellectually timid, and lacked exact scholarship. He seems, however, to have been a pious, sensible man, genial but somewhat narrow-minded, with much natural eloquence, a tuneful voice, elegant gestures, "and a special aptitude for pathetic utterance." [1] The defects in his instruction of Classics, Philosophy, and Theology were made amends for those who were designed for the pulpit by the magnetic influence he exercised on his pupils. "There have been," says Grosvenor, "Tutors of greater learning, who have been capable of laying out a greater compass of education; but at the same time it must be acknowledged that the relish for practical religion; that devotional spirit which was so impressed by his example; that sweetness, are things not easily to be met with." This generous tribute to a noble Tutor shows the extent of the influence exerted by the early Dissenting teachers over their students, and explains the growing popularity of the Academies.

Jollie's method may be compared with that of Warren. He had, we are told, been educated in the old logic and philosophy, and was little acquainted with the improvements of the new. Yet he was sensible enough to encourage freedom of enquiry among his pupils, and the study of those authors who were better suited to gratify the love of knowledge and truth, even though they differed from the writers with whom he was not in sympathy. While the usual school text-books, as Burgerdicius, Derbdon, Eustacius, were used in the

[1] Compare Grosvenor's Tribute to Jollie. "He was a man of excellent spirit, of great spirituality, and sweetness of temper.

lecture-room, modern writers were not neglected. Locke, Le Clerc, and Cumberland were guides to just thinking, close reasoning and enlightened views, in their closets.[1]

Grove has supplied us with an interesting account of his studies at Taunton. His removal to Rowe's Academy in 1703 is interesting, as it helps us to compare the work done in the two Academies. Rowe's Cartesianism seems to have intensified his devotion to Newton's System. Thus, we are told that "Rowe was a Cartesian, Grove became an equally zealous disciple of Newton. He studied Hebrew, and formed his style of preaching on Richard Lucas, D.D."[2]

A comparison of the method of Cradock with that of Warren is useful, as it brings out many points of resemblance between the two institutions. Both were grounded in old logic and philosophy; both attached undue importance to some of the old devices. But while Warren's pupils were allowed to consult and compare Locke with Burgerdicius, Cradock confined the reading of his students to his lectures. They were grounded in systems of logic, natural and moral philosophy and metaphysics, composed by himself, and extracted out of a variety of authors. His pupils were obliged to copy them

[1] Toulmin, Historical View of the Protestant Dissenters, 1814, p. 231. Palmer's Nonconformists' Memorial, Vol. II, p. 358. A valuable article on Warren is given by Alexander Gordon in the Dictionary of National Biography. The Monthly Repository for 1821, p. 258, contains the following note on Warren: "He sent out men of the best sense and figure among Ministers of this Country in the dissenting way."

[2] Article on Henry Grove, in the Dictionary of National Biography, Monthly Repository for 1821.

out for their own use. This was regarded as a great drudgery, though Calamy, who was one of them, thought that the benefits accruing from this task counterbalanced the inconveniences and labour of it. Calamy has left a pleasant picture of Craddock's Academy.[1] "We had," says Calamy, "our innocent diversions, and used to ride and visit any acquaintance we had at Bury, Sudbury, Newmarket, Cambridge and other places in the neighbourhood."[2]

THE ACADEMIES OF THE THIRD AND FOURTH PERIODS, 1688 TO 1779.

The Academies of the Third and Fourth Periods exhibit many features of unusual interest. The Tutors combine the old method with a new method, which was developed gradually through a process of trial and error. In some Academies, the old logic and philosophy reign supreme. We have a glimpse of this in Warren's Academy. There is, however, a fundamental difference between their zeal for classical history, and the barren disputations which formed so large a part of the University studies. In the majority of Academies, however, science and mathematics were encouraged, new methods of teaching adopted, and a deeper and more comprehensive view of the relation of man to his environment taken. Herein lies the essential difference between the two types of education. Another important difference was due to

[1] Calamy's "Own Life" by Rutt, Vol. I, compare Palmer's Nonconformists' Memorial, Vol. II, p. 353.

[2] Calamy's "Own Life" by Rutt, Vol. I.

the fact that the students in the Academies were specifically prepared for a trade or profession. Some of them were designed for the law, or medicine; but the majority were prepared for the ministry. Even in Frankland's Academy, a number of medical and law students are to be found. Clegg tells us, that Frankland had "to the number of 300 and upwards under his tuition—some of them intended for the law, some for physics, but most of them for the ministry of the gospel." [1]

Later on, the number of medical and law students increased considerably, until the number of students taking Law, Medicine and Commerce exceeded the number of those who took Divinity. An analysis of Volume IX of the Monthly Repository yields the following result. The number of students, who entered for Law at Warrington, was placed at 22, while those who took Medicine, Divinity and Commerce, numbered 24, 52 and 98 respectively. Warrington cannot, however, be styled a typical Academy, because it was founded to "give some knowledge to those who were engaged in commercial life as well as in the learned professions and in the more useful branches of literature." [2] It is easy to show, however, that the bias of the Academies of the period was industrial,and the classics no longer maintained a predominant place in the curriculum. History and Geography are given due prominence,and great importance is attached to the study of the English Constitution.

[1] Christian Reformer, Vol. XVIII, 1862, p. 12.

[2] The Transactions of the Historical Society of Lancashire and Cheshire, Vol. XI.

Edmund Burke's contemptuous references[1] to Dr. Price's knowledge of the English Revolution may not have been justified, but it would be illogical to conclude that the history served up to the Nonconformist students by their Dissenting Tutors was cooked for the purpose. Priestley's "Essay on Liberal Education" and his "Life and Correspondence," edited by J. T. Rutt, show that he had a thorough grasp of the principles underlying the teaching of history.[2] The inclusion of the modern subjects in the curriculum may be regarded as the distinguishing trait of the Academies of the Third and Fourth Periods. Many new subjects were introduced; the methods of some of the earlier Tutors were either entirely discarded or materially changed, and education came to be regarded as a means whereby the individual was prepared for the profession for which he was designed. The Classical studies are not neglected. The Rector's abstracts of lectures, which took the place of the text-books, were compiled by him out of a number of standard authorities, and were concerned mainly with the Divinity and the Classics. As, however, one person could not master all the subjects, the principle of division of labour was adopted, and specialists appointed to teach the subjects which they had made their own. Thus, while Dr. Ridgley lectured the students of the Independent Academy on Theology, John Eames, a friend of Sir Isaac Newton and a Fellow of the Royal Society, instructed them in Classics, Mathematics and Natural Philosophy.

[1] Reflections on the French Revolution.

[2] Compare also Appendix VI., pp. 161—163 to the Dissenting Academies.

Doddridge's correspondence shows that specialists were employed, while the history of Warrington and other Academies shows the prevalence of the system. This was inevitable. The growth of industry and commerce, the progress of the physical science in the eighteenth century, and the development of the educational method which resulted therefrom, necessitated the employment of specialists, and the differentiation of the curriculum, in the Academies.

The Academies of the last two periods were greatly influenced by the commercial and colonial progress of the period; while the Arian Controversy, the increasing control which the Nonconformist Associations exercised upon the schools, the persistent demand for utilitarian education, and the growth of a spirit of inquiry, of enlightenment, and of freedom which the literature of the period reveals, radically modified the character of these institutions.

(*a*) *The Growth of Commerce and Colonies.*—Lord Shaftesbury had drawn the attention of Charles II to the serious effect of the policy of persecution on English industry and commerce; and had shown that a number of English industries had been developed by alien immigrants into England. He pleaded for a relaxation of penal laws against Dissenters solely upon commercial grounds. Expediency, not the realisation of religious toleration, was the test he proposed to Charles.[1] Sir Josiah Childe, the merchant prince of his age, had pleaded

[1] See his remarkable memorial to Charles, in Christie's Life of Anthony Ashley Cooper.

for toleration on the same ground, and advocated religious liberty for the same reasons. He showed the disastrous consequences of the obstacles which the alien immigrants had to surmount before they could be granted naturalisation papers.[1]

The Dissenters showed the intimate connection between toleration and growth of English trade, and their most effective arguments—the arguments that won their day in 1689,—were directed mainly to this aspect of the question. Sir Charles Wolseley[2] pointed out, in 1668, that it was the trading part of the nation upon which the persecutions mainly fell, and the grant liberty of conscience in England, would be a more serious blow to Holland, the most serious commercial rival of England, than all the victories yet gained. Penn and Owen developed this theory to its logical conclusion.[3] Penn showed that Holland had risen to greatness by her tolerant laws, and enlightened and liberal spirit; he predicted that persecution would check immigration, and he showed that by "increasing the number of beggars it would increase the poor rate" (pp. 42—44). The reigns of William and Anne witnessed an extraordinary expansion of English trade, and colonies, and the academies did not remain unaffected. The Sacheverell Controversies, the Bangorian controversies and a host of other controversies were forgotten; and Chatham cared more for a

[1] See his New Discourse of Trade; B.M.; and Cunningham, Alien Immigrants into England.

[2] Liberty of Conscience the Magistrates' Interest, 1668, pp. 9, 10.

[3] Penn, England's present Interest Discovered, 1675.

slice of French colonies than all the scholastic juggleries and the futile logomachies which these quarrels brought forth in such abundance. The age of Walpole was pre-eminently the age of Commerce, and educational institutions would have stultified their existence if they had remained unresponsive to the ever-increasing desire for liberal education. Of this tendency, Joseph Priestley is by far the best example.[1] He brings out the difference between the new and the old conception of education with great vigour. "Time was when scholars might, with a good grace, disclaim all pretensions to any branch of knowledge but what was taught in the Universities," (p. 21) for "the literati of those days had comparatively little free intercourse but among themselves; the learned world of the common world being much more distinct from one another than they are now." But "those times of revived antiquity have had their use, and are now no more." The "politeness" of times had brought the learned (p. 22) and the unlearned into more familiar intercourse than they had together before. A new conception of education is demanded by the needs of modern life, and culture must connote not merely the learned languages—"the knowledge of the learned languages is not absolutely necessary, but is very desirable"—but also History, Law, Commerce and Science. With regard to Commerce, Priestley hoped that "when those gentlemen, who are intended to serve themselves and their country in the respective character

[1] Essay on a Liberal education, B.M., 1030, i. 13, 1765; and compare his memoirs by Rutt, Vol. I; Rutt dedicated them to Rajah Ram Mohan Roy, the founder of Brahmo Samaj, pp. 20—67.

of merchants have heard the great maxims of commerce discussed in a scientific and connected manner, as they deserve, they will not easily be influenced by notions adopted in a random and hasty manner and from superficial view of things." Priestley shows how the "severe and proper discipline of a Grammar School" had become a common topic of ridicule, and he traced the progress of classical education in England with rare insight. The Warrington Academy was intended to realise the new ideals which inspired some of the enlightened Dissenters of Lancashire. An analysis of Volume IX of the Monthly Repository yields the following figures; of the total number of 393 students, which the Academy trained during its short existence of *26* years, 22 entered for the Law; 24 for medicine, 52 for divinity and 98 for "Commerce;" of the remaining number, 197, we are not informed the course of study they pursued.

Mr. Nightingale has described the Academy in his "Lancashire Nonconformity," and it would be useless to go over the ground again. It is notable for the inclusion of "Commerce" and other "modern" subjects in its curriculum, for the succession of distinguished Tutors who taught there, and for the pioneering devices which its tutors successfully employed. Philip Doddridge's Academy showed the same tendency. Lectures were no longer delivered in Latin, and though "four classics, *viz.*, two Latin and two Greek books" were to be read by each student, other subjects, such as Geography, Mechanics, etc., were also given due prominence. Priestley's account of the Academy is highly favourable. "The general plan of our studies, which may be seen in Dr. Doddridge's

published lectures, was exceedingly favourable to free enquiry, as we were referred to authors on both sides of every question, and were even required to give an account of them. In my own time—Priestley was there from September 1752 to 1755—"the academy was in a state particularly favourable to the serious pursuit of truth," [1] as the students were about equally divided upon every question of importance, such as liberty and necessity for the sleep of the soul. The list of the most important Academies founded during the third and fourth periods (1688—1779) is given below.[2]

Northampton was a great centre of Nonconformist education, and though Doddridge's Academy was closed, John Collett Ryland brought his school from Warwick eight years later and continued there till he removed it to Enfield in 1786, when he devoted himself purely to scholastic work.[3]

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[1] See Rutt, Memoirs of Joseph Priestley, dedicated to Rajah Ram Mohan Roy, p. 23.

[2] Caleb Ashworth, Daventry Academy; look over Doddridge's pamphlets; Thomas Crosby, by Horsleydown, Southwark; Philip Doddridge, Northampton, 1729 to 1751; John Eames, Moorfields Academy; Caleb Evans, Charity Schools at Bristol, Downend and Mangotsfield. See Rippen, I; John Holt, Kirkdale; J. Jennings, Kilworth; Caleb Rotherham, Kendal, 1737 to 1751; John Collett Ryland, Northampton and Enfield; S M. Savage; John Ward, Moorfields, 1715 to 1734; Wilton and King, Girls' School at Hackney; Joseph Bennett, London; W. Tong, Coventry; Matthew Towgood; Benjamin Robinson; John Kerr, Highgate; Joshua Oldfield, Coventry; Joseph Hallett, Exeter; W. Evans, Carmarthen; John Chorlton, Manchester; Samuel Bourn, Bolton; Samuel Bemin, Broad Oak and Shrewsbury.

[3] See Whitley, "Contributions," Op. Cit. p. 12.

(*b*) *The influence of Nonconformist Organisations on the schools.*—Another important change effected during the period was the introduction of what may be called Public Schools, established or controlled by subscribers or governors, or trustees and not run at the pleasure of a headmaster. As will be shown in the next section, the Quakers were the first to organise their educational institutions, and to formulate principles of educational policy that were not followed by other bodies, until about 200 years afterwards. The germs of this movement are to be found in the Congregational Fund Board, instituted about the end of the 17th Century. The Presbyterian Fund was founded in 1689, and was soon followed by the trust of Dr. Daniel Williams. The Board contributed towards the education of students in the private academies, and also towards the support of ministers who received an inadequate income from their congregation. Under the will of a Mr. Trotman a considerable amount of property was vested in trustees, most of whom were ejected Independent ministers, to be used for Nonconformist purposes. The trustees granted small exhibitions to young men who were studying for the Dissenting Ministry.[1] From 1690, it sent a constant stream of students to various Academies, and though it exercised no control over the internal administration of the Academy, it could influence the policy of the Tutor through its control over its students. A Tutor who was

[1] See R. W. Dale, History of Congregationalism, p. 506. A. Gordon, Freedom After Ejection, and Jeremy's "The Presbyterian Fund of Dr. Williams' Trust."

suspected of Arianism or a school that had attained an unenviable notoriety, could hardly be tolerated by a body that was remarkable for the moderation of its members. All the important Academies received grants in respect of some of the students sent there by the Board. Richard Frankland's Academy was probably the greatest gainer by the change, as we come across no less than 36 students who received benefit from this Board.

A great step forward was taken when the various Nonconformist bodies directly controlled a school. The creation of the Public Schools of Dissenters was necessarily a slow process, and much delay would have been avoided if the spectre of Arianism had not haunted the respectable Dissenters of the middle half of the eighteenth century. Arianism may not have originated a new type of education, but it gave a great impetus to the movement. The Methodist School at Woodhouse Grove, the Congregational School at Caterham, the Mill Hill School and the Sidcot School, are too well known to require any detailed treatment. The example of the Friends' Schools was no doubt followed by other Dissenting bodies, and the regularisation of administrative machinery, the co-ordination of the various educational measures, and the gradual adaptation of the curricula and methods of these Academies to the newly-felt wants that had their origin in the Industrial Revolution, ultimately produced an entirely new conception of education. The attacks of the Edinburgh Review on the education provided by the old Universities, Cardinal Newman's defence of the classical curriculum and the "social" education, on which Oxford and Cambridge prided themselves, Mark Pattison's

strictures on the conversion of the colleges into "Boarding Houses for Young Gentlemen," Huxley's scathing remarks on the services performed by the old Universities, and the attempts of various reformers to adapt University education to modern needs, would be incomprehensible to us unless we trace the history of the Dissenting Academies of the final period. Various other factors, no doubt, co-operated in the process, and the growth of science, the expansion of the British Empire, and the development of British trade and industry in the nineteenth century, were contributory causes of the radical change in the conception of the relation of State to Education. But the germs of the modern theory of education,—the theory that education is a preparation for life, that the success of the school depends upon the assimilation of school experience to experience of the world, that, in short, the school should represent the world in miniature—are to be found in the theories of some of the most successful Dissenting teachers of the period.[1]

SECTION II.

THE FRIENDS' SCHOOLS.

The importance of the Society of Friends in the development of a national system of education, and the educational principles, which were developed out of the religious principles of George Fox, have not been properly

[1] Reference may be made here to Newman's "Idea of a University Defined"; Campbell's "Nationalisation of the Old English Universities"; Huxley's and Pattison's Essays and Tillyard. For the influence of Academies upon the Arian Movement in England, see I. M. Calhoun, The Arian Movement in England, Chapter 8.

studied by historians of education. George Fox's emphasis on "Inner Light," his dislike of mere learning, his insistence on the development of personality through moral, rather than intellectual perfection, and the lack of a definite, logical and systematic theory of religion, may lead us to believe that learning would not be prized by members of that body, that salvation of the soul would be the ideal at which the members of the new sect will aim, and that this salvation would be conceived in a strictly religious sense. Pure scholarship would find no place in a system of beliefs whose fundamental principles laid emphasis on instincts, rather than knowledge. And Fox's conduct in the early part of his career exhibited this tendency. A few extracts from his Journal will bring out the connection of the Society with education. "About this time, I was sorely exercised in going to their court to cry for justice. I was much exercised too with schoolmasters and schoolmistresses, warning them to teach their children solemnly in the fear of the Lord, that they might not be nursed and trained up in lightness, vanity and wantonness." [1]

University learning was deemed superfluous and "the Professor was not enough; the true believer was one who was born of God, and had passed from death to life." Learning was not enough—though commonly supposed to be so—for, as George Fox was walking in a field on Sunday, "the Lord opened unto me that being bred at Oxford or Cambridge was not enough to fit and qualify men to be ministers of Christ, and I stranged at it,

[1] Journal I, p. 39.

because it was the common belief of the people." Samuel Fisher, with his University learning and his varied experience as a Puritan lecturer, seems to have held the same opinion. His book, "Rustious ad Academicus" shows the length to which the war between the Quakers and the Universities was carried. He charged the learned with "twattling away their time to learn in about the gaudy outsides of their horn-books, and primers and brawling about the backside of their Bibles." To the Puritan divines the "Children of the Light" seemed "poor, deluded, fanatical, silly souls, uncatechised and unstable men of low parts and small capacities," and were looked down upon in the spirit in which the philosophers of Athens looked down upon the babbler Paul, or the Pharisees upon the accursed people who knew not the law.[1]

When Cromwell, in 1657, signed a writ for founding a University at Durham, Fox met the Protector's emissary and "let him see that was not the way to make them Christ's ministers, by Hebrew, Greek, Latin and the seven arts, which all was but the teachings of the natural man, for Peter and John that could not read letters preached the word, Christ Jesus, which was in the beginning before Babel was." [2]

Some of the fanatical and ignorant Independent preachers had openly expressed their dislike of University learning, and George Fox's protest against it might not have produced harmful results, if some of his fervid

[1] See Braithwaite, W. C., The Beginnings of Quakerism, p. 294.

[2] See his Journal, edited by Norman Penney, I, 311 and 312.

disciples had not tried to carry his theories into practice. As early as 1655 two Quaker women, after reproving some Cambridge students at the Sidney Sussex College gate, had been stripped naked to the waist and brutally flogged at the market cross, "their bodies being slashed and torn exceedingly."[1] For several years there were frequent imprisonments of Quakers, and the Meetings kept by Friends in their meeting-room in Jesus Lane were disturbed by the students of the University. Oxford treated the Quakers with no less brutality.[2]

The treatment meted out to the Quakers was no doubt responsible for the erroneous view which the majority of Friends held on University learning. Their protest against some aspects of University education was timely, but they fell into the opposite error, and laid exclusive stress on the Light within, till they despised human learning, seeing no good in hireling priests who spoke a divination from their own brains, using their knowledge of tongues, and stealing the words from their neighbours.[3]

There is no safety in individualism, in personal responsibility, or in democracy, whether in Civil or religious matters, unless every individual is given a chance to correct his subjective seemings by the gathered objective experience of the age, as expressed in scientific truth, in historical knowledge, in established institutions, and in the sifted literature of the world. The "Inner Light"

[1] Besse, Sufferings, I, 84.

[2] Besse, Sufferings, I, 565.

[3] Fox, Epistles, N. 42.

upon which the Quakers laid so much stress was not always a sufficient guide, and George Fox seems to have grasped the significance of education only during the last period of his varied life.

There are very valuable references to education, in the new edition of his Journal by Norman Penney, and though no clear idea of the organisation that was set up for the specific purpose of educating Quaker children in their own schools can be gathered from the short and pithy remarks on schools; the study of these notices, and the valuable notes supplied by Mr. Penney, bear out the claim of the modern historians of the Society, *e.g.*, Braithwaite and R. M. Jones, that the "Friends have always emphasised the importance of education." Fox had moments of insight into the importance of education, and urged the founding of schools for "teaching everything civil and useful in creation." He established several schools, as appears by the following extracts from his Journal.[1] "After I had visited friends, went to Baldocke, where I had a great meeting, and many hundreds of people and came by water, and established a school for teaching of children"[2] "and ordered ye womens schoole to be sett uppe[3] to instruct younge lasses, and maydens in whatsoever thing was civill and usefull in ye creation." There is another reference to "Women's school" dated 1671 (p. 169). "And so after I coulde stirr uppe and downe I went from Enfeilde to Ger: Roberts, and from thence to ye women's

[1] Edited by N. Penney.

[2] Page 119, dated 1668.

[3] Ellwood edition adds "at Shacklewell."

schoole and soe to London." A number of Quaker schoolmasters were prosecuted, and we come across names of various counties where charges were laid against them. In the Deanery of Warrington, there was a visitation, in 1665, against "Thomas Hickocke, schoolmaster, a Quaker, for teaching a private school in William Martin's house; four Quaker schoolmasters were "presented" in 1675, in Cumberland; while in Burgh By Sands, a Quaker named Potter was "presented" for keeping a school in 1671. Westmorland witnessed the "presentation" of no less than three Quaker schoolmasters in July 1673, for "teaching schoole without Lycence." The Bishop of Chester's court prosecuted four; and Mr. Knight[1] supplies us with details of the trial of a Quaker named William Jenkins. It is noticed that some of them were prosecuted as late as 1699 and 1705. A Tho. Downe was prosecuted for "haveing kept a schoole at Corfe Castle in the Isle of Purbeck, for near a year, and committed a prisoner to jail at Dorchester."[2]

The sentence of Praemunire, in all its rigour, was passed upon "Richardson," at Chelmsford Quarter Sessions, in 1670, for refusing to take the Oath of Allegiance, and teaching school without License, "Joseph Besse, the Chronicler of Quaker Martyrs, informs us that he was committed in prison during 2¼ years, when he suffered much through extremity of cold and cruel usage, being often shut up among the Felons."[3]

[1] History of Sidcot School.

[2] These details have been gathered together from the various numbers of the Journal of Friends' Historical Society, Vols. I to X.

[3] Besse, Sufferings of the Quakers, 1753, Vol. I, p. 204.

The British Museum Library contains a rare pamphlet by George Fox, Stubbs and Benjamin Finley, with MSS. notes by Ames.[1] It is addressed to "all you Doctors, Teachers, Schollars and Schoolmasters, that teach people in Hebrew, Greek, Latin and English Grammars, Plural and Singular, that is, Thou to one, and You to many, and when they learn it they must not practise it." What good, ask the worthy authors, "doth your teaching do to them when you do not intend that they should practise it, when they have learned it?" The authors then try to prove that singular and plural nouns are properly used in the Bible, that all the languages, Chaldic, Babylonian, Syriack, Ethiopic, Hebrew, Persian and Arabick, use it properly, and never pervert it for the purpose of doing lip-service to men in high stations; and it is only the English Professors who have prostituted the word. The array of different languages is imposing enough; but the Persian is a bit shaky; while the Arabick translation needs careful clipping.

As early as 1668, Fox had set on foot his two schools, one for boys at Waltham Abbey, and another for girls at Shacklewell.[2]

Cristopher Taylor, brother of Thomas Taylor, the minister to the Westmorland Seekers, had kept a "Latin school for Friends' children at Hertford[3] and became the first master at Waltham Abbey. The school was

[1] A Battle Door for Teachers and Professors, to learn Singular and Plural, B. M. 66, C. 4.

[2] See the extract from the Ellwood edition of Fox's Journal, *supra*.

[3] Extracts from State Papers relating to Friends, p. 193, Date about 1664.

later on moved to Edmonton, and in 1682 Taylor emigrated to America, the famous Keith succeeding him. George Keith was probably the ablest Quaker of the period. His intense zeal for Quakerism; his devotion to George Fox; his subsequent quarrels and his conversion to the doctrines of the Church of England, made him the most picturesque, if not the most effective person of his age. He had, later, a school at Theobald, Herts, where Robert Barclay, son of the Apologist, was under his tuition, and where he was prosecuted for "Preaching and Teaching School without License." [1]

Taylor obtained the assistance of a learned and devoted friend, John Matern; and at the instance of the Six Weeks' Meeting who desired a book for teaching children at the schools, Court Hands, Lawyers' Latin, etc., the better to enable them to read a writ and other law process, "published in 1676," "Institutiones Pietatis," to which the chief principles of Latin were added. With Matern's help he also produced "Compendium Trium Linguarum," an abridgement of Latin, Greek and Hebrew, "in a short and easy method for the use of the studious and Christian youths." The book lays aside all the "old, corrupt, heathenish books, and grammars thence educed," and illustrates the language from Scriptures. George Fox, it appears, had been thinking of the necessity of a change in school books, and with the assistance of Ellis Hooker, "Fox set about the preparation of more suitable books, such as Instruction for Right

[1] See Journal of the Friends' Historical Society, Vol. VII, p. 177. Besse, Sufferings, Vol. I, p. 252.

Spelling, Reading and Writing," etc., in 1673.[1] School books received constant attention from the Quakers, and several references are made to changes in the curricula of the schools. We are informed of a meeting of schoolmasters who were submissive enough to report " that they were desirous to receive and put in practice whatsoever Friends may have in their minds to communicate to us." In 1705, their anxiety for " the better education of youth " in minuted, and, in consequence of the increased desire of the Quakers to avoid the contamination of the susceptible minds of their offspring, by " heathenish authors," they report their determination to lay aside " Virgil, Horace, Juvenal, Terence, Ovid's Tristius, Ovid's Fables, Corderius, etc., although they have been used for the instruction of youth in the Latin tongue." It was found, says Robert Barclay,[2] after 50 years' use, that these authors do not " treat of things agreeable to truth " and they consequently substituted " Sententia Pueriles" Cato's " Nomenclature," " The Latin Bible and Testament," " Academia Celestus or Heavenly University," Robert Barclay's " Catechism and Apology," Buchanan, etc. An alteration in Lilly's " Latin Grammar " was approved, and 1,000 amended copies ordered to be printed.

In 1674 London Friends took in hand a school at Devonshire House for the children of poor Friends ; while the Shacklewell school for girls was in the hands of Jane

[1] Norman Penney's Note in his edition of Fox's Journal, p. 409.

[2] The Inner Life of the Religious Societies of the Commonwealth, 1876, pp. 181-2.

Bullock. Mr. Norman Penney[1] has supplied us with an interesting account of a schoolmaster named Scoryer at Wandsworth, where Samuel Crisp was an usher. Samuel Tuke[2] quotes a document issued in 1697, which throws light on the activities of some of the early Quaker schoolmasters. "That whereas there may be diverse young men amongst Friends, that are already in some degree capable of teaching children; if any such come recommended from the Monthly or Quarterly Meetings, Richard Scoryer of Wandsworth near London, offers freely to inform and direct such in his method of teaching children, and take some pains in completing them in writing or arithmetic; only providing for themselves meat, drink and lodging." Richard Scoryer had kept a school at Southwark, where he obtained permission from the Six weeks' Meeting to have "ye two roomes over ye meeting house in ye park for a scoole room at £4 p. a. George Chalkley appears to have succeeded Scoryer about 1693, the latter probably then opened a school at Wandsworth, as his name frequently occurs on the books of the Wandsworth Monthly Meetings.

Friends of the West of England early showed a practical interest in education by the establishment of schools. Minutes of the Quarterly Meetings show, according to Francis A. Knight,[3] that as far back as the reign of Charles II strenuous efforts were made to induce schoolmasters to settle in that city. In

[1] J. F. H. S. Vols. VII-VIII, pp. 45-6.

[2] Five Papers on Education, 1843.

[3] History of Sidcot School.

1669 a teacher called Toppin was offered ten pounds a year for teaching poor children. Another teacher was apparently more successful. The Monthly Meeting of February 27th, 1674, made this entry: "It being proposed to this Meeting to spare the Voyd Room over our meeting house to Lawrence Steel for a school roome, doth with one accord give their consent that he shall have it to the use proposed." Lawrence Steele, like so many others, suffered persecution at the hands of the clergy, his health, already infirm, was impaired by close confinement in Bristol, and he died in 1684. Patrick Logan succeeded him; but his inability to find scholars, and their comparative neglect of the newly appointed teacher, were not calculated to inspire confidence, and we are not surprised to find Logan complaining of his treatment. He might have found employment in London, York, or Nottingham, "but it was thought fittest that he should come to Bristol, because Friends were then earnestly seeking for a schoolmaster for educating their children, of which there was great need." Four years later, the Bristol school passed into the hands of James Logan. James Logan's masterly character has been painted by R. M. Jones in his recent work,[1] and there is no need to go over the ground again. It is necessary, however, to emphasise the point that a distinct class of schoolmasters had not risen yet, and that though the Friends were the first to organise their education, the versatility and many-sidedness which distinguished many of the Dissenting teachers, were the most important factors in the gradual progress of the

[1] The Quakers in American Colonies.

Friends' schools. In 1695, the yearly meeting of the Western Counties advised the Friends that where "Friends can, they would get such schools and schoolmasters for their children, as may bring them (in) the fear of the Lord, and Love of His truth, that so they may not only learn to be scholars, but Christians also."

The Epistles from the Yearly Meeting of Friends held in London, to the Quarterly and Monthly Meetings in Great Britain, Ireland and elsewhere, from 1681 are of primary importance.[1] They enable us to study the principles and to trace the history of the Quakers with an accuracy and definiteness that are rarely possible in any other branch of history. Education was conceived as a religious duty, and Friends were exhorted to bring up their children "in plainness, and in the nurture and admonition of the Lord." Particular importance was attached to "useful learning," and Friends were advised to "recommend the instruction and improvement of youth, in useful learning, as Reading, Writing, Arithmetic, with other profitable parts of knowledge and such tongues as may be beneficial, and not for ostentation;" there was apparently a lack of suitable schoolmasters, for we find the same meeting devising means for the supply of suitable masters. "To the end that there may be suitable supply of schoolmasters for the future it is the advice of this General Meeting that such poor children as fall to Friends' charity and care to educate, that are ingenious, and well inclined to love truth and Friends,

[1] London, 1858. Perhaps the most reliable authority is the MSS. in the Friends' Library, Devonshire House.

may be so educated in order to answer that service as a schoolmaster." The epistle is signed by, among others, William Penn, Daniel Taylor, Jacob Thomas, Constantine Young, etc.[1]

The above document shows clearly enough the importance of education, and though it applied only to the County of Somerset, the measures proposed did no doubt develop the education of Friends in that County. The most prominent members of the Society were sometimes appointed inspectors of Friends' Schools, and we come across some very interesting references in the Minutes. Thus we find that on April 21, 1697, "William Penn, Richard Snead, Charles Harford, Thomas Callowhill and Ch. Harford, Junior, are desired to visit the schools of our Friends' children to enquire into the order and manners thereof (and) admonish against that they shall find amiss."

The earnest advice contained in the yearly meeting epistle seems to have borne fruit, for two years afterwards a project of setting up a school was discussed and two friends were appointed to "provide a schoolmaster and let him know for encouragement that if there do not schollars enough come to him to make up £20 p.a., the friends of this county will make up so much as fall short for two years." At the October meeting, it was decided to establish the new school at Sidcot, as

[1] Mr. Norman Penney, F.S.A., informs me that the epistle did not apply to the United Kingdom, and that it was operative only in the County of Somerset. See the MSS. entitled "Bristol and Somerset Quarterly Meeting." Devonshire House, Bishops gate. The Epistle is dated "11th and 12th days of the third month 1696."

being more likely to agree with children's health than Long Sutton or Glastonbury. William Jenkins was appointed Master for two years, "for teaching Greek, Latin, Writing, Arithmetick." Jenkins remained at the school till 1728, when he sold the premises and returned to Bristol, where he died in 1735.

The progress of Sidcot School was hampered by a number of unfortunate incidents and its position as the leading Public School of the Dissenters was attained only after considerable obstacles had been removed. The clearest expression of the principles which underlay the educational policy of the Friends is to be found in a valuable Epistle of the Yearly Meeting, in London. It may be regarded as the Charter of the Quakers' schools, and though the various measures outlined therein were not new, their comprehensiveness, the position of the members who constituted the Committee, and who drew up these plans, their emphasis upon sound training and impartial inspection, and the new conception of education which they enunciate, in short though vigorous terms, make them memorable in the history of educational thought.[1]

The letter points out that "as several members of our last yearly meeting and others of the brethren had expressed their deep and weighty concern for the better education of our youth and children, in an early instruction in the way of Truth, and also in the acquirements of

[1] See MSS. entitled "Portfolio 32" Friends' Reference Library, Devonshire House, Bishopsgate. It is signed by Benjamin Bealing, and is dated London 1697.

useful languages and sciences, and in necessary employments of labour and industry, suitable to their ability and strength," the matter was referred to a Committee and their recommendations were based upon reliable data. The proposals of John Bellers for a Colledge of Industry, for the better maintenance of the poor and education of children, were approved by the Committee. They recommended the establishment of an experimental school, conducted according to the methods suggested by Bellers, and carried on mainly for the benefit of the poor. It is clear that there was no unanimity of agreement, and that though a school was actually established later on, the committees' recommendations are marked by considerable caution. As regards the education of Friends' Children, the Committee recommended that "care be taken to have such schools in your respective counties wherein your children may not only be instructed in languages and sciences in the way of Truth," but "likewise in some profitable and commendable labours, or industrious exercise, which may prevent many temptations attending idleness, and instil principles of industry, with literature, both in rich and poor."

As will be shown later on, Bellers' scheme was tried in a number of schools, and though some of the leading schools, such as Sidcot, discarded it later on, the educational importance of the measure can hardly be exaggerated.

The "maintenance" of the schoolmaster was also discussed and generous provisions made for their benefit. They stated that "care be taken in every county to allow

competent maintenance to masters, or at first two or three counties may join, and have the use of some convenient house or houses rent free, and any suitable and encouraging sum be borne by the County or Counties." The supply of schoolmasters was to be kept up by teaching "a competent number of children of poor Friends, free cost." Only those poor children were to be recruited to the teaching profession "who had a proper genius for learning." The provision relating to inspection of Quakers' schools is important. Some "worthy and suitable Friends" were recommended to "goe and inspect schools and the Families of Friends in the several Counties and to see that the advice of Friends be duly answered in this great concern." Such children as were fit for Apprenticeship were to be "put unto honest Friends." The Friends seem to have experienced considerable difficulty in procuring suitable schoolmasters, and several Minutes of the Yearly Meetings emphasise the importance of training. "Diverse young men among Friends, that are already capable of teaching children, if any such be recommended from the monthly or quarterly meetings" were advised to go to Mr. Richard Scoryer's Schools at Wandsworth, who offered "freely to informe and direct such in his method of teaching, and take some pains in compleating them in Wrighting or Arithmetic, they providing for themselves meat, drink, and lodging." We do not know whether many schoolmasters availed themselves of the offer. It is likely that the death of Mr. Scoryer, and the improvement in the quality of teachers which was the direct result of these suggestions made a rigid system of

training unnecessary. The Quarterly and Monthly Meetings exercised direct control over the schoolmasters. They appointed and dismissed teachers; collected funds for the foundation and improvement of schools, and co-operated with the occasional inspectors sent down from the Friends' headquarters. in the task of inspection. These checks were amply sufficient for the purpose and the tentative proposals as regards training of teachers, etc., were never carried into effect.

This manuscript is of importance for the formation of a right judgment on the work of the Society. It was the most vigorous, the most enterprising, and the most enthusiastic of all the sects that had been founded under the Commonwealth. The Minutes of the Yearly Meetings refer constantly to the necessity of providing sound education and the need of organising schools, and regularising the administrative machinery. At the Yearly Meeting held in London, 1760, it was agreed that an annual subscription be set on foot in each county by Friends, and "as large a sum be raised as conveniently may be," for the encouragement of schoolmasters and schoolmistresses. The method of distribution had some very interesting features. Every Schoolmaster was allowed 10 for every youth in his care over and above what was usually received as the common price of instruction. This was designed to promote the growth of Friends' Schools throughout the Country, for if the money raised be not sufficient to induce a master or mistress to open a school, or if the families of Friends be too remote and scattered, the amount raised was to be added to the stock of some neighbouring Quarterly Meeting. It was hoped

that by "this encouragement many Friends of both sexes will be induced to open schools in diverse places where now there are none; and be inclined to take vigilant care of those committed to them." It was provided, however, that all schoolmasters or mistresses who desired to take advantage of this offer were to be "approved by the Monthly Meeting, in the compass of which they design to reside."[1] The effects of this measure will be pointed out later; here it is only necessary to show the prominent place which education occupied in the programme of the Society of Friends. Throughout the eighteenth century, education claimed the attention of the Yearly Meetings, and experiments were conducted with zeal and enthusiasm. A clause in an Epistle of 1737 brings out vividly the deep devotion to learning, and the earnest piety, which were such a characteristic feature of the annual gatherings of Friends. "And Dear Friends, it has become concern of this our Annual Meeting, from the Relation and Hopes given us of Truths spreading in foreign countries that Friends who are of Abilities and have the Prosperity of Truth at Heart, would, in the Education of their children taken care, as suitable Opportunitys and Occasions may offer, to let them be Instructed in some Modern Tongue as French, High and Low Dutch, Danish, etc., that so when they are grown up, they themselves, of Trades to foreign countrys may reap the Benefits thereof." The combination of deep religious feeling with a desire for material gain is not so incongruous as may appear at first

[1] See the Yearly Meeting held in London, May 1760, Friends' Reference Library, Bishopsgate, E.C.

sight; for the merit of the Friends' schools consisted in their quick adaptation to novel experiences, and their subordination of the material to the spiritual elements of education.[1]

"Between 1700 and 1740, London Yearly Meetings pressed on its members, no less than 27 times, the duty of greater attention to the education of youth."[2]

At the Yearly Meeting in 1701, in addition to the answer to the usual inquiry, relative to Education from the several meetings, many of them report as to whether they had schools provided for their children in their several districts; and it is evident that much attention had been paid to the subject. The reference to facilities for the education of Friends' children are interesting. At Bristol, "schools in our workhouse were settled for the benefit of our youth." In Devonshire, we learn, there was a "want of Friends' Schools in many places." Durham fared much better and possessed some. Other entries are "London Schools in most parts of the City." Northamptonshire, "no Public Schools, but greatly wanted." Somersetshire, "have a school in good order." Suffolk, "have a school for the education of youth." Westmorland, "have three schools." Wiltshire, "have one school." Worcestershire, "have two schools." The Printed Epistles of 1703, 1704, 1706 and 1712, remind the parents of their duty towards their children, and urge upon them the necessity of religious instruction.

[1] See London Yearly Meeting during 250 years Paper by A. Neave Brayshaw, dealing with the years 1725-1825.

[2] John Stephenson Rowntree, His Life and Work, 908, see pages 301-360.

The Friends' Schools in England.—In 1671 there appear to have been fifteen boarding schools at least, in the country, kept by Friends. They were: Ayton, Chiswick, Croydon, Fearnhead, Hemel Hampstead, Kendal, Penketh, Ramden, Shacklewell, Sibford, Waltham, Weston, Wigton, Worcester and Lealand. The list is not, however, complete. Further research has increased this number. There was a school at the Friary, Ilchester, in 1662, during the time this ancient building was used as prison for Friends. This was perhaps the best example of the new spirit that guided the action of Friends. We are told that "Friends being thus separated from their own families and Imployment yet were willing to improve opportunity for the doing of good even to their enemies" and several of them expressed their willingness to teach "scoole, and that all that would send their children unto them, they would freely teach them to read or write and cast accompt." About 70 children attended this institution and "some had gained more in two weeks there than in half a year elsewhere. This noble design was thwarted by the clerics; they were forbidden to teach, and a George Waters then came, "and carried the principal schoolmasters from the house to the Common Jail."[1]

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[1] For the persecution of Quaker schoolmasters, see above Even after the Toleration Act, at least twelve Friends were prosecuted for keeping school without a license. Journal of the Friends' Historical Society, Vol. II, p. 131. "I have," said Neave Brayshaw, in his Presidential Address, on May 25, 1911, "so far come upon only two cases before 1689." This is apparently a mistake, and compare Journal of the Friends' Historical Society, Vol. VIII, pp. 16—19. The Somerset County Herald, Sept. 2, 1911.

The curricula of these schools did not differ to any material extent, from the course pursued in the Grammar Schools. Latin was no doubt taught in all of them, and classical authors were studied with care. The Minutes of Meetings constantly refer to the discipline of these schools, and there are frequent references to "rude boys" who troubled "the meetings in London, Bristol and Dublin."

In 1681, two schools were established in Aberdeen and the schoolmistress was besought by the church "to seek to accomplish herself in reading, writing and arithmetic" and also to get a good "stocking weaver." The church also had a "true sense that there is cause for encouraging her." Some of the parents thought otherwise, and withdrew their children, "and it was directed that they be weightily dealt with, to return them again." The boys' school had a master who was allowed "£10 rent," and he was expected to "impart the Latin tongue and other commendable learning."

Further light is thrown on the methods employed in Quakers' schools, by a letter from one of William Jenkins' pupils at Sidcot School. "I have learned in Grammar, Latin Testament, Corderius, Castalion, Textor and Tully, and am got through Arithmetic except one rule, and also have learned merchants' accounts."[1] George Fox's measures for the reform of school text-books, Taylor's compilations, and Ellis Hookes' suggestions, have already been referred to (see above). The importance of Friends' Schools consists not so much in

[1] See Knight, Sidcot School, pp. 12, 13.

their reform of school books, as in their educational experiments, their original outlook on the function of education in society, and their conception of education as a process whereby the different classes could be made to co-operate in the difficult task of building up an enlightened society. The lower classes are not despised, but regarded as members of the same family.

George Fox's warning to the magistrates; Penn's solicitous care for the poor; the example set by many of the leaders of Friends; and the numerous institutions they established for the relief of poor Friends, testify alike to the interest they manifested, and the zeal they inspired among others. The effects of these activities are perceptible in the writings of the institutions and the lives of Quakers. Another notable effect must be mentioned here. Penn's schemes for colonisation and his administration of Pennsylvania had familiarised him with many of those features of primitive society of which the Quakers at home were totally ignorant. He could estimate the value of the classical education of the day at its real worth, and could point out its drawbacks with an authority borne of ripe experience and of successful government. He desired "learning to be liberal," but a liberal education did not imply useless learning, but "useful knowledge, such as is consistent with Truth and godliness." Hence he recommends "the useful parts of mathematics, as building houses, ships, measuring, surveying, dialling, navigation." He emphasised the importance of agriculture, as it "is industrious, healthy, honest, and of good example," and he praised the princes of Germany and its nobles for their instruction of children

in some useful occupation.[1] He notices the difference between "words" and "things;" points out the danger of confining children's attention "to Grammar and Rhetoricks, and a strange tongue or two, that it is ten to one may never be useful to them," shows the advantages of "Drawing and Framing" over "getting some rules of Propriety and Building by heart;" and advises us to study "Nature more on Natural things." "We are in Pain to make them Scholars but not men to talk, rather than to know, which is the true canting." He thought that we "pressed" the memories of "children too soon," and puzzled and loaded them with words and "rules." He advocated the composition of books for youth by "some curious and careful Naturalist and Mechanicks, in the Latin Tongue, to be used in schools, that they might learn things with words, things obvious and familiar to them, and which would make the tongue easier to be obtained by them," then we should use gardeners, husbandmen and artificers, who "should know the reason of their callings, and be master of them."[2]

Penn's theories of education are important, as his dominating personality moulded the policy of the Society

[1] Janney's Life of Penn, p. 199, and compare the following, "Near the close of the year 1669, George Fox, while in London, issued an address to Friends throughout the nation; advising that in all their quarterly and monthly meetings, inquiry should be made for such children of widows, and other poor Friends as were suitable for apprenticeship, in order that places might be found for them, among members of their own society." See Janney's Life of George Fox, pp. 311-312.

[2] See Penn's "Some Fruits of Solitude," edited by Edmund Gosse, pp. 2-6; and his Preface to Fox's Journal, Penn's consistency is apparent from a perusal of these documents.

of Friends for a considerable period, and influenced the economic and colonial policy of England during the last quarter of the XVIIth Century.

His theory of education is not by any means novel, and we seem to see in it but a pale reflection of Locke; but it is intensely practical; it is based upon data which Locke never utilised, and experiences of which Locke was totally unconscious. His educational theory was merely an expression of the colonial policy which he had so much at heart, and his references to "Nature," his comparison between "Words" and "Things;" and his praise of husbandry and "mechanical Arts" show the extent to which he subordinated the "Classical" to practical subjects. Education is conceived as the most important agency whereby a knowledge of all "the useful works of creation" could be acquired, and through which an individual could gain a deeper view of the ultimate foundations of society. For the merit of the Quakers' schools lay in their harmonisation of the two ends of education—the moral end, and the utilitarian end. The latter was regarded simply as a product of the former, and though the two were often in opposition, the Quakers were very slow to accept it.

Penn's projects are detailed to us in an interesting letter from Thomas Lawson, the Quaker Schoolmaster and botanist. "Some years ago, George Fox, William Penn, and others, were concerned to purchase a piece of land near London for the use of a garden school-house and a dwelling-house for the master, in which garden one or two more of each sort of

our English plants were to be planted, as also many outlandish plants." Lawson tried to write a book on these in Latin, "so, as a boy had the description of these in book-lessons of their virtues, he might see these growing in the garden or plantation, to gain the knowledge of them," but persecution and troubles prevented him from the "prosecution thereof, which the master of Christ's College, in Cambridge (Ralph Cudworth) hearing of, told me was a noble and honourable undertaking and would fill the nation with philosophers." [1]

The failure of Lawson's attempts did not damp the ardour of the younger members of the Society and various projects were discussed for the reform of some of the glaring abuses of the period. Of the various plans which the Annual Meetings of Quakers discussed, none claimed greater attention than that of John Bellers. His plans were supported by many of the most influential members of Society, and were recommended to all the Friends in the United Kingdom, in the Printed Epistle for May 1697. Bellers' scheme contains a proposal for the formation of an extensive co-operative society, including "all useful trades and industry with profit for the rich, a plentiful living for the poor, and a good education for youth." Minute directions are laid down as regards the administration of the College; and very valuable comments are made on some of the current methods of teaching. He thought that four hours in a morning, and four in an afternoon "were too long to tie a child to his book; that at four or five years old,

[1] The Quaker Post-bag, pp. 20-23.

besides reading, boys and girls might be taught to knit and spin, and bigger boys turning."

He maintained that the training of children from infancy in his College rules would be more beneficial than private education, because "there will be all sorts of employments and tools, for every age and capacity to the employed with." Languages and learning could be acquired there, as it would contain "some of all nations, who may teach their mother-tongue to the youth as they teach it to their children." They would be more under the eye of one master or another than in a private family. Moreover, the Colleges, being well governed, will prevent many of the evils of bad company. There will be a library, a "physick garden for understanding of herbs; and a laboratory for preparing of medicines."

The Quarterly Meetings advised in 1696 that schoolmasters and mistresses, who are faithful and well qualified be encouraged in all counties, cities, etc., and that care be taken that poor Friends' children may partake freely of such education as may tend to their benefit and advantage in order to apprenticeship. It is not, however, so much in their conception of educational theories and methods as in their progressive views on Labour that their importance consists. Nobody represented that benevolent spirit so well as John Bellers.[1] We find in him the clearest and boldest thoughts of the

[1] Karl Marx has described Bellers as a 'veritable phenomenon in the history of Political Economy,' while H.M. Hyndman has expressed his conviction that his book 'contains some of the most luminous thoughts in political economy ever put on paper.' Socialism in England, 1883, p. 85 *et. seq.*

religious and social revolutionists of the Seventeenth Century.[1] He showed that "as a good and plentiful living must be the Poor's Encouragement, so their Increase, the Advantage of the Rich; without them, they cannot be Rich." For, "If one had a hundred thousand acres of Land and as many Pounds in Money, and as many Cattle, without a labourer, what would the rich man be but a Labourer?"[2]

These revolutionary views on Labour are followed by proposals still more revolutionary. He proposed the erection of a college in which a number of workmen and workwomen of various trades were to live together. On the death of the workmen their families were to be carefully provided for, and the children to be educated. The rich were to found the college and derive an annual profit from it, but it was to be for the benefit of the poor. He asserted in a subsequent treatise[3] that by this means the poor will have constant employment, that they will have a constant 'vent' of their articles, that they will have plenty of food, that the education of their children will be sound, and, finally, that there will be a profit to the founders.

His section on the education of children throws much light on the methods of education. He denounces corporal punishment, long school-hours, and asserts that 'beyond Reading and Writing, a multitude of scholars

[1] Edward Bernstein.

[2] Industry Brings Plenty.

[3] An Essay for Imploying the Poor to Profit, B.M. 8275, c. 29, 1723, Bellers, By John pp. 3-4.

is not so useful to the Publick as some think; the Body requiring more hands to provide and support it, than Legs to direct it.[1] At five, the boys were to be taught Reading, Knitting and Spinning; while bigger boys were to learn "Turning," etc. There are several interesting features in his college. There will be all sorts of implements and tools for every age and capacity; all languages will be taught by the natives; there will be a library, a 'physick-garden', and a laboratory. 'As it may be an Epitomy of the world, by a collection of all the useful trades in it; so it may afford all the comforts and conveniences a man can want, and a Christian use.'[2]

The proposal attracted the attention of several leading Quakers, and was favourably commented upon by others.

The lack of sufficient evidence and the impracticable nature of the proposal would lead one to suppose that the project was unsuccessful. (See below, pp. 72-7).

Bellers, however, continued to take an active part in various schemes for the amelioration of the lot of the poor, and wrote several pamphlets in support of his proposal.[3]

Bellers' importance consists in the fact that he was the first to emphasise the part played by Labour in production, and to deduce revolutionary conclusions from premises that had been allowed by many to be true. It

[1] Page 19.

[2] Industry Brings Plenty, pp. 18-22.

[3] Compare Dictionary of National Biography. The writer of the article omits many important details in his life.

is unlikely that his college would have realised his expectations. Many of the proposals were confessedly crude; whilst some of the methods he adopted to do away with lawyers, middlemen, etc., would have been found harmful to society. Yet the plan contained many features of exceptional interest to the educationist. The college was to be an "epitome" of the world, and the students were given a well-planned course of instruction. Nor must we lose sight of the fact that he regards industrial education as of greater importance than "bookish" education, and assigns manual work its proper place in the social scale.

It is impossible to determine whether the Quakers influenced the band of devoted workers, such as Robert Nelson, Bray and others, who founded religious societies for the reformation of manners and education of the poor. There is a close connection between the workhouse schools and charity schools. It is, however, doubtful whether the example of a few pious Quakers produced any effect on the Non-jurors of that type. It is hardly likely that the Quakers would be imitated by such a body of men. Their High Churchmanship, their distrust of the Dissenters, and their determined opposition to the Quakers would prevent their following in the wake of George Fox. Even the Dissenters refused to countenance their actions or defend their policy. Thus Palmer[1] did not vindicate Quakers or mild 'Antimonian Enthusiasts' because "they never entered our Academies, or, if they did, the just censure of their Immoral Conduct

[1] Vindication of Learning, Loyalty and Morals, etc., 1705, pp. 1-2.

has obliged them to Court Incouragement among the Ignorant People, upon whom they impose their crude Nonsense for wondrous Admirations of a Divine Grace, which they neither understand themselves, nor justly explain to others." These he left, as "they are the Reproach of Dissenters."[1]

It will, therefore, be safe to assert that the revolutionary views propounded by Bellers and other Quakers were not discussed by the High Churchmen, and that their influence on the policy of the originators of the Charity Schools was limited. The Eighteenth Century was not ripe for the advanced views and revolutionary proposals of Bellers. It was a period of intellectual and political revolution rather than of a social revolution.

In 1701, a Minute, relative to the employment of the poor, was received from the Meetings for Sufferings, and copies were ordered to be sent to the monthly meetings. Each meeting was to appoint a Committee "to send for their respective poor before them, that they may give an exact account of their several capacities."

At the next Monthly Meeting the Committees reported that there were 184 aged people, and 47 children. The Committees did not consider the question from a purely educational standpoint. What they aimed at was the support of the poor Friends through an institution that was organised by members of their own sect, and that had for its object the amelioration of the lot of the poor, rather than the provision of facilities for education as such. Early in 1702 a

[1] Vindication, pp. 1-2.

house was taken in Clerkenwell and was fitted up and occupied by 32 poor people. Poor boys were admitted to the establishment, and in 1706, it was reported that the boys were not only kept to work, "but also to reading and writing," and that they earned as much as "could be expected." The experiment does not seem to have proved a success. The working of the aged poor led to unfavourable reports, and it was alleged that they were required to labour beyond their whole strength. The great profits which Bellers had promised were not forthcoming, as an inmate earned no more than one and a half farthing per day. Some of the meetings preferred out-door maintenance, and advocated the abolition of the college for the aged.

The history of the children's establishment is much more interesting. At the early age of seven, "children were taken into the establishment, to be devoted to regular toil. They rose at five in summer and at six in winter, and were occupied chiefly with spinning and weaving. Two hours each day were allotted for their instruction in writing and reading. The plan was enthusiastically supported by a band of eager followers." John Bellers was on the Committee appointed in 1712, to consider whether a "manufactory" on a more efficient plan could be set up in the school. The question was answered in the negative, "because of the fewness and disability of the children, and because Friends desire to have their children go out to service as soon as may be." Their remark that the institution must be "accounted an hospital of nursery rather than a workhouse" shows clearly that the idea of profitable labour,

had been abandoned, and that the Friends were under no illusion as regards the real character of the "College." The time devoted to manual labour gradually diminished and the Minutes of 1790 stated that "very little advantage, in point of gain, has arisen from the labour." Labour was gradually eliminated, and was not included in the curriculum of the school in 1811. Dr. John Fothergill spoke very discouragingly of the results of this establishment, "too few of the youth educated therein have turned out useful or respectable members of society."

It is noticeable that the plan was tried in nearly all the leading Friends' School, and that it found favour with a number of schools. It met, however, with determined opposition from an influential body of Friends, and the matter was referred to a Committee.[1] The main drawback of the system was the lack of facilities for training schoolmasters. Richard Scoryer had set a good example, and many of the Irish Friends consulted their English brethren about the methods of teaching different subjects. But the pay of schoolmasters was totally insufficient, and very few men of the right type came forward.

In the year 1715, a Minute of the yearly meeting stated that the want of proper persons among Friends, qualified for schoolmasters, has been the occasion of great damage to the Society in many places. Further references are made to education, in later Epistles. In the year 1758, the yearly meeting determined to take

[1] See Report on Labour, presented to the Annual Meeting of the Friends' Educational Society, 1839.

more decided steps than they had heretofore done. It directed the quarterly meeting to send an account of "what schools are kept for the educating of Friends' children in their respective quarters, distinguishing such as are boarding schools, in order to be laid before the next yearly meeting."

Answers were received and digested, and a scheme prepared, under which subscriptions were to be raised and a boarding school started. The Report of the Yearly Meeting of 1760 is instructive. It stated that in some counties there were no Friends' schools, that in others they were for the most part mixed; and that the number of able and well qualified teachers was small. The number of scholars was presumably inconsiderable. Dr. John Fothergill had presented the Report, yet, says his latest biographer, Dr. Hingston Fox[1] there was scarcely any response, and little encouragement to Fothergill's hope, "that step by step a foundation may be laid, giving the youth of our society as good an education as many think fit to give to their horses and dogs."[2]

As years rolled on, and the counties did nothing, it became clear that the Yearly Meeting itself must act. A proposal for a "boarding school" was laid before the meeting in 1777, and Fothergill's mind was busy with the project. He has traced the history of these negotiations in a letter to a Friend.[3] Travelling in Yorkshire, in 1777, a Friend interested in education mentioned to

[1] Dr. John Fothergill, 1919.

[2] Fox, Life of Fothergill, p. 280.

[3] Fothergill's Works, by Lettsom, pp. 461-473, 1784.

him that the Ackworth Hospital, established for the reception of foundling children, was on sale. The extensive premises were bought for £7,000; donations poured in, and the total amount subscribed was calculated at about £10,000 in 1780. This is the origin of the Ackworth School. A survey of the Friends' Schools during the period 1760—1780 is instructive.

There were boys' schools at Tottenham, Worcester, Compton, Dorsetshire, Coggeshall, Hemel Hempstead, Somberg near Thirsk; Kendall, High Flatts, Wandsworth, Goldersime, Penketh near Warrington, Burford, Oxon, Leeds, Skipton and Lealand. To these must be added the workhouses and school at Islington. These were all boarding schools, and though the Friends established also a few day schools, they were not devoted exclusively to the children of the Society, and were unimportant.

At the date of the foundation of Ackworth School, the Friends maintained 21 boarding schools.

In most, if not all of them, the Latin and Greek languages and in some of them French, Mathematics and Drawing were also taught. The charges for board, lodging and teaching varied from £10 to £30 p.a. As regards the qualifications of the staff, the proportion of teacher to children, and the methods employed, the data at our disposal are too few to enable us to form a right judgment. Discipline seems to have been unduly harsh, and we are informed that a new teacher "had to determine his standing among his fellows by a series of pugilistic contests."

Dr. Fothergill had very enlightened ideas on education. He expressed the aim of education to be to build up Christian lives, to establish young minds in Truth. He longed for a school or College where advanced training could be given under Friendly auspices, and thought it possible that it might be concluded in the new plan "that in process of time we should have at Ackworth an Academy, in which the first amongst us may receive a more learned education than we can give." [1]

Friends' Schools in America.—The spiritual energy which sustained George Fox and his heroic band of sufferers seems to have linked Friends of all classes in indissoluble friendship. The various organisations of Quakers in the colonies maintained close relationship with the Friends' headquarters, and English Quakers supplied many a distant farm house, and growing town in distant Pennsylvania, with schoolmasters, school text-books, and the results of their own experiments. There was close contact between different parts of the Empire, and though the idea of Imperial unity, and solidarity was not fully developed till about the last half of the nineteenth century, the existence of these religious organisations in different parts of America, linked together by ties of religious fellowship, and inspired by common ideals of education, of social duties, and of civic obligations paved the way for the reconciliation of the two nations. Dr. John Fothergill's life shows how deep, and

[1] The school prospered. When Sir Rowland Winn of Noslett came in one day and saw the boys at dinner, he was affected to tears, 'Why,' said he, 'could we not have our children as happy and healthy as these?' Dr. Fox's Life of Fothergill, Chapter XXII, 1919.

intimate was the connection between American and English Friends, and though his heroic efforts to stem the tide of the Revolution proved unavailing, the memory of that patriotic act survived, and was recalled with gratitude by many a patriotic American. A survey of Friends' education cannot ignore the changes which the differences of environment, and of time, produced upon the original conception of education. Dr. Jones quotes the first minute on education, from the report of the Newport monthly meeting. It is dated, December 24, 1684, and is concerned mainly with the provision of schools at Newport. "Upon request and desire of Christian Loddwick to have the use of the meeting house in Newport for keeping of a school, Friends, upon consideration and desire to do him good, do grant it, and are also willing to give him what encouragement they can."[1] Women Friends took up the subject of education at their Half-yearly Meeting in Maryland in 1679, and proposed that "those that are scoolemasters may be exhorted to teach their children in the practice, both in words, ways and actions which becomes the blessed Truth." The following is significant. "We cannot, neither will, allow them to practise any of the world's liberty in any manner of practice, which the truth allows not." A number of "graded" schools sprang up in the southern colonies, though no adequate provision was made for University education.

Perhaps the most revolutionary proposals were made by a prominent Quaker, named Thomas Budd. In a

[1] The Quakers in American Colonies, p. 166.

comprehensive plan of education for New Jersey, he urged compulsory education at "the Publick Schools" for a period of seven years. "Schools should be set up in all towns and cities with persons of known honesty, skill and understanding, chosen by the Government and Assembly to teach in them." He recommended the inclusion of "English, Latin, writing, arithmetic and book-keeping" in the curriculum. The first school was set up in 1705, and numerous other schools were established in the neighbourhood of the adjoining Quaker colonies. It is, however, in Pennsylvania that the truest and purest form of the Quaker schools can be seen. Within a year after Penn's landing, Enoch Flower was commissioned by the Council to open a school for elementary work. About the same time, another Council Meeting proposed that a higher school of "Arts and Sciences" should be established. There seem to have been several good schools in Philadelphia, in 1698. In 1689, Penn commissioned Thomas Lloyd to set up a "Publick Grammar School." It was immediately started, and George Keith made a master. Other schools were founded in other parts of the colony. The Minute of the Yearly Meeting recorded in 1697 that schools (?) "for education of youth are settled in most counties except Bucks, Shrewsbury and Salem." The Yearly Meeting advised all Friends "to encourage and assist each other in the settlement and support of schools for the instruction of your children." "The advice," remarks Jones, "was acted upon to such an extent that the elements of education were within the reach of all Friends except those on the frontiers, and not infrequently by the

conjunction of an ambitious body and an inspiring teacher, excellent scholars were produced."

A recent book with the title, "Notes on the Early History of Ohio Yearly Meetings"[1] throws considerable light on the education imparted in Quaker "pioneer" schools. The hard struggle of these pioneer schools brings into prominence the educational zeal of Friends. "They desired for their children advantage of at least a primary education." Hence "log schoolhouses" sprang up long before any public system was established. Some Meetings were strong enough to hire a teacher and conduct the school on modern lines. "Others got no farther than to provide a house; some not even that." The term "subscription school" had a very definite meaning. It was often left to a teacher to go about in a neighbourhood and solicit patronage.[2]

The Friends' Schools in Ireland.—The Irish Quakers followed the example of their brethren across the Channel, and established schools throughout the country. A Friends' Day School was established at Mountmellick, and schools in Cork, Dublin and other places followed in

[1] Reprinted from the Friend 1918–1919.

[2] The above account is based mainly upon Rufus M. Jones' book "Quakers in the American Colonies." Valuable information has been derived from "Notes on the Early History of Ohio Yearly Meetings." "Bicentennial of the Old Kennett Meeting House, Chester County, Pa," Janney's Life of Penn, and articles in the D.N.B.; and see "The Quakers of the Old North-West" by Harlow Lindley, published in the Proceedings of the Missisipi Valley Historical Association, Vol. V. The book traces the progress of the Quaker schools in the North-West, and describes the zeal, and enthusiasm that accompanied the foundation of these schools.

1679 and 1680. In the latter year a Conference of Quaker teachers was held in Dublin by order of National Meetings and at a subsequent Conference, among other things, the publication of a revised edition of Lilly's Latin Grammar suitable for Quaker children, was undertaken. In 1705, there were Friends' Day Schools officially connected with the Society in 10 or more centres in Ireland.[1]

The National Meeting held in Dublin in 1675 had suggested the appointment of "an able, good friend to teach youth and keep school," and it was agreed to write to England for information. Another minute, dated 1680, desired Francis Rogers "to speak with Cristopher Richardson, and Ambrose Rigg, to make an enquiry of them after what method Friends' schoolmasters about London do teach the children the Latin, Greek and Hebrew tongues, and the names of the books they make use of gradually, and where the books may be had." On receipt of an answer, the meeting resolved in 1680 that schoolmasters should be requested to attend next half-yearly meeting. The entry for the year 1681 mentions the names of five schoolmasters who attended, who "having conferred respecting the method of teaching children the Latin tongue, etc., and some objections having been made concerning the shortness of rules in those books, lately put out by the Friends, *viz.* :—Compendium trium Liguarum, etc.," the Friends instructed Patrick Logan to write to Cristopher Taylor about it.

Though the boarding-school system was firmly established in English Quaker schools, the Irish Quakers pre-

[1] See the "Friend" April 14, 1916.

ferred the day schools. This was due partly to their limited resources, and partly to their failure to secure the right type of teachers. Boarding schools required educators rather than teachers, and though the Quaker community contained some of the most prominent Irishmen of the day, the quality of the teachers left greatly to be desired.

A Minute of 1687 mentions that "schoolmaster Friends were putting off their schools, some alleging that some Friends take their children from them and so discourage them, and they making conscience (against) teaching many vain Latin books, usually taught by the world's people, get few scholars but Friends' children." Proposals were formulated for the encouragement of these schools. The reaction against "heathen books"—a reaction in which some of the most prominent Quakers including George Fox took part—was the main cause of the rapid falling off in numbers to which this, and other minutes constantly refer. The prevailing view of education ran directly counter to the opinions of Cristopher Taylor, and other reformers of text-books, and the Quaker schools were confined mainly to children of Friends. A Minute of 1725 refers to the paucity of schoolmasters, and desires the Quakers to appoint proper men. The complaint was general; but nothing effectual seems to have been done until 1763, when a committee recommended that "capable sons of poor men be apprenticed as schoolmasters, and a girls' boarding school should be established." Subscriptions were raised for the purpose, and a Headmistress appointed: upon her death in 1773, the school seems to have been given up. The

salaries were low, and only the rudiments of learning were taught. Discipline too was unsatisfactory, for we find Samuel Tuke writing thus, of the Irish schools of the period. "The old severity to the pupils was in full operation and the older boys retained a plainful recollection of the indiscriminate and injudicious mode of punishment adopted." [1] The boarding school system did not become general until about the end of the eighteenth century. During the years 1779—98, the three Provincial Schools of Friends in Ireland were established.[2]

The Friends' Schools in Scotland.—The history of the Friends' Schools is far more interesting. The Edinburgh Quarterly Meeting for December 1678, reported that, "it being offered by Friends of Aberdeen that they are about to set up a publick school for teaching Friends' children by a Friend, who is to teach reading, wryting and languages, and is likewise to have inspection over their manners," the assistance of Friends was called for. It was not, however, till 1681, that their design was carried into effect. In that year two schools were established, one at Kinmuck, under the care of John Robertson, the other at Aberdeen, with Margaret Kerr as Mistress. In 1691, Aberdeen Friends, addressing the Yearly Meeting, wrote, "Our living weighty concern continues as to the education of our young and hopeful offspring in Incouraging and continuing that schooll set up a considerable time ago among us for the Latin tongue and

[1] Report of the Friends' Schools in Ireland, the Friends' Educational Society's Reports.

[2] Report of Friends' Schools in Ireland.

other commendable learning, and several considerable people of the world have sent their children hitherto, highly commending them beyond their own." The school was in a prosperous state, and several conversions were reported. References are made to Friends in the West of Scotland, who "lament a very great want of that due care of their children's education and preservation in the Truth, severall of them going back to the priests and worldly marriages." The temptations to which the preceding document referred are dwelt on in the Edinburgh Yearly Meetings Epistle to the Aberdeen Friends. Our earnest desire is the same with yours, that Friends in other places of the Nation may be as carefull that their children be not exposed to snares which may prove hurtfull or ruinous to them by being put to schools of such as are not Friends, or to be servants to the people of the world. In October 1695, John Robertson "finding himself weak and decaying" resigned his position and was succeeded by William Glenny.

In 1716, report was made that the school was "pretty well attended (to) by Isaac Winchester and that the schollars are profiting thereby." The Girls' School at Aberdeen was not popular, and Margaret Kerr, the Mistress, was encouraged "in going, and teaching and instructing Friends' children in the fear of God and in outward knowledge." There were frequent changes of staff. Elizabeth Robertson is mentioned as mistress in 1697, while Alice Kenney is reported in 1701 to have been appointed Mistress at a salary of "£56-13-4

Scots." This miserable pittance which amounted to no more than £4-14-5⅓*d.* p. a. was totally inadequate, and we are not surprised to hear that Quakers had begun to withdraw their children from the school. A Minute advised them not to withdraw "their children from school, much less to put them to any other school." One, Robert Keith, had "put his children to the vain schoolls of the world," "contrary to the absolut method and practice of all the Friends," and when visited, was "found to be wilful and obstinate therein, without any solid reason."

There are allusions to other Quaker schools in Scotland. We hear of one school at "Jedburgh" and in 1711 mention is made of a Friends' School at "Ury" of which John Glenny, whose son William Glenny was the Master of Aberdeen School, was the Head. There are references to another school in the North of Scotland, under date 1691. A Quaker, named William Wallace, had set up a school there, and the justices immediately took measures to suppress it, as "neither Popish nor Quaker schools should be tolerated in the parish."

The above sketch of Friends' schools in Scotland shows clearly that the educational activities of Quakers were not confined to England; that efforts were made to establish schools on a sound basis; and that the failure of Scotch Quaker schools was due mainly to the fact that their numbers were too small, and their resources too limited to enable them to realise their plans, and achieve success.

SECTION III.

Controversy over Occasional Conformity.

Probably no controversy excited more interest, or produced greater bitterness than the controversy over the occasional conformity of Dissenters. Its connection with education seems at first remote; while the phases through which it passed, and the form it ultimately assumed, seem to elude our grasp. Yet the pamphlet literature of the period shows conclusively the connection between the two. The sermons of Sacheverell, and the vitriolic pamphlets which he poured forth in quick succession, show that one of the causes of the quarrel was the existence of the Dissenting Academies.

The controversy over the Occasional Conformity Bill has obscured the significance of the educational movement of the time. The pamphlets that poured forth in quick succession discussed the subject with a bitterness and heat that are unsurpassed. We are liable to form a totally wrong estimate of the quarrel, and to regard it merely as a classical example of the futility of theological controversy. It would be idle to deny that the majority of the pamphlets deal with theological, rather than educational topics. Nor would it be right to assume that the controversialists of the period paid the same amount of attention to the educational aspect, as they did to the religious aspect of the dispute.

It was primarily a religious dispute, and education is not mentioned in the pamphlets published during the years 1698—1701. The dispute was confined to the religious Nonconformity of the Dissenters. There are very few

traces of the formidable attack which began on the Academies in 1702, at this period. Appropriately enough, Defoe started the quarrel that had such momentous consequences. His statement that the Bill against Occasional Conformity "was first said to be drawn up by Sir Bartholomeus Shower and his friends, but at last owned by Dr. Armistead" of Coventry, and the famed Mr. "Kimberley" of the same place, can hardly be supported by documentary evidence. Nor are we prepared to say that the "scheme was afterwards conveyed to Oxford; the High Church party having hit at the Graceful Bait, and Espoused the Blessed Cause."[1] There is probably some truth in his statement.[2] Oxford was notorious for its Jacobitism, and zeal for the Church. Bromley,[3] the mover of the Occasional Conformity Bill, may have been influenced by the University that had sent him to Parliament; while Henry St. John, the other mover, supported it with a view to his own future advancement, rather than to the advancement of the Church. It is not, therefore, improbable that Oxford took a prominent part in the formulation of the demands of the High Churchmen, and the embodying of these demands in the Bill against Occasional Conformity. Defoe's statement is confirmed by our study of Sacheverell's writings and character. The pamphlets

[1] See Defoe's Review. British Museum, 40 h. l. 170, 1705—1712, Vol. 11, Number 57, Saturday 14, 1705.

[2] Defoe adds in the same number "I will produce vouchers at his demand to every tittle."

[3] See Dictionary of National Biography, articles on Bromley, Atterbury, Bolingbroke, Wyndham, and other leading statesmen of the period.

enumerated by Mr. Madan, in his bibliography of Sacheverell, are all full of hatred and venom. His coarse language, illogical reasoning and venomous abuse of the Dissenters date from 1702. It is not difficult to connect these attacks with the conspiracy to which Defoe refers. It can be shown that Sacheverell's zeal for the Church was redoubled by the support he received from the University. Another prominent member of the University, Atterbury, was notoriously hostile to the Dissenters, and was in league with the Jacobites. His correspondence shows conclusively that he was consulted by all the prominent members of the Tory party, and that he exercised great influence on the policy of the Tories. We conclude, therefore, that the statement of Defoe had some foundation, and that Oxford took a leading part in the controversy with the Dissenters.

The first attack was, however, delivered from an unexpected quarter. Defoe had watched the practice of Occasional Conformity by the Dissenters with disgust. He had seen Sir Humphrey Edwin, the Lord Mayor, attend one part of the Sunday at Church and the other part at his usual place of worship among the Dissenters. He had noticed the increase of this habit among the Dissenters, and had remarked on the practice in 1697.[1] The practice was one peculiar to that section of Christ's Church of which he had always been a sincere member. It was defended by Calamy and Howe, and followed by Dr. Bates, Baxter and a number of prominent

[1] An Enquiry into the Occasion of Conformity of Dissenters, published January 25, 1698.

Dissenters.[1] There were many quiet, religious people, members of Nonconformist bodies, who, as an expression of charity and Christian fellowship, and because they did not like to feel themselves entirely severed from the unity of the National Church, made a point of sometimes receiving the Communion from their parish Clergyman. Though a decree of the Baptist Conference in 1689 had threatened all persons who on any pretext received the Sacrament in a parish Church with excommunication,[2] there is considerable evidence to show that the practice tended to sap the foundation of Dissent; that occasional often led to constant conformity; and that for many years there was undoubtedly a remarkable drawing towards the National Church on the part of the Nonconformists.[3] By the extreme Dissenters, however, the practice was held in abhorrence. They disliked the Dissenters who would as willingly bow themselves in the house of Rimmon as conform for an hour to the usages of the English Church. To Defoe, "State", or "Politick Dissenters"[4] were worse than members of the Church of England. He had published his Enquiry in 1698, and written a Preface to the Lord Mayor, "occasioned by

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[1] Compare Thoresby's Correspondence, pp. 324, 438; Calamy gives a very full account of his meeting with Bishop Burnet, "His Life and Times," Vol. I, Chapter V.

[2] See Skeat's History of the Free Churches, p. 160.

[3] Compare the following: Life of Kettlewell, p. 28; Burnet's Speeches on the Occasional Conformity Bill, Parliamentary History, Vol. VI. Burnet remarked: "Their numbers are abated, at least a fourth part, if not a third."

[4] Enquiry, p. 12.

his carrying the Sword to a Conventicle." He re-issued his Enquiry[1] in 1700, but cancelled the former Preface and substituted one to John Howe. Lee's[2] statement that the preface was written "in the most respectful terms that could be used" is not borne out by a careful study of the document. Its violent language, its denunciation of the Occasional Conformists, and its charges against the respected head of the Dissenters, are apparent in every page. Howe's reply to these scurrilous tract was couched in moderate terms.[3] He refused to be dragged into the quarrel. "I have hardly known any point in Metaphysicks or Scholastick Divinity, disputed with greater niceness and subtlety, about our Ceremonies." He did not deny that there were many points upon which the two sects did not agree; and he was aware that there were "diverse that differed from" him in these things.[4] But he was "loth to disquiet men, or cast stumbling blocks before them, who seemed as well satisfied, in their way, as I was in mine." He was not afraid of disputations, for, "though I never thought myself to be any of the quickest in the art of disputing, yet I think, taking which side I will in this Disputation, I could easily puzzle the most of the plain people, and that are but of an

[1] Lee, Life of Defoe, Vol. I, pp. 35-44.

[2] Life of Defoe, p. 43.

[3] Some considerations of a Preface to an Enquiry concerning the Occasional Conformity of Dissenters. Brit. Mus. 1701. Press mark 698. i. 3. By John House, Minister of the Gospel. I cannot agree with Lee, Life of Defoe, I. 43, that Howe lost his temper.

[4] Some Considerations, p. 4.

ordinary understanding about them, much more easily than I could convince, or satisfy them, or perhaps, did myself, the one way, or the other.[1] But he thought that "it consisted not with a man's designed progress towards his end, to be always, or too long, enquiring his way," for "the Disputes of that kind have little favour in them, compared with the great agreed matters of our Faith and Hope."

This admirable defence of the Occasional Conformists seems to have answered its purpose for a time. Defoe replied, it is true; but the reply was the reply of a professional controversialist and pamphleteer, rather than that of a seeker after truth. It traverses the familiar grounds; goes through the wearisome details, and ends by charging the Occasional Conformists with hypocrisy, and dishonesty.[2]

The reply produced no effect on Howe. His distaste for religious controversy, combined with his reluctance to argue with Defoe to put an end to a dispute that tended to rouse the passions and excite the indignation of the Tory party; Defoe addressed himself to other subjects, and the matter rested for a year. It is possible that the quarrel would not have been renewed if William III had lived longer. The opposition to Occasional Conformity had been started by an obscure scribbler, and though Howe's reply attracted some attention, the majority of moderate Churchmen and

[1] Some Considerations, pp. 4-6.

[2] A Letter to Mr. Howe, by way of reply to his Observations, B.M. 1701.

Dissenters cordially approved of the practice. "I think," said Archbishop Tenison, in the House of Lords, "the practice of Occasional Conformity, as used by the Dissenters is so far from deserving the title of a vile hypocrisy, that it is the duty of all moderate Dissenters, upon their own principles to do it." This was spoken in 1704, when party passions were at their height, and moderate Churchmen were denounced as betrayers of the Church.

Far different was the case in 1701. The Toleration Act had not satisfied the Dissenters, as they still suffered from the injurious effects of the Test Act, while the High Churchmen had not ceased to disapprove of a measure that tended to place the Dissenters on an equality. But it had calmed the passions; had united all the Protestants against the Common enemy; and had strengthened the English Church by accustoming the Dissenters to the rites and usages of the Church. Controversy was hushed, and criticism was silent. Defoe's attempt to prevent occasional conformity and his appeal to Howe, proved unavailing. Suddenly, the storm burst forth. William was dead, the old Ministry was gone, and a new Queen was on the throne. Then began that fierce agitation against the Dissenters, which ended only with the death of Anne.

It is difficult to read the dreary pamphlets on the occasional conformity without feeling bored. Leslie Stephen[1] has noticed the dullness and futility of the

[1] English Thought in the Eighteenth Century.

literature on the Bangorian Controversy. The same remark is applicable to the enormous quantity of pamphlet literature in the British Museum. Mr. Lee has compiled a complete list of Defoe's tracts; while Mr. Madan has given us an exhaustive bibliography of Sacheverell. There is reason to believe that a number of other writers wrote an extraordinarily large number of pamphlets on the subject. James Owen, the famous Tutor of Shrewsbury, had defended the Occasional Conformists in a pamphlet, entitled "Moderation a virtue." In this, the pious divine proved, to the satisfaction of himself, and, as we know, of other Nonconformists, that both Jesus Christ and John the Baptist had occasionally conformed, and that their position was analogous to that of the Dissenters. It was not to be supposed that Lesley or Sacheverell would let that tract go unanswered. A number of pamphleteers appeared on the scene, and subjected the tract to merciless criticism. Owen mildly replied in "Moderation Pursued." But moderation was a virtue conspicuous by its absence, and Sacheverell, Lesley and many of the denizens of Grub Street, pursued the author with coarse jokes, with knotty problems of ecclesiastical history, with personal abuse, and with disquisitions on the Rebellion, the Test Act, and the Act of Toleration.

This is but one example out of many. Every important tract called forth a host of replies. The pamphlet literature of the period is distinguished by its coarseness, its personal abuse, its advocacy of violent measures and its lack of literary style. Here and there we come across a tract, sparkling with humour and

displaying all the qualities of a work of art. This, however, is very rare. Religion forms the subject of all of them, and the histories of Ancient Rome, the Babylonian Empire, the Jewish Theocracy, the Great Rebellion, and the English Revolution are utilised by Dissenters and Churchmen alike. The purpose for which history is utilised is far different to those which Bernheim or Langlois would have us adopt. The aim of both is the same—the defeat of the opponent. This being granted, the rest is easy. Every historical event to which reference is made by the author is distorted to suit his fancy, while authentic details, based on a multiplicity of reliable authorities, are either explicitly denied or tacitly ignored.

The existence of a number of pamphlets makes it easy for a historian to trace the influence of the academies on the controversy. It was not till the appearance of Samuel Wesley's "Letter to a Friend in the Country" that the attention of Sacheverell and others was directed to those institutions. It is, however, extremely difficult to draw a hard and fast line between the tracts dealing purely with religion, and those concerned mainly with education. All the pamphlets of the period discussed the religious question. They quoted ancient history to prove, or disprove, occasional conformity; their researches sometimes extended to the Council of Nicae, and sometimes contracted to the reign of Elizabeth. But they all touched ecclesiastical history and occasional conformity. The writings both of Wesley and Palmer would be unintelligible to us unless due attention is paid to the religious aspect of the controversy. Palmer's reply

discusses not only the Academies, but also the religion of the Dissenters; and his three tracts deal more with the loyalty, the dogmas, and the history of Dissenters, than with their Academies.

The main reason for this lies in the fact that the educational controversy was but a phase of the quarrel that convulsed the Cabinet, the Parliament and the country. Again, political discussions are inextricably mixed with religious discussions, and a due understanding of the systems of political philosophy professed by the protagonists is essential to a right perspective. The pamphlets of the period teem with references to the "law of nature," "prerogative," "Revolution principles," and "Constitutional Monarchy." Palmer's tracts would be meaningless without them; while Wesley's violent attacks against the Dissenters' educational institutions would have proved ineffective. Hence, the educational controversy cannot be rightly understood without a thorough grasp of the political, ecclesiastical and literary history of the times. Education was discussed, it is true; but it was discussed in connection with the religious and political disputes of the period.

These disputes began in 1702. The High Churchmen were disappointed with the new Queen. They had hoped that the accession of Anne would prove a death-blow to the Low Church influence which had been predominant during the reign of her predecessor. Atterbury sounded the alarm of the Church's impending danger.[1] The cry

[1] Atterbury's "Letters and Visitation Charges, etc.." 1785. Compare Atterbury's charge to the Archdeaconry of Totnes in 1702.

of "Church in danger" was caught up by Sacheverell and others. "The very ladies," wrote Swift to Stella in 1703, "are split asunder into High Church and Low, and out of zeal for religion have hardly time to say their prayers." "The very clergy," wrote Burnet, "were dissatisfied with the Court, and began now"—1704—"to talk of the danger the Church was in." While the Universities, specially Oxford, had been very successful "in corrupting the principles of those who were sent to be bred among them; so that few of them escaped the taint of it, and the generality of the clergy were not only ill-principled, but ill-tempered. They exclaimed against all moderation as endangering the Church."[1] The University of Oxford seems to have taken the lead in the agitation.[2]

In the pamphlet war that broke out, Sacheverell and Lesley took the lead.[3] Sacheverell pointed out that "Herod and Pilate, who could agree in nothing else, were made friends, when they joined together against Christ." The conclusion was obvious. The moderate Churchmen had allied themselves with the Dissenters, the enemies of the Church; they had betrayed the trust reposed in them; and they had supported toleration, which had produced such disastrous results. To Sacheverell, the analogy

[1] Burnet, "History of His own Times," 1815, Vol. IV, pp. 40–54. Compare Tillotson. Birch's Life, p. 97 "I am still of opinion that moderation is a virtue, and one of the peculiar ornaments and advantages of the excellents of our Church."

[2] See above. I have adduced reasons to prove that the Bill against Occasional Conformity was formulated at Oxford.

[3] See p. 58.

between the two seemed close.[1] Sacheverell developed his thesis in his "Political Union." To him, the civil and ecclesiastical State are the two parts and divisions that both united make up "the entire compounded constitution and Body Politick," sharing the same fate, and interwoven with the very being and principles of each other, "supporting and supported in the same vital union, Intercourse and Complication." Hence, a ruined church and prosperous Government were glaring contradictions in experience, "confronted by the united testimonies of all Ages, and History, Sacred and Prophane."[2] Atheism and Anarchy have, said Sacheverell, always gone hand in hand; they are the mutual spawn and genuine production of each other. He then goes on[3] to show "the horrid nature, and wretched effect of Schism, and its damnable and Rebellious Principles."

The principles enunciated by Sacheverell were not new. They had been expressed by many writers in the seventeenth century. We find a close resemblance to Prynne's violent tracts. Sacheverell was not so learned as the Puritan divine; nor was he such a heroic defender of the English Church as Prynne was of the Puritan; but he possessed many showy qualities. His handsome person, studied gestures, and flowery language impressed the spectators, and produced a favourable effect on his readers. His "Sermon at Oxford" in 1704 and his

[1] A New Association, B.M. 4106, bb. 43, 1702. The Political Union, by (H. Sacheverell), 1702, B.M. 4105, d. 55. Compare pp. 15—16, Part II of the New Association contains "farther improvements."

[2] Page 9.

[3] Page 54.

" Political Union," show that he possessed a fair amount of intelligence, that he was not devoid of defending his cause on broad philosophical grounds, and that many of the principles of the High Churchmen which he expounded with such lucidity and mastery of arrangement were cordially approved, and acted upon by the majority of the High Churchmen. I cannot therefore accept the verdicts of a host of historians, John Morley, Leslie Stephen, Abbey and Overton, etc., that Sacheverell possessed no ability whatever. Though he had no pretensions to profound scholarship, his sermons show that he was by no means devoid of the qualities which make a successful agitator. These sermons were carefully planned and dexterously delivered, before the Bill against Occasional Conformity was brought into the House of Commons.[1]

It is possible that the cry of " Church in Danger " was deliberately fomented, in order that the Bill might have an easy passage through. Atterbury had raised the cry in 1702, and it was caught up by Sacheverell and Leslie, and, later on, by the mob. The results of this agitation are seen in the pamphlets dealing with the subject. It is worthy of remark that very little was written about the iniquity of the Occasional Conformity before 1702. Defoe had tried to prevent that practice,

[1] The First Reading of the Bill took place on November 4, 1702; the Second on November 17. " Towards the end of the month, the Commons read the said Bill a third time, passed it, and sent it to the Lords, who, on the 9th December, 1702, sent it back to the Lower House with several Amendments." A. Boyer, An Impartial History of the Occasional Conformity and Schism Bills, 1717 B.M. 698, I. 7 (2).

but failed. Howe was not to be tempted to enter the lists, and nothing further was heard about the matter until about a year afterwards. I have discovered only one pamphlet that treats the history of the Controversy, and the stages through which it passed before it was revived in 1702. We are told by the author,[1] that the Revd. Bradford, of St. Mary le Bow, "made a notable stand on the other side, in behalf of the church, against this culpable conformity." Bradford had preached a sermon before the Lord Mayor and Aldermen, on January 16, 1698, and mildly rebuked the Dissenters for occasional conformity. The author admits that it aroused no controversy, as "the current of corruption was not to be stopped by the less powerful resistance either of Enemies or Friends."

It is probable that the attack launched against the Dissenters had two objectives—the one the exclusion of Dissenters from offices, and the other the suppression of their Academies; and that they were part of the same plan. Wesley's "Letter" on the education of Dissenters offers no explanation of his conduct. We gain more information from his "Defence" of that letter.[2] In this he denied that it was "written for want of preferment." He had, he said, "never solicited any person for either benefice, but were both given me without my expecting, or so much as once thinking of them." A careful study of Wesley's character, as delineated either in Tyerman's

[1] "A View of the present Controversy about Occasional Conformity, as far as religion is engaged in it." B.M. 1703.

[2] B.M. 1704, 698, i. 37.

Life, or in his son's beautiful sketch, forces one to the conclusion that he was not actuated by base motives in writing that tract. His was essentially a pious mind, and he deemed it his duty to give expression to the ideas by which he was guided at the time.

Parts of the book show clearly enough the zeal of a convert, but it would be going too far to assert that the book contains nothing but deliberate falsehoods. Wesley's account of its origin is well worth quoting: "After my return to London, I contracted an acquaintance with a gentleman of the Church of England, who, knowing my former way of life, did often importune me to give an account in writing of the Dissenters' Method of Education in their private Academies, concerning which he had heard several passages in conversation, though for some time I did not satisfy him therein." Wesley then gives an account of the so-called Calves' Head Club, and continues: "These conversations so turned my stomach against them (the Dissenters) and gave me such a just indignation against such villainous Principles and Preachers, that I returned to my Lodgings, and resolved to draw up what the gentleman desired, and that night fell a writing the afore-mentioned Letter, which I had finished between 4 and 5 the next morning, and then laid it under my pillow, and went to rest." But it seems that it was watched by someone in the house, "who seeing me in the evening thoughtful and busy, suspected something, and while I was in a deep sleep, came and took away the letter from my Head." Wesley says he asked for it, when it was

missed ; but could not get it back. This account of the origin of the Letter need not be regarded as false. We may well believe that Wesley shrank from the publication of such a letter. It charged the Dissenting Tutors with immorality, branded their Academies as the breeding-places of Republicanism, and traduced their principles. Even a zealous convert might shrink from the prospect of rousing the solid phalanx of the Dissenters into active opposition. Wesley's account of the origin of the Letter may, therefore, be accepted as genuine. His genuine piety, his zeal for the Church of England, and his solid character are guarantees of his veracity. He may, however, have been used as a tool by the friend to whom he refers. The plan of the conspirators would have miscarried if the Academies had been overlooked. They encroached on the authority of the Universities ; they had survived the persecution of the Church ; and they had provided modern education at a comparatively small charge. By attacking the Dissenting Academies, they would enlist the support of the Universities, of the Church and of the old Grammar Schools. The occasional Conformity will disappear; and the Dissenting Academies will follow suit. The field would be clear.

This plan of campaign originated in the active brains of the members of Oxford University, and was executed in 1702. While Sacheverell raved against the most cherished principles of the Dissenters, and while Atterbury, the arch-conspirator, remained at the elbow of the High fliers, Bromley, Nottingham, Rochester and others, Wesley started that opposition to the Dissenting

Academies which ended only with the passing of the Schism Act.

Defoe's statement that "a mercenary Renegade was hired to expose the private Academies of the Dissenters, as Nurseries of Rebellious Principles" [1] may be dismissed as false. We cannot accept it without an examination of the authorities upon which he grounded it. It may have been true that, as Defoe expresses it, "it was in too many hands to remain a secret." Many Nonconformists regarded his conversion as an act of desertion, and spoke bitterly about it. They were not likely to put a favourable construction on many an action of Wesley. While Wesley's violent actions exposed him to the charge of betraying his friends for the sake of money, Wesley himself was conscious of it, though, it is unnecessary to add, he was innocent of that foul charge.

This double attack on the Dissenters produced its desired effect. The outcry against occasional conformity was louder than ever. The writer of the "Memorial of the Church of England" called upon the faithful to destroy the "Sons of the Sectaries," who overturned the Church in the last Century." "Moderator" complained, the writer, "was the word, the Pass-partout, that opened all the place doors between Lizzard Point and Berwick-on-Tweed. They grew as moderate and indifferent as a unsurer at a discourse of Charity." "While the Church of England," bewailed the same writer, "is flourishing on the surface, there is a hectic Fever lurking in the

[1] More Short Ways with the Dissenters, 1704.

very bowels of it, which, if not timely cured, will affect all the humours and at length destroy the very being of it."[1] The Memorial was probably written by Dr. Drake; and expressed the feelings by which many of the High Churchmen were swayed. Moderation had been urged by the mild James Owen, of Shrewsbury. The High Church, reminded Owen, "formerly pressed occasional Conformity, as it is not a later invention of crafty men to get into places, which the moderate Dissenters professed long before the Corporation and Test Acts were made."[2] Owen then plunged into the history of early Christianity, and showed that "Primitive Christians chose their own Pastors, and several canons depose those that are ordained without the Election of the People."[3] He cited authorities to prove that both John the Baptist and Jesus Christ were Nonconformists, and he showed that the Dissenters from the State religion had been admitted to offices under the Egyptian Government, the Babylonian Empire, the Persian Empire, and the Grecian Empire. He pointed out the excellencies of the Dissenting Academies, defended them against Sacheverell's misrepresentation, and showed that they were "really an advantage to the Universities, for they raise an Emulation in the Students, and excite them to greater diligence in their Studies."[4]

[1] Memorial of the Church of England. See the following replies to the Memorial. "The High Church Legion, or the Memorial examined," 1705. The author pertinently asks "What has become of the passive doctrine?" An answer, paragraph by paragraph, to the Memorial of the Church of England, 1705 : Brit. Mus. 698, i. 4.

[2] Moderation still a virtue. B.M. 4106, g. 19, 1704.

[3] See p. 38.

[4] See pp. 97-104.

Owen's tract was answered by a number of pamphleteers. Sacheverell discussed the subject and showed what "Sort of moderation is a virtue, and what sort is vice." "What more," asked Sacheverell, "could have been done to gratify the Dissenters? But were they gratified? Were they pleased? Did they not rebel, take arms, and twice fought it out in the open field, against this moderate Episcopacy, without any Liturgy, Ceremonies or Habits with which they quarrel here?" [1] The period was remarkable for the absence of writers of moderate views. If a justification of Defoe's "Shortest way with the Dissenters" were needed, it would be strikingly visible in the existence of a state of society wherein such arguments could be taken to have grave intention. The character of the young divines of the period is thus portrayed by a writer. "As for the young man, he is one, who, I believe, little thought of ever having a call to go and preach the Gospel, and for that, and for some other reason, perhaps, he has made Divinity the least part of his studies. In short, he is more a gallant, than a Divine."[2]

[1] Wolf Stript of Sheep's Clothing, B M. 4105, c. 36, 1704.

[2] The antidote against Rebellion, B M. 8138, bb. 18, 1704. Compare Moderation Pursued, B M. 4105, bb. 55, 1704. "There are some men who, under pretence of suppressing Conventicles have brought the Church of England greater Reproach than Conventicles, and representing it as designing even by Law to make it odious." "Moderation pursued to the end of the Line" is the title of another pamphlet. Defoe's "More Short Ways" will be discussed in connection with the Wesley-Palmer controversy. Defoe showed that the Bill was not really a blow at the Dissenters. It would affect only the "Politic" Dissenters, and not the "Religious Dissenters." It would, he saw, consolidate Dissent, instead of weakening it. Defoe, "An Enquiry into Occasional Conformity," B.M. 110, f. 24. There is

It is interesting to compare the views of Dean Swift with those of Sacheverell and Atterbury on the Church of England. While the latter were inflamed by religious zeal, and guided by High Church principles, the former was essentially "political" in his outlook on religion. He defended the organisation of the Church, because he regarded it as the sole preservative against intellectual and moral anarchy. Of the existence of a religious feeling, and holy zeal for the dogmas of the Church, we have no evidence. He looked at the question solely from the point of an administrator, and opposed the Dissenters, not because he disliked their religious views, but because their opposition to the Church, and the toleration which they demanded, would open the door to moral anarchy.[1] This will be apparent from a study of his admirable "Argument against abolishing Christianity." "Nor do I think it wholly groundless, or my fears altogether imaginary, that the abolishing Christianity may perhaps bring the Church into danger, or at least put the Senate to the trouble of securing another vote." [2]

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another pamphlet, written by a Divine of the Church of England in 1703, that deserves notice. "The same reasons," said the author, in "Reasons humbly offered," "which oblige persons to hear and join with us, oblige us to take all opportunities of hearing and joining with the Nonconformists." Other excellent reasons are given. Defoe's masterly treatment of the cry "Church in Danger" may be seen in his "Review," Vol. II, N 92 Compare "A Seasonable Remark on the new book of Dr. Davenant," B.M. 1704. Written by Defoe. It is needless to cite other authorities, and it would be tedious to go through them all.

[1] Compare Churton Collins' and Sir Henry Craik's Lives of Swift. Both are in substantial agreement, upon this point.

[2] Compare Leslie Stephen's English Thought in the Eighteenth Century, Chapter on Deists, and specially Toland.

It is probable that the quarrel would have been settled sooner if political consideration had not complicated the situation. The Dissenters were disliked not only because they "crept to our altars, and partook of our Sacraments, that they may be qualified more secretly and powerfully to undermine us," but also because they united with the Whigs to "destroy the monarchy, and blow up the Constitution."[1] Their political principles, urged the High Churchmen, led directly to Republicanism, and they were as prepared to depose their rulers now, as they were under Cromwell. Wesley had referred to this controversy. He asserted that the "Calves' Head Club" was a well known institution; that the Dissenters present engaged themselves in a bond of unity for the restoration of their Commonwealth, and the expiration of Monarchy.[2]

[1] The words in inverted commas were used by Dr. Drake and Sacheverell respectively.

[2] Palmer denied the existence of such a Society (Vindication, p. 40) and he was followed in this by Calamy. The latter thought that some hot-headed young men might have met at a meeting, and used violent language, but he denied that it had the support of the Dissenters. Sacheverell asserted "that he had seen some of their horrid anthems, brought from some of their Calves' Head Feasts, for they have many of them every year in London." New Association, p. 12. "I am told," says Leslie, in his Cassandra, p. 50, "that last 30th of January at one of the principal Calves' Head Feasts here in London, they used a sort of symbolical ceremony of sticking their knives into the biggest of the Calves' Heads." Sacheverell asserted, in "Rights of the Church of England," pp. 53-4, that the feasts had been openly celebrated in all the populous and trading towns of the Kingdom; while the publishers of Clarendon's History asked, "What can be the meaning of the constant Solemnisation, by some men, of the anniversary of that dismal 30th of January?" On the other hand, Oldmixon stated that he "had

There is evidence (see footnotes) to believe that such a Society existed, and that some Dissenters attended its meetings. But it was attended by a small number of Dissenters, many of the prominent Dissenters had no knowledge of its existence, while only a few—and their number was very small—had but the vaguest idea of the Calves' Head Club. It is essential to form a just estimate of the character and importance of the Club, as Wesley attributed his conversion to his attendance at a meeting of that Society. His account of the Club was copied by professional agitators of the type of Sacheverell, and the Dissenters were denounced as hypocrites, who did lip service to the Queen, but who instilled into the minds of their children, and encouraged their teachers to teach, anti-monarchical principles.

The agitation against the Dissenters now assumed a new form. They were attacked then not only because

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never heard of such a club, except once or twice, among a parcel of hair-brained enthusiasts," Clarendon and Whitlock compared, p. 33. John Shute, afterwards Lord Barrington, however, assured the King (Rights of Protestant Dissenters, 1704) that he had never heard of such a Society; though Thomas Bradbury, the popular Independent Minister, admitted (Lawfulness of Resisting Tyrants) that "it had been done within these few years."

A remarkable book, entitled "The Secret History of the Calves' Head Club, or the Republicans Unmasked," appeared in 1703. It described the place where the Dissenters met, gave an account of the rites performed there, and called upon the authorities to suppress such a hideous institution. A review of the above has convinced me of the existence of the Society; but there is no evidence to prove that they were supported by the Nonconformists. It is clear that their number was limited, and that they were attended by irresponsible and hot-headed young Nonconformists.

they conformed for the sake of office, but also because they held anti-monarchical principles. Wesley bitterly complained that "While particular writers, Hooker, Hammond, Usher declare that the Power is from God only, there are a set of men who generally believe the prince derives his Power only from the People, and that consequently they may resume it, whenever they think convenient. Nay, that this is vested in the Mob itself, without the trouble of the Ordines Regni." [1]

The High Churchmen merely repeated in violent language, what had been forcibly stated by Filmer, Mainwaring and others. The Nonconformists, on the other hand, denied that a "divinity doth hedge a King." They asserted that the English monarchy was limited by law, and "that it is not a good definition of monarchy that it is an arbitrary power of making, or an absolute Execution of the Dictates of the Prince's own will" [2] The majority of Nonconformist writers merely repeat in another form Locke's political theories. Filmer's absolute monarchy is opposed by Locke's limited monarchy; while the passive obedience of the former is met by the active resistance of the latter. "A prince," said Palmer, "who overrides law, levies taxes, and subverts the English Church, cannot sustain the name and dignity of a King, but is become a tyrant."

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[1] See Wesley's Reply to Mr. Palmer's Vindication, p. 11, B. M. 111-a 53, 1707.

[2] Palmer, Vindication, pp. 44-60. He quotes Sir Thomas Smith, Algernon Sidney and Mariana to prove that the subjects can offer resistance to their Sovereign.

The theory of toleration propounded by Locke was developed into a consistent whole by the Nonconformists. Toleration implied not merely toleration of religious tenets professed by the Nonconformists, but also toleration of Dissenting Academies. Palmer ignored the legal aspect of the question. He knew that the Act of Toleration did not allow the Nonconformists to establish Academies, and though he refers to the Act once or twice, it is clear that he was convinced of the inapplicability of the Act. It was upon philosophical, rather than on legal grounds, that the Academies were defended. "To deprive us," said Palmer, "of private education, without admitting us to the Publick Schools, interferes with the Liberty of Conscience with which we are invested by law." Palmer deduced the right to private education from the Act of Toleration and applied the theory to the Dissenting Academies. But the other writers were not content with this. The theory so tentatively put forward was extended by others. We come across a mysterious "Right of Parents." "To deny it to Dissenters," urged a writer, in 1715, "is to deprive them of the Right of Parents, which Right it is impossible for any thinking man to give up, or even submit to, without great anguish of spirit."[1] Others, however, discarded the "Right of Parents." Its vague and indefinite character was not capable of definition; while the commonsense and level-headedness that characterise the controversial writings of the Nonconformists prevented them from carrying these

[1] "Reasons for Repealing the Occasional and Schism Acts," B.M. 440,1. 22, 1715, p. 7.

theories to their logical conclusion. It will be comparatively easy to prove that the germs of many of the political theories of Rousseau are contained in some of the writings of the period; and that the law of nature which they deduced from the theories of Hobbes and Locke, did not differ materially from that which Rousseau propounded. Their theory of sovereignty was borrowed from Hobbes, while their law of nature was arrived at by combining the theories of Hobbes and Locke. The majority of writers, however, confined themselves to an analysis of "Right." They showed that the Dissenters possessed a Natural Right, that they were endowed with Rational Right, and that they were conferred a Religious Right to Liberty.[1]

"If men," argued another writer, "in a state of nature are upon a footing of equality, they are so with reference to their several religions and no one has any right to prescribe to another any rules therein. Nor can they be supposed to give the Government a power of making laws to exclude them from offices, upon the account of the religions which they profess." [2]

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[1] What the Dissenters would have, or the case of the Dissenters By an Impartial Pen, B.M. 698, i 7, 1717.

[2] Some Reflections upon Dr. Sherlock's Vindication, B.M. 698, i. 7, by James Pierce, 1718, p 13. Compare A Defence of the Protestant Dissenters By Moses Lowman, 698, i 7. 1718. Compare "The Synod," B M. 698, i 7, 1719 A humorous account of the Controversialists of the day. No reference has been made here to the standard authorities on Political Theories Dr. Figgis has provided us with an excellent bibliography in Volume III of the Cambridge Modern History, for his chapter on "Political thought in the Sixteenth Century" and it would be useless to cite authorities here.

The educational controversy in the reign of Queen Anne would lose much of its significance, and be shorn of a great deal of importance if the religious and political controversies were left out in an account. All the tracts dealing with the Dissenting Academies devote greater attention to religious and political topics, than they do to education.

The importance of the controversy lies in the light it throws on the influence of Church and political theories upon educational institutions. Education was not regarded as a separate subject, taught by highly-skilled craftsmen, and divided by water-tight compartments from Religion and Politics. Nor was there any recognition of the claim of Schoolmasters to be regarded as a separate class. The word "teacher" was applied not only to a school-teacher, but also to a teacher of religion. "Teacher" and "Preacher" were interchangeable terms. They regarded Education as a process in which religion and law took a predominant part, and without which instruction was useless and even pernicious. Religion enters into every detail of educational life. It moulds the thoughts and actions of the Dissenting Schoolmasters; guides the conduct of the students in the Academies; regulates the action of the educational Societies of Dissenters; and directs the activities of Wesley and Palmer.

It is doubtful, however, whether diversity of religious doctrine would have generated such a heat, and produced such disastrous results, without the political causes that supplied the impetus to the agitation. There is sufficient evidence to believe that the agitation against the

Dissenters would have died down, and the controversy ended, if the differences of political theories, held consciously or unconsciously, had not complicated the struggle. By political theories is meant, not the "abstract reasonings" which Burke denounced, but the principles which distinguished the Whigs from the Tories. Of such Whig principles, no better exponent could be found than Locke. His defence of the constitutional monarchy, his fervent plea for religious toleration, and his law of nature, were the foundation upon which the Nonconformist writers erected an imposing edifice. Probably Locke would have been startled to find the way in which the Dissenters applied his political, educational and metaphysical theories. They certainly underwent a profound change in the hands of the Dissenters, and it is difficult at first sight to trace them to their true origin. Yet the germs of many of the educational, philosophical and political theories of the eighteenth century are contained in the writings of John Locke. Hence the importance of a right understanding of the part played by the religious controversy and political theories in the educational controversy under Queen Anne.

Samuel Wesley, the father of John Wesley, took the lead in the educational controversy. His account of his early education has not received attention, and though Mr. Tyerman mentions his tracts on the education of Dissenters, it can hardly be said that he has done full justice either to Wesley or to his protagonist, Palmer. "I was disposed of," says Wesley in his Letter [1] "at one

[1] B.M. 698. i. 23, 1702. pp. 2—4.

Mr. Veal of Stepney, who there kept a private Academy, having a sum of £30, settled upon me by way of an exhibition, which was raised, with much more, by collections and subscriptions at certain Dissenting Congregations. There I remained for the space of about 2 years, in which time my Tutor read to me a course of Logick and Ethick, but being prosecuted by the neighbouring Justices, he broke up the House, and quitted that Imploy." Wesley then went to Morton's Academy, and noted with a critical eye the defects existing in the Academies of the period. The most serious charge he brought against the Dissenting teachers and their Academies was that of immorality. He asserted that many of the Dissenting teachers were negligent, and that the students contracted many vices under their roof. "I shall not mention," says Wesley,[1] "the mere follies of youth, or Boyish vices, which doubtless were the same as they are in other places, nor insist on the unfortunate marriages, which sometimes happened there, and were not confined to the Universities, but can give authentick evidence from a person who had been at both places, some year before me that it was not so sure a way to preserve young persons from vice, as some may imagine, to send them to private Academies." Wesley then quotes Bonnel, a student of Coles' Academy, who asserted that "Mr. Cole neglected to receive the Sacrement," and that "there were all the dangers and vices of the Universities without their advantages." Wesley asserts that he possessed

[1] A Defence of a Letter concerning the Education of Dissenters in their private Academies, 1704, B.M, 698, i. 37, p. 43.

copies of Rochester's poems, "though I don't remember I ever saw it anywhere," and that "one of the gentlemen there employed me to transcribe it for him, and I did accordingly." Sacheverell repeated these charges, and desired the suppression of the Academies. "They debauch youth," complained the fanatic, "with corrupted maxims and Republicanism and out of these Schools and Nurseries of Rebellion have spawned that multitude of Factions, Heterodox, Atheistical Lewd Books, and Seditious Libels, which are every day published against Monarchy and the established Hierarchy and Religion."

The quarrels of the two parties were intensified by the publication of Clarendon's "History of the Civil War."[1] The publishers of Clarendon's History asked the "meaning of the several seminaries, and as it were universities, set up in diverse parts of the Kingdom, by more than ordinary industry, contrary to law, supported by large contributions, where the youth is bred up in principles directly contrary to monarchical and episcopal government."

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[1] The publication of Clarendon's "History" had an important effect on the Tory party. It revived the bitter memories of the past; stirred up the fanaticism of the High Churchmen, and supplied a motive for the persecution of the "King-killers," as the Dissenters began to be called. It would be difficult to exaggerate its importance. Burnet has told us the effects it produced on the Tory party; Calamy has testified to its hold on the High Churchmen. But the far-reaching results of the publication of the book can be seen only in the Tory pamphlets. The Grand Rebellion is dragged in by many a writer, and its lesson impressed with tragic eloquence. Sacheverell refers frequently to that book, while Leslie quotes it either to prove his own points, or to point out a moral.

These charges against the Dissenters were not new. They had been frequently brought, but seldom substantiated. Much more plausible were the charges which Wesley brought against the "capacity" of their Tutors for their office. He asserted that the Dissenting teachers were unfitted for their office; that there were very few men of outstanding abilities; that the Academies were badly staffed and worse equipped; and that they lacked the best features of the English Universities. Wesley pointed out, with admirable lucidity, the advantages of the University education. He refuted Palmer's argument that the superiority of the Academies consisted chiefly in their possession of public libraries, and showed that "they are starved at Nurse, and their minds are unavoidably crampt, as a bright lad is at a Paltry Grammar School in a Country village; whereas, there is a sort of genius in our Universities, as there is, in a lower measure, in some of our greater schools and noble foundations, whereby the mind is expanded and capacity enlarged; not to repeat the virtuous Emulation which is to be found in those Societies, and which outweighs all the rest; their Tutors instilling into their pupils sound and steady principles of Loyalty and virtue, thereby rendering them useful, and not dangerous members, of Church and State." [1]

The University ideal which Wesley set before him was not different from that which Cardinal Newman sketched. Many of the arguments which Newman urged

[1] A Reply to Mr. Palmer's Vindication. By. S. Wesley, B.M. 111a 53, 1707, Chapter III.

in favour of the Universities, and some of the facts which Newman so skilfully marshalled, are to be found in Wesley's writings. It is not necessary to suppose that Newman had read his books and borrowed his ideas. The real reason lies far deeper. The two Universities had woven into the texture of national life, and had become national institutions. Their organisation, their curriculum, and their all-pervading influence, essentially fixed the circle of educational thought. Their influence was not always wholesome; while their example was sometimes bad. This applies especially to the eighteenth century. But though they were despised and hated at times, they were never neglected. A Dissenting teacher may occasionally indulge in a mild abuse of the Universities, and they may be charged with promoting "debauchery, Jacobitism and vice" among their pupils. But this was not the sentiment of the majority. The Dissenting teachers would have cordially subscribed to the view of Wesley that "that which employed the wisdom of our ancestors and was well worthy of it, was to endeavour to perceive (preserve) the very essence and life of our Universities, by keeping the current of Students there, and preventing it from directing to any other place, or being divided into so many little streams, as must lessen the Channel, if not in time, by some Accident, leave it quite forsaken." He complained that "several thousands have been and are still drained from the Universities," and that "several of their students have gone from those Academies, and taken Degrees, either in Scotland or Holland, as it is notorious from their printed Exercises, which are so many hands on

those occasions." [1] It is noticeable that this complaint was not confined to Wesley. John Annesley, Earl of Anglesey, referred to the same matter, in the House of Lords. They had, said the Earl, in 1714, "set up schools and Academies in most towns and cities in the Kingdom, to the great detriment of the Universities, and danger of the Established Church." [2]

Wesley's criticism of the Dissenting Academies was neither just nor prudent. It is no doubt irrelevant to assert that "he had been treated kindly by Mr. Morton," that the "kind and generous treatment he met with from us he has yet more honour left than to disown," and that "he had no affront hereupon from any of us." [3] He may well reply that he did not attack his own Tutor, and that his aim was no less than the reform of the education of Dissenters. It cannot be denied, however, that he exaggerated the defects, and, in some cases, manifested a bitter hatred, of the Dissenting Academies.

His criticisms of the discipline and morals of the students had some foundation in fact. Defoe has pointed out in his "Present State of Parties," that the type of students that resorted to the Academies was by no means an ideal one.[4] He found that many students were

[1] Wesley's Reply to Palmer's Vindication, pp. 35-40.

[2] Boyer. Reign of Queen Anne, p. 704. Tindal's Continuation of Rapin's History, Vol. I, pp. 720-22. Memoirs of the Reign of Queen Anne. Anonymous, pp. 292-300.

[3] Palmer's Vindication of the Learning, Loyalty, Morals and most Christian Behaviour of the Dissenters. B.M. 698, i. 36, 1705.

[4] Pp. 293-333.

sent to the Academies more from charity than fitness, intellectually or physically, for the Ministry; and that for want of libraries and polite conversation during the short space of three years, when they were removed to make room for others, too many of them became merely pedants, rather than Christian gentlemen of high learning; and that afterwards many of the young ministers, "Fund Bred," as he calls them, were consequently unable to get hired, and had to submit to shameful and degrading practices in their efforts to obtain congregations and subsistence.[1]

Again, Wesley's account of Bonnel's experience in Thomas Cole's Academy was substantially correct. Cole was undoubtedly remiss, and the students, it is hardly necessary to state, followed his example. Palmer's reply that Bonnel was a "wild and unhappy lad, very perverse, and averse to instruction and reproof," and that the passage quoted by Wesley was not genuine, was unfortunate. Both the denial and the assertion he was afterwards compelled to retract. It would have been more to the point if he had remarked on the peculiar type of Bonnel's piety, who thought that without the Sacrament, he could have "no solemn, earnest serious recollection of himself;" or on the fact that extravagant language is not surprising in a morbidly pietistic youth of sixteen. Secker complained that Samuel Jones, the Dissenting Tutor, "began to relax of his industry, to drink too much ale and small

[1] Compare also his "More Short Ways."

beer, and to lose his temper.....and most of us fell off from our application and regularity."[1]

Though some of the charges were true, the general tone of his pamphlets, and the sweeping nature of his accusations, cannot be too strongly condemned. Wesley did not supply the details of the books read. When pressed for further details, he strung together in doggrel Latin verse, the names of several obscure writers, adding that he could give more if necessary. If Wesley's statements are reliable, we may gather that two or three students out of 50 were men of loose morals, and that they cherished advanced liberal sentiments.

If the Dissenting Academies were as bad as Sacheverell and Wesley represented them to be, they deserved suppression. This was urged by several Dissenting writers. If, however, said James Owen, Tutor of Shrewsbury,[2] they have misrepresented them they prove to be not only inoffensive, but a public benefit, and may hope for the connivance and Protection of the Magistrate. Owen pointed out that "Mr. Sacheverell is a perfect stranger to the private Academies, and therefore a very unfit man to give a character of them. As if a conceited Painter, under the conduct of a desultory and distempered imagination, should undertake to draw the picture of an unknown person, and of whom he has

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[1] Secker's unpublished MSS. Memoir, quoted by Professor J. W. Adamson, Cambridge History of English Literature, Vol. IX, p. 394.

[2] Moderation still a Virtue.

entertained very false ideas." With regard to Sacheverell's assertion that they debauched Youth "with the Corrupted Maxims of Republicanism," Owen stated that he had never known "any Republican Doctrines taught in them, nor do I know one Dissenting Minister this day in England that is for the Commonwealth." "The Dissenting Tutors did affectionately and as Constantly pray for their Sovereign as any of her subjects whatsoever." Owen admitted "small miscarriages," but he urged that they ought not to be magnified, nor severely reflected on now, "there never having been a government so exact or perfect" but had some defects in it. "That multitude of Lewd and Atheistical Books proceed from the private Academies, is such a calumny as the very Father of Lies would blush at. Have no Atheistical, Lewd Books been written by such as were bred in the Universities?" "Would it be fair," asked Owen pointedly, "to charge Oxford or Cambridge with Atheistical Principles, because some that were educated there had a hand in the Crack of Reason?" The methods proposed by Sacheverell reminded Owen of the "Politicks of Julian the Apostate, who attempted to extinguish Christian schools, by excluding them from Public Offices." Owen pointed out that if the Dissenting Ministers were denied the benefit of a liberal education, "they will be apt to run much further from the Church than they do at present. Learning languages enlarges and improves our Rational powers, gives us juster and more comprehensive Ideas of Persons and Things, and usually disposes us to a more candid Interpretation of the Sentiments of those that differ from us." "Among the Churchmen and Dissenters

the most learned and judicious are usually the most Moderate."[1]

This brilliant defence did not discuss the charges of Wesley. Owen refers to Wesley but once, and then only to support his own case. This task devolved upon Palmer and Defoe. It would be difficult to find a more incongruous pair. Defoe, with his flashes of humour, his brilliant repartee, and his wide knowledge of politics and the Academies, found no difficulty in demolishing the flimsy fabric of Sacheverell's arguments. He asserted that the "design is the total destruction of the Dissenters as a body," and that "there was an Association formed by some gentlemen to have followed the Occasional Bill, with an Act for Disabling all such Ministers to Preach in England, as were not, for the future, educated in one of the two Universities."[2] His attempt to prove that many of the persons who had been tried for treason belonged to the Church of England; and his endeavour to prove that the most prominent men during the Civil War belonged to the two Universities, may be dismissed as irrelevant. Far more important are his replies to the criticisms of the Academies. If the Academies are suspected, "You may make a law for a general Inspection, and if any be guilty, suppress them that are so."[3] Why, asked Defoe pointedly, "do we erect Academies, and teach our children by themselves?" Even, replied he, for the same reason

[1] Moderation still a virtue, in Answer to Several Bitter Pamphlets, 1704, B.M. 4106, g. 19, pp. 97-104.

[2] More Short Ways with the Dissenters, p. 3, 1704.

[3] More Short Ways with the Dissenters, p. 7.

that we communicate with you, because you shut us out, and exclude us by imposing unreasonable terms. "Open a door to us in your Universities, and let our youth be fairly admitted there, without imposing Oaths and Obligations upon them, and it shall no more be said that we erect schools in opposition to you." Defoe suggested the erection of Dissenting Colleges at Oxford and Cambridge "to follow them ourselves." "Give our youth," he pleaded, "leave to study there, subject to all general offices and Rules of the University, and only Free when within Doors, and you shall soon see we will neither injure your University, nor set up others of our own."

This excellent suggestion could not be carried into effect at the time; and the Dissenters had to wait for over a century and a half before their wishes could be gratified. The controversy had the important result of bringing the question of the nationalisation of the old Universities to the front. Professor Campbell has traced the history[1] of the movement. His gaze is, however, fixed on the 19th Century. A study of pamphlets of the reign of Anne will convince the reader that the question was discussed as early as 1704. The movement had no effect, partly because the Dissenters founded, later on, Academies that rivalled the Universities themselves, so far as the teaching of "modern subjects" was concerned, partly because they were very costly and could be afforded only by a few; but mainly because the accession of the Whigs to power radically modified the policy of the Government. The Dissenting

[1] Nationalisation of the Old English Universities.

Academies were tolerated, and though some of the Dissenting teachers, as Doddridge and others, were not free from persecution even then, it can be said with a certain amount of certainty that the Dissenting Academies were not molested, after the death of Anne.

Defoe's arguments were amplified by Palmer. His attempt to deduce "the Right to the education of youth according to our own principles, and the Rational Dictates of our own Conscience" from the Act of Toleration is not convincing. Wesley truly replied that the Act did not render the Act of Toleration nugatory. Nor do his references "to the Law of Nature," and the "Accidental Law of Pupillage" help his case much. The vagueness of these mysterious laws left considerable room for discussion, and Wesley was as justified in brushing them aside as irrelevant, as Burke was in exposing Rousseau's theory of Social Contract to merciless ridicule.

Far more important are his attempts to clear the Dissenting teachers of the charges brought against them by Wesley and Sacheverell.[1] He showed that the "Atheistical Books did not proceed from the Universities alone, but that the Universities were more to blame." He has no difficulty in vindicating the character of Morton and other prominent Tutors. Wesley himself, had acknowledged that Morton was distinguished by his piety. "These excellent persons, these excellent Tutors have bred, and which our Academies have produced, are an

[1] See his Vindication, pp. 92 to end.

evidence that our Academies are not Debauched Seminaries of Impiety and Lewdness." [1]

The value of his pamphlets lies in their criticism of the policy of the Universities. Very few Nonconformist writers denied the superiority of the Universities; they acknowledge their defects, and did not palliate their faults. Defoe admitted that the absence of "good company, and conversation" militated against the progress of the Academies; while Palmer suggested that the "Universities should grant them some of the more inferior Colleges or Halls, under the Prudent Regulation of the Law, any Civil or moral Test, and Inspection of the Vice-Chancellor and others." If this be thought too much, continued Palmer, the Dissenters will be content if they are not obliged to swear that they will conform, "and if the Laws and Statutes of the University are explained and ascertained, which are in force and which are not, that we may know what we do." "I am confident," said Palmer, "these two things would go a great way to empty all the private Academies in England."

Palmer's assertion that the Dissenting Tutors were not precluded by their University Oaths from lecturing in the Academies, and his contention that the Oath which the Universities exacted from their students applied only to the period in which it was adopted, are not borne out by facts. It is true that the origin of the oath may be traced to the foundation of the University of Stamford; and that the Professors at Gresham College lectured on

[1] Vindication, p. 97.

many of the University subjects. But it does not follow that the causes which led to the oath being imposed ceased to operate with the dissolution of the University of Stamford. Wesley seems to have been right when he asserted that the Dissenting teachers were prohibited by their oath from teaching University subjects in their Academies.[1]

Palmer's questions "May not I read Philosophy at home, or declaim *de lana caprina*, where I please? Does the Grant force me to Oxford or Cambridge, or has it fixed the Abode of the Sciences there?" could be answered only in the negative.

It was not, however, the prohibition of their University teachers so much as their virtual exclusion from the old Universities, which they regretted so much. "If our Universities," complained Owen, "were not made the property of one persuasion; if Degrees and Preferment there were conferred on all deserving Persons, without respect to persons and parties, as was done in Queen Elizabeth's, King James' and part of King Charles' time, there would be no occasion for private Academies." The Dissenting Academies, urged Owen, "are really an Advantage to the very Universities; for they raise an Emulation in the Students, and excite them to greater diligence in their studies."

Palmer acknowledged the superiority of the Universities. It did not consist in the wonderful learning of their Tutors, but "on account of the advantages of Public

[1] Mr. Leach has inserted the Oath in his "Educational charters and documents," 1911.

Libraries, besides the happy Advantage of being able to write M.A. upon the title page." If the Riches and Honour of the Universities and if their Laboratories, Gardens, and noble libraries are brought into balance, and compared with the Academies, then, acknowledged Palmer, no Dissenter "would be fool enough to deny their superiority to our Schools; and though by our industry we make some amends for these Defects, we can't but regret that we are unjustly barred from a converse with that part of the Learned World, whose works are not only chained to their classes, but to a party that has got possession of it." If our schools, urged Palmer, are only "Academium Culae," why is all this noise about them? "Why does the Ox concern himself to oppose the little animal, and repine at the peaceful feeding of the harmless Frog?"[1]

It will be clear from a sketch of the above controversy that the questions raised by many writers during the period, and the problems discussed by them, were of great importance. The merits of the old Universities were not denied. The Dissenters' only regret was that

[1] Mr. Leach has inserted the oath in his "Educational Charters and documents," 1911, p. 26. Compare an important tract, entitled "A Fair way with the Dissenters," Brit. Mus., 698, i. 41, 1704. Abuses the Dissenters, and replies in coarse terms, to Defoe and Owen A specimen will suffice. "When even these meek Lambs, who never insult their Brethren, are forced to make use of Rudeness, Ill manners, to lay the trifles of Drunkenness and Lewdness to the Charge of two famous Universities, besides those more substantial crimes, Unjust and Unfair Terms, and Imposed Oaths." Clarendon's History is utilised here, as elsewhere, and a number of useful lessons are drawn from the conduct of the Dissenters during the Rebellion.

they were denied the advantages of University learning. The Academies, as pointed out elsewhere in the Chapter, possessed certain advantages over the old Universities. Their curriculum was more modern; their fees much lower, and the education they imparted more directly useful to their students, than those of the Universities. Yet these advantages did not compensate them for the intellectual loss they sustained through their exclusion. It is no doubt true, as pointed out by Wesley, that some of the Dissenters did send their children to the Universities.[1] Their number was, however, limited, and it would be safe to assert that in the reign of Queen Anne, very few Dissenters went to either University. It was inevitable that the Universities should come to be regarded as the preserves of Privilege, and that the Dissenters should concentrate on the improvement of their own educational institutions. It is probable that the agitation was responsible for the abolition of some of the abuses which Wesley had pointed out, and which, as we have seen, undoubtedly existed, and the foundation of a comparatively larger number of efficient Academies. The Academies of the second period, to which I have referred in the early parts of this Chapter, probably owed their superiority to the agitation started by Wesley. On the Universities, however, the effects were uniformly bad. The Dissenters might have been admitted to some of the Colleges, and even a College or two built by them within the precincts of the Universities, if William III had lived longer, and if the

[1] Wesley's Reply to Palmer's Vindication, p. 39.

fears of the High Churchmen had not been excited by fresh concessions to the Dissenters. The Act of Toleration, urged a number of speakers, both in the Commons and the Lords, had softened the prejudice against the Dissenters; and there is no doubt that the same policy, if persisted in, would have produced highly beneficial results. The reform of the Universities would have been hastened; the Dissenters would have been admitted; and a totally different atmosphere created. Many of the problems which are taxing the brains of a number of statesmen at the present time would thus have been settled long ago. This was, unfortunately, not the case. The full effects of the controversy can now be estimated with much more facility. Its religious aspects, and political features, have been delineated in the early part of this Chapter, solely with a view to getting a right perspective of its educational bearing. The latter would hardly be understood without its political and religious aspects. It was the combination of the two theories pertaining to "Church and State" that gave significance to the educational controversy. Viewed from a higher standpoint, the whole controversy resolves itself into the old dispute of individual conscience versus collective morality, as embodied in the laws and customs of the State. The Dissenters would probably have been left untouched by the statesmen, if their political principles had not been at variance with the maxims which guided Bolingbroke and Bromley. The agitation against the Occasional Conformity of Dissenters was carried on *pari passu* with the agitation against the Academies of Dissenters.

The Bills against Occasional Conformity provoked lively discussion, and intensified the hatred against the Dissenters. It is not only possible, but highly probable, that the Dissenting Academies would have been attacked next if the Bill had become law. Defoe's statement has already been examined.[1] The course followed by the Tories in 1702—4 would have been the same as that pursued by them in 1714. A Schism Act would undoubtedly have been introduced in 1702, if the Bill against Occasional Conformity had become law. The debates on Occasional Conformity contain little or no reference to the Dissenting Academies. Only once are the Universities mentioned, and then only in conferences of the two Houses on the Bill. The Commons managers had referred to the dangers by which the Universities were threatened by the Occasional Conformity, and the Lords replied as follows: "As to the Universities, we are not to consider the danger they may be in, under our present circumstances, but what may happen in another state of things."[2] The discussion was concerned with the Occasional Conformity, and not with the education of Dissenters; and this explains the absence of any reference to their Academies. The question was, however, raised in an acute form by Archbishop Sharp in 1703. The old cry of "Church in Danger" had been raised again, and the

[1] See above.

[2] An Impartial History of the Occasional Conformity and Schism Bills. By A. Boyer; B.M. 698, i. 7 (2), 1717. Compare pp. 14-37. The well-known histories of Corbett, Chandler and Timberland are meagre.

Lords gravely discussed the question. Archbishop Sharp owned the Church to be in danger, in one sense, "as a Church Militant having many enemies, among which he named Atheists, Deists and Socinians. He feared likewise very ill consequences from the many Academies set up by the Dissenters, and the liberties that some of them took under the Act of Indulgence." Sharp then brought forward three motions. The first aimed at "putting a stop to the seminaries and schools of the Dissenters, and for remedying the laws, which were deficient as to the bishop's power over Schools." The second motion had for its object, "the explaining the Act of Toleration," while the third compelled "all men to go to some Church, or to some meeting, and not to stay at home on the Lord's Day." [1]

It is significant of the temper of the House, that the first motion, relating to the Dissenting Academies, was thought so reasonable, that it was insisted upon by the Lords, and at length carried in part, but not perfectly.

The Academies were complained of by the Clergy in the Lower House. They complained to the Bishop of the growth of Dissenting Academies, and evidently desired more active measures against them.[2] But a feeble protest was insufficient for the Church of Ireland. There the Convocation resolved, on June 2, 1705, "That for any person to keep up, and maintain schools and

[1] History of the Proceedings of the House of Lords, Vol. II, p. 161. Compare, Life of Sharp, by N. Newcome, Vol. I, pp. 363—5.

[2] Cardwell's Synodalia.

seminaries for the education of Youth in principles contrary to those of the Established Church, is a contempt of ecclesiastical Laws of the Kingdom, of Pernicious Consequence, and serves only to widen the unhappy Schisms and Divisions of the Nation." [1] It is clear from the above that there was a design among the Churchmen to suppress the Academies, and that, though they were not referred to in debates on the Occasional Conformity, they would have been controlled, if not suppressed, if the " Higfliers " had maintained their influence.

The dismissal of Nottingham and other High Churchmen, and the formation of a purely Whig Ministry in 1708, stayed the inevitable conflict. The Dissenters breathed freedom for two long years. In 1710, however, the fire which had never been extinguished was fanned into a flame by the Sacheverell trial. The Tories came to power, and the struggle against the Dissenters began. The Occasional Conformity Act was passed by the Coalition of Whigs and Nottingham, and though Leadam [2] has attempted a justification of their conduct, the general opinion among the Dissenters was echoed by a writer, who asserted that the Nonconformists were a prop to the Whigs when out of office, but a burden to them when in office.

Though the Whigs supported the Act against Occasional Conformity, they offered a determined resistance to

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[1] Quoted by S. Wesley, evidently with approval, in his Reply to Palmer's Vindication, op. cit., p. 9.

[2] History of England, Vol. IX, p. 190.

the Schism Bill brought in by Bolingbroke.[1] Bolingbroke has defended the measure to his Letter to Sir William Wyndham "I verily think," he asserted, "that the persecution of the Dissenters entered into no man's head. By the Bills for Occasional Conformity and the growth of Schism it was hoped that the sting would be taken away. These Bills were thought necessary for the party interest, and besides were neither unreasonable nor unjust." His object was the consolidation of the High Church party, and the removal of everything that proved an obstacle to the attainment of that object. This is clear from his letters to Strafford.[2]

SECTION IV.

THE CONTROVERSY OVER THE SCHISM BILL.

Harley had never sympathised with fanaticism, and was sincerely anxious to promote peace and good-will in England. Defoe, on whose opinions he relied so much, was strongly hostile to it. "The conduct of Dissenters,"

[1] Compare the following: Sichel, Bolingbroke and his Times, Vol. I, Chapter IX; Churton Collins' brilliant Study of Bolingbroke; Macknight's Life, pp. 400–04. Defoe's Secret History of White Staff; Considerations upon the Secret History of Bolingbroke; Detection and Sophistries of the Secret History; Memoirs of the reign of Queen Anne; Rapin and Tindal's Histories of England. Swift's Memoirs of the Last Years of Queen Anne, do not mention the Schism Act, and his Journal to Stella contains only a passing remark.

[2] Correspondence of Viscount Bolingbroke, Vol, 4. Compare the following pages, 493, 510–513, 550 and 563. They show clearly that Bolingbroke had determined on carrying out a policy of "Thorough," purging all the timid and half-hearted out of the Ministry, and establishing a strong Tory despotism.

he admitted in a letter to Harley,[1] " has called for more than this, and this may remind them of a hint I gave them in the Letter, whether they enjoyed no favour from Her Majesty's bounty which they might not forfeit by their present behaviour." He was equally severe upon their academies, " if there had never been any, I know not but their interest had been as good, if fewer beggars and drones had bred up for ministers among them." Halifax, who delivered one of the most effective speeches against the Bill, counselled him to resist, " If I am any judge of opportunities, your enemies have thrown such a game into your hands as never happened to any man before," and he begged him to make use of that conjecture, " to save your country." What Halifax aimed at was a coalition of the supporters of Harley with the Whigs, and the organisation of an influential and powerful opposition to the unscrupulous policy of Bolingbroke. His feeble and vacillating action showed that he was totally unfitted to deal with the difficulties that confronted him. When a motion was made that the Nonconformists should be heard by Counsel, he refused to commit himself and would not vote, yet during the later stages of the Bill, he was found voting with its supporters. This policy pleased neither his friends nor his opponents, and he was deserted by the Dissenters and the Anglicans.[2] " It was observed that the Lord Harley, Thomas Harley Esq., and all my Lord Treasurer's Friends, except his own brother, the Auditor, voted for the Bill, which was carried to the Lords."

[1] Harley Papers, III, 444.

[2] See the Wentworth Papers, 1705—1739, pp. 386—8.

The pamphlets that poured forth in quick succession discussed every aspect of the question with wearisome thoroughness, and displayed a keenness, a verve, and an insight that have hardly been paralleled in the controversial literature of the period. The total output on the subject was comparatively small, as Bolingbroke and Wyndham sprang the motion upon the heads of the members of both the Houses. The Dissenters were taken completely by surprise, and no organisation of opposition was possible. The Bill was hurried through both the Houses with indecent haste, and very little time was allowed for an impartial examination of its merits. "The Lords," wrote Peter Wentworth, "have gone quite through the Schism Bill, and have come over the other party cleverly, for whilst they were busy in giving instructions to the Committee to receive clauses to the destruction of the Bill as it was sent up to the Commons, my Lords Angelsea and Bolingbroke have carried a clause that the House of Commons did not think fit to send up to the lords for fear of the loss of the whole Bill, which was to extend the Bill throughout the Kingdom of Ireland." [1]

The most effective criticism of the measure came from a totally unexpected quarter. Richard Steele, smarting under the sentence of expulsion from parliament, and regarding all the measures of the Tory Government with the eyes of an unfriendly critic, brought out a severe indictment of the proposed measure.[2] Steele asserted

[1] See Wentworth Papers, pp. 386—8.

[2] See Aitken's Life of Steele, Vol. II, pp. 30—3.

that the Act, "in a stealing and too artful a manner," took away the Tolerating Dissenters, and that it was calculated to inflict irreparable harm on the country. The argument loses its force when we consider that the Act did not apply to schools at all, and that the reliance of the Dissenters upon such a weak defence of their cause, weakened the force of the really solid array of facts which they brought forward to prove their case. Much more forcible is Steele's second line of defence. He appeals to a "Natural and Original Right of Mankind, for it is an undoubted Truth that men have as much right to the means of knowledge as to the means of Life." "The Government," he declared, "may hinder a man from propagating his opinion amongst those who conform to the Church;" but "it cannot with Reason and Justice hinder him from serving God in his own way, and educating his children in the same." He then proves that Englishmen "are possessed of a Law in their Favour, which allows the Exercise of their Religion; and where there is a Right to a Benefit, there are supposed to go along with it, the necessary means of attaining that Right." "These means," he argued, "are intercepted when Education towards enjoying this Right is prohibited." All the arguments advanced by the Dissenters suffered from their incapacity to define their terms. "Law," "Right," "Nature," etc., are frequently used, but their political significance, and their implications are completely ignored. The analysis is by no means so simple as it may appear at first sight, and their failure to achieve complete religious freedom was due solely to their reliance upon vague, ethereal phrases. Of

the political aspect of the question, of the existence of a deeper view of the function of the individual to society, we have no trace at all. They emphasise "Natural Law," but natural law itself is not fixed and immutable, but, as pointed out by a succession of scientific jurists, varies from age to age and country to country.

If the state itself were nothing else but a heterogenous collection of discordant materials, each with divergent interests and inconsistent aims, then the question is comparatively a simple one.

Steele ignores the distinction between Civil and Natural Law, and argues on the assumption that the two are in complete harmony, that the Civil Law, or, as Austin would call it, "the positive law,"[1] is merely a deduction from the Natural Law. He was on firmer ground when he attempted to show the inexpediency of the Act. "It will," asserted Steele, "bring upon the Church of England, great and unanswerable scandal," and "will give arguments to her Enemies, that she is conscious of her inability to defend herself by Reason of Truth, when she flies to the Secular Power to take off her Dissenters." He drew a pathetic picture of a "poor Schismatick Schoolmistress brought before a zealous angry Squire for transgressing this Act, and teaching one Presbyterian. Yet little more than an Animal, in what the Letter D differed from the letter B;" and wondered that "a

[1] See Austin's Jurisprudence; Holland's Jurisprudence, Savigny's Roman Public Law, Maine's Ancient Law, with Pollock's Notes, and Chapters, by Figgis in Cambridge Modern History.

church adorned with so many Excellent and Learned Members, supplied by two famous Universities, both endowed with ample Revenues, Immunities and Jurisdictions, should be affronted with the offer of being reinforced with Penal Laws against the Combination of Women and Children."[1] Steele's Letter focussed the attention of the public upon the grave defects of the proposed measure, and later defenders of Nonconformity utilised some of his most effective arguments, and borrowed many of his incomparable similes. They asserted that the tenderness shown to the Dissenters at the time of the Revolution had made "Toleration more Firm and Secure to us, and more safe and Inoffensive to the Established Church;" they showed that by the Act, Protestant Dissenters were not only debarred from teaching Grammar Schools, and Academical Learning," but also from instructing them in "Reading, Writing and other Literature." By this means, many poor men and women, "who make a hard shift to support themselves and their families by teaching to read, will be reduced to extreme want, and brought as a charge upon the place where they live." Poor rates will go up, and the parishioners will have to maintain "a class of persons that was distinguished for its industry, independence and vigour." Teachers of Writing and Arithmetic "would fare still worse, as it was generally regarded as a Trade to which in many places and particularly in the City of London, Youths are but apprentices and serve seven years and

[1] A letter to a Member of Parliament, 1714.

then have their Freedom, as those that have served to any other calling." [1]

The Quakers advanced some novel arguments against the proposed measure. They appealed to the "Fundamental Laws of the Kingdom," referred vaguely to a mysterious "Natural Right of the Care and Discretion of the Education of their own Children," and argued that "if the Governments which are now either Heathen or Mahometan should take into the same policy, the Society which the Queen hath Incorporated for the Propagation of the Gospel in Foreign Parts can have very little, if any good effect or success." They pointed out the dangerous effect of the measure on the poor, and predicted that the "Bill will increase the Blackguard which abound in our streets and are running wild all the evils that Necessity and Ignorance can hurry them into." The effect on the Charity Schools would be equally bad. As one writer put it—"The Bill will extend even to the Charity Schools, which have been set up by the Dissenters, into which they have taken the children of the Poor without any distinction and taught them at very considerable charges to Read and Write, and have cloathed some of them, and made a rule never to put anything upon the children, which the consciences of the parents do not allow of." [2] "It would," asserted another writer, "be but a poor triumph to monopolise the use of Hornbooks and Psalter,

[1] A Collection of all the Papers that have been given to the Lords and Commons in relation to the Schism Bill, B.M. 1714, pp. 8—9. This is the most important collection of papers on the Bill.

[2] A Letter to a Member of Parliament, B.M. 2193, 1714.

for the benefit of the orthodox schoolmistresses."[1] The case of Protestant Dissenters in Ireland was argued with great ability in a popular broadside.[2]

The author showed the effects of the disunion of Protestants on Irish Catholics; and declared that they were "already much discouraged by the want of Legal Toleration, which their brethren in Scotland, and those of Episcopal persuasion in Scotland enjoy." He pointed that the emigration of Dissenters to foreign countries at a time when "emissaries of a Popish Nation are Listing and Transporting to France great numbers of Irish Papists" was fraught with danger to the Commonwealth.[3] It is possible that the clause relating to Ireland was inserted solely with a view to exasperating Shrewsbury, the Lord Lieutenant. His dealings with the Whigs had been noticed both by Wyndham and Bolingbroke, and the latter may have regarded it as the most effective means whereby he could be compelled to declare his political faith.

Wentworth gives a short account in his letter.[4] Probably the best account is to be found in a pamphlet in the Congregational Library, Memorial Hall, entitled "Debates and Speeches in both Houses of Parliament

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[1] The Sense of the Church of England. By a Churchman, B.M. 1714, p. 80.

[2] B.M. 516, m. 17 (82).

[3] See also Queries relating to the Clause added by the Peers to the Schism Bill, 516, m. 17, 83.

[4] See Wentworth Papers, pp. 386—388.

concerning the Schism Bill, 1715." Press Mark (D) a, 11. B.

The Dissenters' "Humble Supplication" to Queen Anne was probably the best expression of the political philosophy which consciously or unconsciously guided their policy, and regulated their conduct. The differences between the two parties were fundamental, as their attempt to clear themselves of the charge of "Schism" shows clearly. Their references to the "Sovereignty of Conscience" cannot but extort our sympathy; while their assurances of loyalty to the throne, their deduction of the Right of Education from the Act of Toleration, their defence against the attacks of Anglicans, and their exposition of their spiritual principles, are characterised by great insight and praiseworthy moderation. The chief defect of the supplication lies in its failure to differentiate between the political and moral aspect of the question. To Swift, to Bolingbroke, and to a host of other souls, it was purely a political question, to be judged solely by the test of public safety. Religion entered very little into the question. The study of the pamphlet warfare of the period leaves one with the impression that a clear definition of terms, and a logical analysis of the various universal propositions which both parties constantly employed, would have gone far towards removing that atmosphere of ignorance and dogmatism in which much of the controversial literature of the period is enveloped. Perhaps the best exposition of the principles upon which the Dissenters acted is to be found in a pamphlet, entitled "Legal Liberties of Dissenters." [1]

[1] Anonymous, British Museum, 4135, a 27.

The author recognised that the "keeping of schools and academies for the Instruction and Education our children is not expressly a part of the Toleration Act; but he argues that the Liberty of Teaching and Instructing our Children is such an essential in the meaning of toleration, that it needs no more to be expressed therein, than a Liberty of going out of our Houses, or rising out of our Beds," etc.

The Tories were not slow to point out that the "Natural Law," the "religious duties of a Christian," and the vague terms which the Dissenters frequently employed were due to a misunderstanding of the question at issue; that their statement that they are bound to obey God rather than man would open the door to the "horrid" rebellion, and sedition of the period of Civil War. The Dissenters, wrote their ablest spokesman, Sewell, who was probably one of Swift's "undersuper leathers" (the term is Swift's) "have not any more Natural Right to the Education of their Children, than they have to their Obedience." This led to the discussion of the relation of the Family to the State, and it is here that the merit of the Tory writers consisted. While the Dissenters appealed to the moral law, the Tories relied mainly upon the municipal law. They do not deny the efficacy of some of the laws of nature; some of them admitted that such a law existed and that it was binding upon all. The difficulty here, as in all cases where data are employed without analysis, and where the connotation of terms is not logically determined, lay mainly in the interpretation of that law. Sewell started with three propositions which

he declared to be universally true. Every government, he stated, has a right and power to defend itself against those from whom it fears danger. Considered in the abstract the proposition is true; points of disagreement arise when the term "Danger" is analysed. The Dissenters denied the existence of any danger, and pointed to their lack of union. "They were disconcerted, divided from one another, and too much uneasie one with another;" and they showed that they had "no public leaders, public heads, public stock, or public strength." [1]

The second "universal law" stated that every government "may alter, repeal, restrain, any laws made by itself." The third "universal law" was still more liable to misunderstanding. "Promises are never to be taken as absolute."

These propositions relate solely to Government, and Natural Right is not mentioned at all.

The aim of government is stated to be the establishment of security in the kingdom, and this, he asserts, can be achieved only when it is invested with absolute powers; when Civil law holds supreme, and when Natural Law is kept in complete subordination. Otherwise, the right of the parent to the education of his children might introduce "such a multiplicity and confusion of opinion at least, as might prove dangerous to the State." Perhaps the most effective criticism of "Natural Liberty" was made by Swift.[2]

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[1] The Supplication of Dissenters to the Queen.

[2] The Examiner, June 28, 1714.

He subjected Steele's pamphlets to merciless ridicule; and bantered him on his new-born zeal for Dissenters, "When first this Affair was started, I readily foresaw what Clamour and Cavils would be started, and come abroad in disguise of Reason and objection.....I could not foresee that he would call the care of Dissenters' education the next thing to cutting men's throats." He then analysed the conception of "Natural Liberty," and utilised his powers of concentrated ridicule, his savage irony, and Rabelaisian humour, against their favourite dogma.

The educational controversy was inextricably mixed with political controversy, and the Dissenters were compelled to ally themselves with the Whigs for defence against the Government. The dangers of this alliance were foreseen by Daniel Defoe, who showed the consequences of their folly, in a dexterous pamphlet. It must, said Defoe, be extremely disadvantageous to Dissenters if it should be found that notwithstanding their frequent protestations of loyalty, and "of men being free from the charge of being factious and seditious, either by Principle or by Inclination, they now actually appear siding and joyning with an Enraged, Disaffected Party and Faction." He reminded them that the Whigs had deserted them in 1711, that their "embracing and embarking with the very persons who so sacrificed them and their Interests" would prejudice them in the eyes of their Sovereign and lead to their political ruin. "What," he asked Defoe, "have the Dissenters to do with Parties in the Government? It is clear, as the Light, they can never be better

in their religious concerns as they are." [1] Defoe's pamphlet did not produce the desired effect. The strength of the Dissenters lay in their union with the Whig party, and it was only through this means that they could get the Schism Act and the Act against Occasional Conformity repealed.[2] Defoe's pamphlet was answered by "A Churchman." [3] It is written in very coarse terms, and contains a venomous attack on Defoe. It charged him with "wheedling and Frightening the whole body of the Dissenters out of that spirit of Liberty and zeal for the Publick Good, which they have always exerted in a distinguished manner, and which have made all good Churchmen look on them as their honest mistaken Brethren, and as such to treat them with moderation and Friendship." There was considerable amount of truth in the writer's assertion, as Defoe was not distinguished by consistency of conduct, or devotion to truth. He was employed by Robert Harley during the years 1710—1714, and though it would be going too far to assert, as some writers have done, that he sacrificed his principles to his desire for gain, it cannot be denied that his friendship with that statesman produced considerable modification in his political principles. The Whigs

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[1] Defoe, a letter to the Dissenters, 1713, B. M. 698, g. 24, and compare Defoe's letter to Harley, in Harley Papers, cited above.

[2] See also Inquiry into the Miscarriage of the Last Four Years' Reign; Congregational Library, 1714, deals mainly with the foreign policy of the Ministry; Memories of the Conduct of the last Ministry, 1715. "The Present Ministry justified" deals solely with the foreign policy.

[3] Remarks on the Letter to the Dissenters, B.M. 698, i. 5, 1714.

were not slow to point out the dangers to the Protestant Succession, and John Toland attempted to show that the design of the Tory Ministry was nothing less than the subversion of Protestantism; that its prominent leaders were in secret league with the Pretender; and that they desired to repeal the Act of Settlement. He called upon all the Protestants to unite in that hour of crisis, in order that the nefarious designs of the Ministry may be frustrated.[1] Other writers tried to prove that the Dissenters were not "schismatic," and that a "separation from a Church or Publick worship is not a schism."[2]

The progress of the Schism Act through both Houses of Parliament seems to have produced a momentary lull, but the Dissenters were not reconciled to the measure, and we have Defoe's authority for stating that some of them determined to revolt. It is possible that a formidable opposition would have been organised to the measure, if the Act had been executed in all its inhuman rigour. They complained bitterly that by the Act, "as it then stood, or rather as the contrivers of it intended," not an infant of a Dissenter should have been taught to spell its mother's tongue, "the horn-books and the primer, were to be taken out of the hands of the poor old women." There was a distinct consciousness of the conflict of divine with the municipal law, and the old question which had vexed a generation of thinkers reappeared in

[1] The Grand Mystery Law Open, by John Toland, 1714, The Congregational Library, Memorial Hall, E.C.

[2] Dissenters, no Schismatick, or Dissenting Churches Orthodox, 1714.

all its pristine simplicity. They were compelled to choose between the law of God and the law of man, and the issue was foreseen by the Nonconformists themselves. "Whatever laws be made to prevent us in performing this Indispensable duty, it must remain Indispensable, because we are bound to obey God rather than man." The Act was to be evaded in various ways, and elaborate devices were suggested for achieving this aim. They sought a parallel for their sufferings in the persecution of their forefathers in 1662, and a writer advised them to "teach their children by private and concealed schoolmasters as well as we can, as their fathers were preached to in times of persecution." If by the vigilance of spies and informers, "schoolmasters be oppressed and cast into prison," this we must run the hazard of for so good, so useful, and so necessary a work as the Education of our children.

If the Dissenters do send their children to Grammar and Boarding schools, the teachers need not use the Catechism of the Church of England, "but the children may be instructed by Exhortation, Readings and such other methods as Conscience and Religion shall dictate." The influence of the religious education imparted in a typical Grammar school was to be counteracted by the establishment of Boarding houses by Dissenting schoolmasters where they could "entertain, examine and teach youth" in religious matters.

In the Academies, a licensed teacher of Latin could be procured and the tutor was to be discharged of his teaching part, making him nothing else but "master of the Family Chaplain, or such like, and employing such

under him for tutor, or teacher, as are qualified according to Law." This could be done by placing the family and school in two distinct classes or forms, entirely independent and unconcerned with one another, and placing the government and direction of these classes under different persons.

Many of the prominent churchmen seem to have been convinced of the existence of a vile plot among the Nonconformists, and Samuel Wesley's sentiments were echoed by a considerable body of influential clergymen. South attributed the shameless debaucheries, and the ever-increasing laxity of conduct under Charles II, to the Dissenters' Academies. After complaining of the increase in crimes, misdemeanours and sins, the preacher asked, "How came all this to pass? Why, from the exorbitant license of men's education. They were bred in lawless, ungovernable times and Conventicle Fanatick Academies, by which liberties, having once leaped over the severity and strictness of firm custom, they found it an easy matter with debauched morals, and defloured consciences to launch out into much greater." [1]

South's history looks dubious, but the aim of his attack is clear enough.

The Bishop of London's defence of the Schism Bill was based on totally different grounds. He did not charge them with "debauching" the youth, as he was too cautious, and too experienced a man to weaken the force

[1] South's Sermons, 1704, Vol. V, pp. 3-5. The sermon was never delivered, as Charles II died on that day. South, however, published it afterwards.

of his arguments by hurling such wild charges. He accused them of "drawing" the children of churchmen to their schools and academies and "endeavouring to propagate Schism." The same charge was brought against the Dissenters by Sewell.[1]

He complained that the "schools of Dissenters are more numerous at present than they have been in former years," that the Dissenters used "all methods of turning the weakness or the property of the parents of some children who are of the Church, to their Advantage," and that by the "practice of the Arts of Seduction and debauchery" the minds of those whom necessity or their parents' negligence drove to them, were perverted. "It is well known that the Academies are full and publick, that they pretend to be of equal foot with the Universities, as much allowed and encouraged by the Government as they are." They were regarded as scenes of interminable ecclesiastical controversies, where Church doctrines were subjected to merciless ridicule, and where all the students who attempted to dispute the opinions of their tutors, "fell under the Displeasure of their Governors and Tutors." These reckless charges were answered by Halifax in an admirable speech. He admitted that the Dissenters educated children of churchmen in their schools, but it was done with the knowledge and consent of their parents, "who had not sufficient means to educate their children." If the real object of the Bill was the prevention of the Dissenters "from endeavouring to engross the education of youth," then they ought to be

[1] Schism Destructive of Government.

allowed to instruct their own children, and the Act should apply only to those Dissenters who attempted to teach the children of churchmen. This was a very dexterous move, and the motion found favour with the leading defenders of Nonconformity. Cowper, Sunderland and other peers debated it for over 3 hours. Bolingbroke knew that if he delayed, the Bill will be mutilated beyond recognition, and his design would be frustrated. He opposed it with vigour, and his opposition carried the day. The motion was lost by sixty-two votes to forty-eight.

Other Tory writers were not content with such mild charges against the Nonconformists. They accused them of "getting the government into their own hands, and the Church under her feet." They have, said a writer, "everything besides what they have a mind to. They only want to be our masters, and to have us at their mercy, and then the moderation would be complete." This, concluded the fanatic, is the "centre in which terminate all the Links of that Lewd Circle of Abridgement, Observators, New Tests, Short ways, and a hundred more." Owen had preached moderation, and, as pointed out above, several writers had replied to that sensible tract. To the Tory fanatics, however, "moderation" was a contemptible thing. To be moderate in Religion, exclaimed the writer of a coarse pamphlet,[1] "is the same thing as to be lukewarm, which God so much abhors, that he has threatened to speak such out of his mouth." A "moderate Christian is indeed a very fashionable and well-bred

[1] Moderation truly stated, page 5. Congregational Library, Memorial Hall, E.C.

person; he is not troublesome with his Religion. He keeps to it himself, and will not suffer it to go out of his Closet;" you may without any restraint from his presence, or fear of any dislike that he should show, either affront God, revile religion, "or Calumniate your neighbour as you are disposed."

The reasoning employed is a triumph in the art of sophistication. It reveals the heat and fury of the conflict, and throws a searching light on the causes that intensified the latent hostility of the two parties. The writer of the "Mask of Moderation pulled off the Foul Face of the Occasional Conformity," was not content with showing the drawbacks of moderation in stormy times; but went back to the scriptures and the early Fathers to prove his points. The Early Fathers, he asserted, had condemned indifference while the scripture lays down that lukewarmness in essential things is a sin.[1] Defoe attempted to show that a Law to prevent Occasional conformity in Carolina, had "ended in the total subversion of the constitution to the Church," and drew a gloomy picture of the disastrous results of that measure. Perhaps the ablest defence of the policy of Tories is contained in a pamphlet entitled, "The Danger of Moderation."[2]

Moderation in desperate struggles was, declared the writer, an impossibility. "Should war begin between Whig and Tory, as not long ago it fell out between Cavaliers and Roundheads, what will you do then? If

[1] Compare two pamphlets by Daniel Defoe, on the effects of persecution in Carolina.

[2] Congregational Library, Memorial Hall, E.C.

you stay at home, and be Neuter, you will be plundered by both parties! Even in peaceful times, no quiet is possible. If you visit any of your Neighbours, there will be nothing but Wrangling and Disputing." Moderation is out of the question, as a person is bound to take an active part in the important tasks of life, and this can be achieved only by infusing an amount of energy, an enthusiasm and zeal, of which moderation takes no cognisance.

Harley, however, was not inclined to take extreme measures against the Academies. This is clear from the "Secret History of the White Staff." We learn from Defoe that "the Churchmen who fell in with the new high party, had long complained of a Liberty which was given, or connived at, for the keeping of private Academies, Grammar Schools, and other Schools by the Dissenters, though a Law was in force against them." This, remarked Defoe in his Secret History, had been often complained of, but never redressed.[1] Bolingbroke now determined on a bold policy. He knew that Harley who had been educated in a Dissenting Academy, favoured the Dissenters' schools. Again, the Act was popular with the Churchmen. As Defoe, the mouthpiece of Harley, on this occasion puts it: "The juncture served in several ways. The Churchmen were served, by taking hold of this opportunity to obtain what they had so long in vain desired, and so long attempted." The statesmen were served by

[1] See the Secret History of the White Staff, B.M., 1103. a. 2, 1714, p. 31.

having an opportunity to push at the White Staff; "and a Private view was served, of letting the Queen see who was most zealous for the Church." Harley was in an awkward position. If he opposed the measure, he would lose the favour of the Queen; if he supported it, he would be a party to an act of gross injustice. As usual with Harley, he hesitated, and this proved his ruin. He had neither the courage to oppose the second reading, nor the address to become an advocate of the other. He laid claim afterwards to have "taken out all the malicious and persecuting part." "Your Lordship," retorted Bolingbroke, in his Considerations on the Secret History of the White Staff,[1] "did not speak one word through the whole debate; you sat dumb and swelling with a discontent that visibly spake your affections to the Bill."

Bolingbroke having determined to get the Bill passed, and it was accordingly brought in by Sir William Wyndham. The debates that followed throw a flood of light on the Dissenting Academies, and on the policy of the two parties with regard to the Dissenters.[2] This is

[1] Compare also "Detection of the Sophistries and Falsities in a Pamphlet entitled Secret History of the White Staff" B,M. 101, 1714. The Author says Defoe was paid £200 to £300 a year by Harley. He charges Harley with being "bred up in a Fanatical Conventicle and Seminary."

[2] Compare Journals of the House of Lords and Commons; Cobbett's History; Chandler's Debates in the House of Commons and the House of Lords; Memoirs of the Reign of Queen Anne, 1742, pp. 292—300; Tindal's Continuation of Rapin's History, Vol. I, pp. 720—722; Boyer's History of the Reign of Queen Anne, pp. 701—706; Statutes of the Realm, 1822, Vol. IX, pp. 915—917; Thorold Rogers' Protests of the

not all. It was the first Act that dealt mainly with the Dissenters' education, and defined the policy of the High Churchmen towards the Dissenters. It expressed in a concrete form the ideas, and desires by which the Churchmen were animated. They would have succeeded in 1702, if the Bill against Occasional Conformity had become law. An Act against Schism would have followed. In 1714, all the obstacles had been removed. The House of Lords, which had rejected the former Bills, had been brought under control by the creation of 12 Tory peers, and the Tories for the first time obtained ascendancy both in the Commons and in the Lords.

The effects of this measure were immediately felt. Sir Robert Walpole, Sir Joseph Jekyll, General Stanhope and Sir Peter King exerted their eloquence and abilities in opposing it. Stanhope showed that it would defeat the purposes for which it was intended. It would occasion foreign education, which on the one hand, "would drain the Kingdom of vast sums of money," and, on the other hand, fill the minds of the young with prejudices against their own country. He illustrated his arguments by citing the example of the English Catholic seminaries abroad, which were so pernicious to England that "instead of making new laws to encourage foreign education," he could wish that those already in force

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House of Lords, Vol I, pp. 219—222. Cox's Life of Sir Robert Walpole, Vol. I, Chs. II, III; and his Memoirs of Marlborough; the secondary authorities such as Lecky, Ranke, Stanhope, Leadam, etc., need not be mentioned.

against Papists, were mitigated, and that they should be allowed a certain number of schools.

Bromley, the defender of the Bill, maintained that the Dissenters were dangerous, both to the Church and State. He expressed his readiness to drop the Bill if another were brought in to "incapacitate the Dissenters, either to sit in that House, or to vote in Elections of Members of Parliament." This dexterous proposal was not accepted by the Whigs, and the Bill went through all the stages in the House of Commons, and was passed a third time by 237 votes to 126, and carried to the House of Lords on June 2. The Presbyterians, Quakers and Foreign Protestants were thrown into a state of feverish excitement. A number of pamphlets issued out of the press; while a petition was presented to the House of Lords, praying that "they might be heard by their counsel." This was not all. We are told that the Dutch and French Protestants also laid their grievances before the Lords; while the Scots ministry sent a representation on behalf of Scots who had settled in England and Ireland.[1] Though the petition of the Presbyterians was rejected by 72 to 68 votes, the request of the Dutch and French Protestants was granted, and the Lords inserted a clause whereby the penalties in the Act were "not to extend to any foreigner, or alien of the foreign reformed Churches, allowed, or to be allowed, by the Queen, for instructing or teaching any child of such foreigners as a Tutor or Schoolmaster."[2]

[1] Compare Memoirs of the Reign of the Queen Anne, 1742, p. 299.
[2] Statutes of the Realm, 1822, Vol. IX, pp. 915—7.

It is difficult to overrate the importance of many of the speeches delivered by the Lords on that occasion. They not only supply us with valuable information on the progress of the Dissenting Academies; they also furnish a key to the solution of many of the problems of the Eighteenth Century education. This is not all. The educational controversy turned the balance in favour of the Whigs, in 1715, and led to the establishment of the supremacy of the Whig party under the Hanoverians. The Dissenters were thrown into a state of excitement by the Act, and, according to Defoe, determined to revolt.[1] The Whigs would have encountered considerable difficulties in their struggles against the Bolingbroke and High Church party, had they not been cordially supported by influential Dissenters in 1714.

Its results on Harley were no less momentous. The position of the Whig party was defined by Lord Cowper with admirable clearness. No man, he asserted, was more ready than himself to do everything that would appear necessary to attain the professed object of the Bill, *viz.*, the prevention of Schism, and the Security of the Church of England. The Bill, however, tended to "introduce Ignorance, and its inseparable attendants, superstition and Irreligion." Cowper then informed the House that "in many country Towns, Reading, Writing and Grammar Schools were chiefly supported by the Dissenters, not only for the benefit of their own children, but likewise of those of poor Churchmen." He showed that the suppression of these

[1] See Portland MSS., Vol. IV.

schools would lead to the suppression of the reading of the Holy Scriptures.

Wharton wondered that persons who had been educated in Dissenting Academies, "whom he could point at, and whose Tutors he could name," should appear the most forward in suppressing them. This was a palpable hit at Harley and Bolingbroke. He could see no reason for suppressing those Academies, "unless it were an Apprehension, that they might still produce greater Geniuses that should drown the merits and Abilities of those great men." Wharton's speech was answered by Anglesey. He denounced the Dissenters as "irreconcilable enemies to the Established Church," and charged them with "ingrossing the Education of Youth; for which purpose they had set up schools and Academies in most cities and towns in the Kingdom, to the great Detriment of the Universities, and danger of the Established Church."

A number of other speakers pointed out the drawbacks of the projected Bill. Townsend showed that the wealth and strength of Holland lay in the number of its inhabitants. He felt persuaded that if the States caused the schools of any Sect, tolerated in the United Provinces, to be shut up, "they would soon be as thin of people as Sweden or Spain; whereas now they swarm with inhabitants." Nottingham explained that he would have voted for the Bill, if he had been convinced of the existence of a danger to the Church of England.

The Bill was subjected to a keen examination in the Committee. A number of amendments were proposed

and accepted. The Whigs proposed that "the Dissenters should be suffered to have schoolmistresses, to teach their children to read." The Bill, it is clear, applied both to Dissenting schoolmasters, and Dissenting schoolmistresses. They were now exempted from "the penalties imposed by the Act. Another clause that is of great interest, aimed at exempting "persons who instruct youth in Reading, Writing, Arithmetick, or any part of Mathematical Learning, that relates to Navigation, or any mechanical art only," from the penalties laid down in the Act.

There were two more amendments of importance. The Earl of Anglesey moved that the Act should apply to Ireland. We are told, in a number of documents, that "Severe speeches were made against the clause to extend this to Ireland." It was trenchantly criticised by Shrewsbury, Lord Lieutenant of Ireland, in the House of Lords, and Robert Walpole, in the House of Commons.

By another clause, Tutors in the families of noblemen were excepted from the Act, and allowed to teach without a licence from the bishop. The House of Lords read it a third time, on June 15th, 1714, and passed it by 79 votes to 71. The unpopularity of the measure is evident from the smallness of the Government majority in the House of Lords. It had an easier passage in the House of Commons, owing mainly to the fact that the Tories, who, as we are told by Defoe, in his "Secret History of the White Staff" had been advocating a law of this type for a long time, presented a united front.

By the Act, every "Schoolmaster keeping a Public or private school, and every person instructing or teaching youth in any house, or Private, as a Tutor or Schoolmaster," had to subscribe before the Bishop a declaration that he would conform to the Liturgy of the Church of England. This was not all. The Bishop could refuse a licence, unless a Sacrament certificate were produced, and not until oaths of allegiance and supremacy[1] and declaration of Statute 25 Car. II, c. 2, had been subscribed. The penalties were drastic enough. For the first offence, the offender was to undergo three months' imprisonment without bail; while for the second offence, he was to forfeit £3 to the Crown, in addition to suffering three months' imprisonment.[2]

The Act produced disastrous results.[3] A number of Academies were closed; Charity Schools were also

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[1] Compare Statutes of the Realm 1822, Vol. IX, Sections 1,2,3 and 4, pp. 915-917.

[2] The above information has been derived from various sources. The Journals of the House of Commons and House of Lords have been laid under contribution; the Parliamentary Histories of Cobbett, Timberland and Chandler have been utilised; and the Histories of Tindal and Boyer have been consulted. The clearest account of this Act is to be found in a number of tracts in the British Museum. Their importance can hardly be exaggerated. It will be convenient to summarise here all the important Statutes concerning the Schoolmasters, up till the reign of Queen Anne. (1) 1 Jac. 1, Cap. 4; (2 13 & 14 Car. II, Cap. 4; (3) 123 Eliz. Cap. 1 (11), 17 Car. II, Cap. 2; (5) 1 W. & M. Cap. 8; (6) 7 & 8 Will. III, Cap. 27; (7) 12 Anne, Cap. VII.

[3] Compare Calamy's own life, Vol. II.

affected[1] and some of them closed. There was, wrote Defoe to Harley, a spirit of revolt among the Dissenters, and a rising was evidently feared. The effects of the Act were far-reaching. The Dissenters concentrated on the foundation of efficient Academies and introduced methods that led to a modification of our original conception of the aim of education in a well-ordered national life. These methods have already been examined.[2] Again, the question of Uniformity was discussed with zeal and knowledge, though many of the reforms suggested then were not carried into effect till over a century and a half afterwards.

The controversy produced momentous effects on the English Constitution. The dismissal of Harley, the failure of the coup d'etat of Bolingbroke and the success of the Whig plans; the alliance of the Dissenters with the Whigs all these produced changes whose results are perceptible to this day.

The Schism Act completed the breach, and knit the alliance between the Whig leaders and the Dissenters

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[1] Compare "Reasons for Repealing the Occasional and Schism Acts" B.M. 440, L. 22, 1715. "In some parts of England, to put down Dissenting Schools is to put down the word of God, because the reading of the Bible would be wholly neglected," p. 8. This plea is urged by more than one writer. Compare "Some considerations Humbly offered upon the present attempt to obtain a Repeal of Occasional Conformity," B. M. 116, d. 10, 1717. "What the Dissenters would have" by an Impartial Pen, B.M. 698 i, 7. Some Reflections upon Dean Sherlock's Vindication and the Corporation and Test Acts, B. M, 698 i. 7. 1718. The principles of an Occasional Conformist stated and Defended. B. M. 698, i, 7.

[2] See above

closer. It bore fruit in the reign of George I, when the Act was repealed,[1] and the Dissenters restored to all the rights which they had enjoyed under William III. It is clear that the educational controversy played an important part in the development of English national life; that many of the problems which it solved are of interest even at the present day and that a true understanding of some of the modern educational problems is impossible without a thorough grasp of the causes that gave rise to them. Of these causes, the educational controversy seems to me to be the most important.

SECTION V.

EDUCATION OF HIGHER CLASSES.

The Dissenting Academies had done pioneer work in many branches of education, and popularised the idea of "Modern Subjects." A comparison of their curricula with those of the Grammar Schools of the period will bring out the leading features of the two types of institutions. It is, no doubt, difficult to draw a hard and fast line between the curricula of the Grammar Schools and those of the Academies; nor is it accurate to describe the one "as relatively reactionary and conservative, compared with the educational arrangements for the children of the nobility."[2] They were, as Professor Watson admits, "more progressive than is ordinarily supposed." Nor was their training in the classics useless,

[1] 5 George I, Chap. IV.

[2] Foster Watson, Beginnings of the Teaching of Modern Subjects n England, XXI.

"since the mental discipline which had become ingrained in finding paths and gaining heights by patient winning of new ground, inch by inch, made the investigation of the details of modern subjects so much the surer, and so much the swifter. The methods of search and research had been tried on the vast experimenting ground of antiquity."[1] Leaving aside the vexed question of "formal discipline," it is clear that the Grammar Schools taught some useful subjects, and that they were not separated from other institutions by an impassable gulf. It cannot be denied, however, that they had lost touch with the general life of the nation. This applies especially to the public schools. They suffered "from that instability, or decline in number of pupils, which was general throughout the century at all public schools."[2] The main causes of this decline were the existence of a number of flourishing Academies, and the preference of private education by the nobles and the "higher middle classes."

The importance of the Academies has already been pointed out. It is necessary, however, to lay emphasis on the part they played in the development of higher education in England. The extent of their influence can be realised from the fact that during the time of Defoe's Tour, sixty-six out of seventy-two ministers in Taunton had been educated in Warren's Dissenting Academy.[3]

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[1] Defoe, Tour, Vol. II, p. 21.

[2] Foster Watson, Beginnings, pp. 526—528.

[3] See Section I.

The other cause was of a different kind, and produced profound difference on the education, not only of the nobles, but also of the poor.

A subject of study received its educational place in so far as it tended to raise the efficiency of the student. Its importance depended upon its utility; and, as the utility of the different subjects varied with the different strata of English society, some of the subjects came to be regarded as eminently suitable to a particular class, while others were common to both the nobles and paupers. Thus, dancing, riding the horse, and fencing were praised by nearly all the prominent writers on the education of nobles, and were regarded as indispensable to the education of a gentleman. On the other hand, the Charity School Children were confined to the three R's. Other subjects were introduced later on; and great care was taken to choose a master who would instruct them in navigation, Scripture and other subjects. The aim was, however, the same. The Charity Schoolmaster, no less than the private Tutor in a noble family, prepared students for the life for which they were designed. As Bishop Kennett pointed out in 1706,[1] "The masters of these (Grammar) Schools set up for Greek and Latin only, and so their dispensation excluded one sex altogether and was indeed too high for the meaner boys, born to the spade and the plough." "If these were admitted, it gave them such an imperfect Taste of Learning, as when they were called out to Labours, and

[1] 25 Sermons preached at Charity Meetings, B.M, 4776, p. 94, 1729. A valuable Collection of Charity Sermons, pp. 63-4 of Kennett's Sermons.

lower Trades, did but fill their Heads with Noise, and helped to make them more vain and conceited." The "Conceit" and "Noise" which Kennett denounced were the result of a wrong education. The same thought runs through all the Charity Sermons. There is the same emphasis on the functions, and duties of the different classes, the same insistence on the necessity of a specific preparation for the station for which the students are designed. This will be shown in detail, later on. It is necessary, however, to insist on the importance of what may be styled "specific education." It played an important part in the educational development of England during the period. Professor Foster Watson has shown that "there was the amplest scope for the introduction of new subjects in the education of the nobles," and that modern subjects "advanced with mighty strides." His survey is confined, however, to about 1660; while the education of the poor receives little notice at his hands. The treatment is, therefore, one-sided and lacks unity. The education of the nobles loses its significance unless the education of the Dissenters and that of the poor, is thoroughly understood. The three classes represented by the nobles, the Dissenters, and the poor had different ideas of the means of education. While the nobles paid equal attention to physical, intellectual and aesthetic education, the poor learnt only those subjects which were directly useful to them. The end in view was, however, the same. It was no less than the specific preparation of the individual for the efficient performance of his duties. The nature of his duties was determined not by himself, but by the class to which he belonged.

It is this tendency to specific education that is the essential feature of the period. It permeates the educational thought of the later 17th, and early 18th centuries, and it moulds the ideals and actions of a number of men during the period.

Another illustration of this tendency is found in the attention paid to schoolmasters. As shown in the first Chapter, the Tutors in the first period Academies were indiscriminately called "teachers" and "preachers" (see above). Sharpe's "Life" [1] shows that he exercised particular care in the appointment of Schoolmasters, and refused his assent to the appointment of incompetent men. There is reason to believe that the complaints of Sharpe were not ill-founded, and that some of the Schoolmasters of the period were cruel and ignorant. "No man," asserted Steele,[2] "has passed through this way of education, but must have seen an ingenuous creature, expiring with shame, with pale looks, beseeching sorrow, and silent tears, throw up its honest eyes, and kneel on its tender knees to an inexorable blockhead, to be forgiven the false quantity of a Latin verse. The child is punished, and the next day he commits a like crime, and so a third with the same consequence." [3] The statement, it is hardly necessary

[1] "Life of John Sharpe" by his Son, op. cit.

[2] Spectator.

[3] A correspondent thanked Mr. Spectator for treating on those licensed tyrants, the Schoolmasters. If you can disarm them of their rods, you will certainly have your old age reverenced by all the young gentlemen of Great Britain, who are now between 7 and 17 years. I was bred myself in a very great School—Eton—of which the Master was a Welshman, but certainly descended from a Spanish family, as plainly

to add, should be taken *cum grano salo*. We have, however, other evidence to substantiate the charge. Brockesby[1] pointed out the faults committed by the Universities, and showed that their ideas filtered through into the Schools, and thus perpetuated some of the evils; while R. Ainsworth[2] showed the causes, and pointed out the results of the system. Ainsworth's tract is important, as he devotes considerable space to the discussion of this problem, and formulates many important rules. The influence of Locke is visible in every Chapter, and he is quoted with approval. Locke is quoted not only by Ainsworth but also by Brockesby, Maidwell, Clarke and other writers on education. The importance of the changes he introduced through his "Thoughts" and "Conduct" can hardly be exaggerated. Many of the important writers on education in the 18th Century owed what fertility of ideas they possessed to Locke; while some of the nobles approved of and acted upon, the principles enunciated in his "Thoughts on Education."

Ainsworth shows the folly of the parents who, "if they take care to send them (their children) to school, perhaps it is to some woman who never knew of anything of Orthography, though she may make a shift to read her Prayers, or Murther a Gazette, confounding one period

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appeared from his temper as well as his name. I leave you to judge what sort of Schoolmaster a Welshman ingrafted on a Spaniard would make. N. 168.

[1] Of Education, B.M. 1031, f.i. 1701, Chapter VIII.

[2] The Most Natural and Easy way of Institution, 1698, B.M. 1031, g. 16, pp. 7–18.

with another, which she must needs do, having never been acquainted with the rules of Pointing." Again, parents thought it sufficient to put them to a good scholar, " whether a good man or no, is not much material. He understands Latin and Greek. As though these were accomplishments enough." There is, however, one grievance which seems to have been common during the period, and which was echoed by others. Burnet refers to it; Gailhard complains of it, and other writers mention it. " Many of good Estate, and I fear some of quality, do give their children a very mean and ordinary education, because they are loth to be at any extraordinary charge about it; " while the fondness and indulgence of mothers spoiled many bright children.

It is, however, in his treatment of the faults of schoolmasters that Ainsworth shows his originality. Some masters, complained Ainsworth, had a standing method, not only in teaching their pupils a language, but also in the " motives " by which they proposed " to raise and fix pupils' attention." He has no difficulty in showing that children are " excited by different motives and methods." No less searching is his criticism of the existing methods. They enjoined the " Herculean Labour of getting Lilly's Grammar perhaps two or three times over, and, after that a long word-book, of 2 or 3,000 words jumbled together at a strange rate, and, should children with prodigious labour and courage conquer these, and Hydra bubbles up again with more Heads. Their lessons out of their Authors are to be learnt memorita too, which baffles our valiant champions to that

Degree, they dare Encounter no longer, but slink away, and are not a pin better for all their former victories." Their harshness and severity are dwelt on in the same vigorous language. "Few have been whipped into vice and Learning but many, to my knowledge, have been whipped away from them."

There is reason to believe that Dr. Busby's example was followed by a number of schoolmasters. It became a tradition of the public schools, and was followed blindly by those who neither possessed his saving qualities, nor exercised his magnetic influences. Professor Adamson's estimate of the character of the school discipline, is borne out by a number of contemporary pamphlets. John Clarke, sometime Master of the Public Grammar School in Hull, and a follower of Locke, feared that "the excessive use of the (lash) has been too fashionable in our schools, since it was recommended by the example of the Doctor, so famous for whipping most of the young Gentry and Nobility of his Time, as much, if not more, for his own diversion, than any kind concern for their good, if tradition does not belie him." [1]

Another fault of the Schoolmasters was noticed by the lynx-eyed, worldly-wise Gailhard.[2] Some Masters, he complained, "have a pernicious method, which is too common, to affect being formidable to scholars. Fair means ought to be tried before one makes use of severity

[1] Essay on the Education of Grammar Schools, 1711, B.M. 8308, aaa. 18, pp. 138–9.

[2] The Compleat Gentleman, 1678. Part I, describing "Breeding at Home," p. 19.

and rigour, but there are those who will have scholars to quake in their presence, and to fall upon their knees, and, as it were, to adore him." This remark does not apply to the Tutors, or Governors. Burnet's tract on education shows that the Tutors were exposed to contempt, "they being held and treated as Servants;" [1] while a number of other writers dwelt on their servility and poverty.

It is necessary to distinguish the Grammar Schoolmasters from the Charity School Teachers. Up till the end of the 17th Century, graduation at a University was regarded as an essential qualification for an appointment to a vacancy in a Grammar School. It is possible that some of the masters were not graduates, and that their stock of Latin and Greek was strictly limited. The majority were, however, University graduates and were imbued with the University ideals. The growth of the Charity Schools in the 18th Century developed a distinct type of Schoolmaster. He was generally without a University Degree, and lacked a knowledge of the classics. His functions, too, were different. While the Grammar schoolmaster was a firm believer in the value of the Classics and devoted the bulk of his time to the teaching of Latin and Greek, the Charity School teacher concentrated upon those subjects which were directly useful to his students. This led inevitably to what may be called a social division between the two types. These differences were not felt so acutely at first, as some of the Charity School teachers, especially at Oxford and Cambridge, were University men. The change was, however,

[1] "Bishop Burnet as Educationist." Edited by John Clarke, 1914.

noticeable from the outset. This is clear from the "Charity Sermons" of the period. Thus Talbot [1] points out that his treatise "is not directed to the Masters of such schools, where greater and higher attainments, such as skill in the learned languages, in Poetry, and Oratory, etc., are requisite to fit and prepare their scholars, first for the education of the Universities, and afterwards for the service of the Church and State, but," he added, with brutal frankness, "chiefly to those teachers of a lower class, and consequently of lower talents, who are employed to instruct poor children in such things only as are most necessary and suitable to their condition."

Further light is thrown on the qualifications and duties of Charity School teacher by a valuable Collection in the British Museum.[2] Dr. Willis' [3] sermon shows that much caution was exercised in the appointment of teachers. The nature of their duties and qualifications, will be made clear from the following summary. After telling us that the teacher was to be a Member of the Church of England, the preacher added the following: "one that hath a good government of himself, and his passions," "one of a Meek Temper and Humble behaviour." This was not all. He must also possess "a genius for Teaching." Arguing apparently upon the principle that one who kept order in his family, will also keep order in the class, Willis laid down that the preference was to be given to "one who keeps good orders

[1] Christian Schoolmaster, B M. 8306, bb. 23, 1707, pp. 20—22.

[2] Sermons collected by Letsome, B,M 226, h. 8.

[3] Pp. 31—40.

in his family." The want of a Training College was supplied by the proviso that the "new-elected master consult with four or five of the present Schoolmasters of these Schools, for the more ready performance of his Duty." These rules are important, as the Charity Sermons of a later date copy them word by word, and insist on their observance.

The change had important effects. It perpetuated that gulf between the elementary and Secondary schoolmasters which has not been bridged over yet. The difference between the two types of teachers came to be regarded as a difference of social status, rather than of intellectual attainment.

Johnson's estimate of the schoolmasters of the period should be compared with the views of David Fordyce. "No boy," declared Johnson, "is sure any day he goes to school to escape a whipping. How can the schoolmaster tell what the boy has really forgotten, and what he has neglected to learn."[1] Fordyce looks at the subject from a worldly point of view. The knowledge of Greek and Latin was essential at a time when all diplomatic intercourse was carried on in the Latin language, when illiteracy was universal, and when commerce and industry were in their infancy. The connotation and denotation of learning had undergone a rapid change, and Fordyce was probably the first who pointed out the essential difference between modern

[1] Works, 1787, XI, 209, compare the opinion of J. S. Mill, Autobiography. "I rejoice in the decline of the old, brutal and tyrannical system of teaching, which, however, did succeed in enforcing habits of application."

education and ancient learning. He showed the absurdity of cutting knowledge up into fragments, reserving one kind for the "Learned Head" and quite another for a "Gentleman."[1] He exposed the absurdity of the belief that learned men were "mere simpletons in the common affairs of Life." He showed that formerly the divorce between "Science and Capacity for Business" was not so common a sight, that all the learned men were men of the world; and that the typical book-worm, "who is perfectly ignorant of the more common Decencies of Life," and whose "odd aspect, uncouth address," stupendous ignorance, and ridiculous shyness he described in an eloquent passage was a degenerate specimen. It is noticeable that the writers of the period had become conscious of the wide difference between culture and pedantry, and that while the one was reserved for mere scholars, the other was the property of all gentlemen. Fordyce showed the chief faults in education,[2] and subjected some of the current methods to keen criticism. He was not, however, content with mere criticism, but had a constructive policy to unfold, and it is in his apprehension of the new forces, and his perception of the intimate connection between education and commerce that the importance of his book consists. He asserted that skill in the French Language is more useful in the commercial world than either Greek or Latin. He did not deny the advantages to be derived from the study of those languages, "those learned languages can

[1] David Fordyce, Dialogues on Education, 1747, 2 Vols. B. M., p 98, *et seq.*

[2] Dialogue XVIII.

never be too much prized by themselves," but he declared that there are "few fortunes to be made nowadays by a deep knowledge of Greek or Latin," that "people that know the world, men who have been conversant in Trade and Business themselves are more solicitous that their children should gain Fortunes, than that they should acquire a knowledge of ancient languages."

This may seem a narrow, even a low ideal, but Fordyce distinguishes "education in a large and narrow sense." He is as careful to point out the blighting effects of a narrow curriculum, as he is anxious to remove the main drawbacks under which University education was labouring in his time. He attributed the increase in the "Race of Pedants and Bigots who infest the world, and especially the sea of Learning" to the ambitions of "too many people to low life, who have no fortunes to bear them out, but who are ambitious of giving their children a learned education, robbing the Plough and Loom of many useful hands." Though this "brood of bookworms" was severely castigated by Fordyce, he did not ignore the danger of "business education," and the course of study was planned on very broad lines. The students were to be accustomed to manly exercises, as "riding, running, swimming, shooting and the like," they were to study History, and their Tutors were to inculcate "a Spirit of Patriotism, an invincible Love of Liberty, and undaunted Contempt of Danger and Death." Geography, a little knowledge of the sphere, of mensuration, Chronology, Arithmetic, Mechanics, Elementary Geometry, Drawing and Perspective completed

the list of the subjects taught in his school. At the University, "he will learn the more abstracted parts of Philosophy, and the abstruser branches of Mathematics." But University education was not enough, as it was too narrow and consequently useless. Instruction in practical arts such as Mechanics, Chemistry, Fortification, Architecture, Navigation, etc., was to be provided by the University authorities; and the teachers were not to be "mere scholars who have been all their life conversant among Books rather than mankind," but "men of experience in the world who have taken a wide survey of the State of Human Affairs." After finishing his course at the University the young man "should come to Town to converse with men of all ranks and characters, frequent coffee houses, and all places of Public Resort, go to the shops of Mechanicks, as well as Clubs of the Learned." He was to study "everything useful and curious in Nature and Art."

The plan of education sketched by Fordyce did not differ materially from the proposals contained in some of the well-known "Courtesy Books"; but it was nobly conceived; and it combined "humanistic" and "vocational" education in an admirable manner. It expressed with great literary charm and rare logical acumen, a theory of education upon which many a "practical" man had unconsciously acted, and a philosophy of which the full significance was not perceived till a considerable time afterwards.[1]

[1] See the Article on Fordyce in the D.N.B.

Professor Foster Watson has traced the progress of the teaching of Modern subjects in England up till about 1660. There is reason to believe it was much more rapid in the subsequent period. A number of pamphlets, broadsides, periodicals and Reviews discussed the problem, suggested reforms, and devised remedies. The leading features are present in every important document. Methods of teaching were discussed with acumen, and insight; while a sharp distinction was drawn between learning and education.

The chief causes of this change were :—

1. The influence of Locke. This has already been noticed. He exercised a profound influence not only on the political and metaphysical, but also on the educational thought of the Eighteenth Century.

2. The influence of Dissenting Academies and Charity Schools. Many of the reforms initiated by these popular institutions were adopted by the nobles, the pedagogues and the Merchants.

3. The age of Anne was eminently an age of enquiry, of experiment and of reconstruction of the Social Standard of taste.[1] The growth of English Commerce, alliance of George I with France, the peace policy of Walpole, and the increased mutual intercourse which resulted, all reacted on the educational progress of the time.

There are traces here and there of a classification of children according to their mental abilities; and attempts are made to suit studies to the capacity, birth

[1] Courthope, History of English Poetry, Vol. V.

and station, of the learners. The analysis is no doubt crude. But it has the merit of simplicity and directness. Acham's classification gives way to the analysis of Locke, and the scientific method of Bacon. John Clarke is, perhaps, the best representative of this class. He is not in complete agreement with Locke's views, and criticises his theory that "Grammar is useless in the process of learning a Language."[1] But he follows Bacon and Milton, with unwearied zeal and consistent support. The "vulgar" method that obtained in our Schools seemed to him to be miserable trifling. The boys, he complained, learned nothing but words, "for a few scraps of the Greek and Roman History, with as many of the Heathen Mythology, no man of Sense, I believe, will look upon as a great Accomplishment." "It is not bare Latin and Greek a boy should spend his whole time in at school." There were other things as necessary, such as History and Geography. His criticism of the educational practices of the time is searching and thorough.[2] He criticised "the beginning with Grammar, the want of proper helps for the writing and speaking of Latin," "the putting them to many several things at the same time." Themes are denounced vigorously, while the frequent use of the rod is strongly condemned.[3] Ainsworth's suggested reforms in Method are no less interesting than John Clarke's penetrating criticism. He suggested that a convenient house should be taken at a distance from London,

[1] An Essay on the Education of Grammar Schools, p. 105.

[2] Pp. 10–12.

[3] Compare also Foster Watson Schoolmaster, Followers of Bacon and Comenius, Gentleman's Magazine, N. 295.

"with a large Garden, and other conveniences." Latin was to be made a living tongue, and no other language was to be spoken. Stress was laid on the reading of English. There were many interesting proposals to reform discipline. There was to be "no Rod, or any kind of Punishment, but that a generous Emulation be carried on by Rewards." Grammar was to be abolished, "as their Authors and Masters (were to) be their Grammar, Dictionary and Phrase Book."

Brokesby follows the same path of reform. Locke is quoted with approval,[1] and some of the prevalent methods trenchantly criticised. Anticipating Spencer, he discusses the value of the different kinds of knowledge. As the knowledge of things was the best learning, so the more excellent the things we know, the more valuable that learning is. Consequently, as God is the most excellent, the Holy Scriptures are the choicest Repositories of true wisdom, hence that knowledge is the best." The next best knowledge is that of ourselves. Then comes knowledge of works of creation. Under the latter are comprehended Metaphysics, Physics, Logic and Natural Philosophy and History.[2] After the classification of knowledge, comes the turn of the classification of children. The writer divides them into three classes: (1) "Such whose natural parts are so great, as they seem fitted to attain any piece of learning, and to undertake any sort of employment;" (2) "Such as are not of so quick mind, yet become excellent in some sort of

[1] Of Education, *op. cit.*

[2] Chapter II.

learning;" (3) Lastly, "there are others of such heavy parts, that it is not probable they should attain to any competent measure of learning, at least to fit them for any of the learned Professions."

Another important cause of the change was the advocacy of a reformed school curriculum on the part of writers on the education of the nobles. Perhaps the most vigorous criticism was made by Chevalier Ramsay, in his "Plan of Education for a Young Prince."[1] He stated that to "Neglect the Improvement of the understanding, in order to cultivate the Imagination and Memory, is to lay the foundations of a false and superficial knowledge." Hence it is, complained the "practical" man, "that men of polite learning are seldom men of a profound genius. They can unriddle the grammatical intricacies of Pindar and Persius, yea, perhaps show with elegance and taste the different beauties of Homer and Virgil; but then they have no relish of truth; they can neither rise up to first principles, nor descend to consequences, nor pursue a continued chain of Ideas, through all its various Links and Windings."[2] The Knight then valiantly demolishes the fabric of the old classical learning, and erects a new foundation on its ruins. Latin and Greek are no doubt retained; but greater stress is laid on the study of Mathematics, "because these habituate the Understanding by degrees to Penetration, Depth and Attention, which enable it to reason closely, clearly, and strongly upon everything that becomes the object of its Reflection."

[1] British Museum, 1031, g. 7, 1732.

[2] P. 13.

Another phenomenon that influenced the educational methods of the Eighteenth Century was the development of a new type of method in Charity Schools. Its importance has hardly been realised yet; nor have its leading features received adequate attention.[1] Though there is no direct evidence to show that the methods of the Charity Schools were applied to other Schools, there is sufficient indirect evidence to prove that the instruction of the Charity School Children in some of the modern subjects, and the evolution of a distinct method, influenced the practice, and modified the theory of some of the masters in Grammar Schools and Tutors in noblemen's families.[2] The effects of these changes on the educational practice of the times were far-reaching. Education came to be regarded as a preparation for life, and the different school subjects were valued in proportion to their utility. Stress was laid on those subjects only which tended, directly or indirectly, to raise the index of the personal efficiency of the pupil; while the teaching of Classics was either relegated to the background, as in the case of the nobles, or discontinued altogether. This led inevitably to a sharp distinction between "learning" and "education." "A great part of the learning," said Locke,[3] "now in fashion in the schools of Europe a gentleman in a good measure be unfurnised with, without any great disparagement to himself, or prejudice to his

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[1] This aspect of the education of the Charity Schools is treated in the section on Charity Schools.

[2] See below.

[3] Some Thoughts Concerning Education.

affairs." Thomas Baker's "Reflections on Learning," [1] though primarily directed at the Deists, reflected the mood of some of the Non-juring divines. Chapter II begins thus: "Since I first began to think, I have always had a mean opinion of two things, Human understanding, and Human Will." Baker devotes a Chapter each to Logic, Rhetoric, Grammar, Geography, Canon Law and Physick, and shows that they are all incomplete without Revealed Religion. Baker's book, however, dealt mainly from the point of view of theology. Little or nothing is said about education. Yet the distinction between "learning" and "education" is implicit in all the important works on education. Nowhere does this difference come out so prominently as in the writings of Defoe. His reply to the brutal attacks of Swift, who called him a stupid, illiterate scribbler, is important, as it illustrates the difference between the new and the old conception of education. He admitted that he "did not set Latin quotations on the front of the Review." [2] He "easily acknowledged himself blockhead enough to have lost the fluency of expression in the Latin," but he asserted that his knowledge of five languages, of Geography, Astronomy, Physics, Mathematics and Logic, was more useful and liberal, than a knowledge of the Classics. He returned to the charge in 1725.[3] After giving a short character sketch of himself, and recounting his proficiency in the languages and the sciences, Defoe asked "this put me

[1] Compare, Cambridge History, Vol. IX, p. 354.

[2] Defoe's Review, Vol. VII, pp. 454-5. Compare also his "Compleat English Gentleman."

[3] Applebee's Journal, October 30, 1725.

upon wondering what strange thing called a Man of Learning was, and what is it that constitutes a scholar? For, said I, here is a man"—the man was, of course, Defoe—"speaks five Languages, and reads the Sixth, is a Master of Astronomy, Geography, History, and abundance of other useful knowledge, and yet, they say, this Man is no Scholar." Defoe gives a most amusing account of a typical pedant, "who had written a Book upon the Paintings of the Hebrews, and had made some Learned Amendments to the Greek Grammar." We are told that he knew "no more of the World abroad than if he had never seen a map, or read the least Description of Things;" that he "understood not a word of French, Dutch, Spanish, or Italian;" that his style "was all rough Laconicks, thronged with Colons and full points;" and that "he was of a sour, cynical, surly, retired Temper."[1]

This vivid account illustrates strikingly the change that had crept over the educational practice of the times. Learning and education were differentiated, and while the former was synonymous with proficiency in the Classics, the latter was regarded as sufficient for enlightenment and necessary for the efficiency of the individual.

It is this feature that distinguishes the educational thought of the preceding from that of the succeeding century. Social efficiency was no doubt regarded as the end by many a noble in the 16th and 17th Centuries; while the Grammar Schools, as shown by Professor Foster Watson, had been influenced by the maritime

[1] Applebee's Journal, November 6, 1725.

and Colonial activities of the period.[1] It was not, however, till the development of the Dissenting Academies and the Charity Schools, and the growth of the influence of Locke upon the pedagogues, that the full force of the changes was felt and seen. The interest of the history of education lies in the fusion of the various forces into one, and the far-reaching effects of the latter upon the I, Educational Methods; II, the educational practice of the times.

While the educational thought is of the highest importance for the realisation of the fundamental truths underlying the educational practice of the period, it would be going too far to assert that the education of the different strata of English society possessed less interest. The evidence at our disposal would lead us to believe that the theories put forward by many an educationist of the day lagged considerably behind the practices of the times, and that the education of the nobles and the poor underwent constant changes. Some of the theories undoubtedly modified practice, and deeply influenced the actions of the nobles. Thus we find the Duchess of Queensberry writing to Swift, about the choice of a school: "Mr. Locke makes a full stop there; and I never heard of any others that were mentioned, or at least published, any helps for children at that time of life which I apprehend to be the most material."[2] Others could be quoted to prove the influence of these theories on the educational practice. It is,

[1] Compare his English Grammar Schools.

[2] Swift's Works, Vol. XVIII, p. 249.

however, equally clear that many of them merely summed up in general terms the desires by which the majority of the parents were animated. The connexion between "theory" and "practice" is intimate.

Education of Nobles.

On no other class was the influence of specific education so widely felt as on the nobles. "The education of the higher class," says Professor Foster Watson, "was free as the wind. Subjects of direct usefulness or of social prestige could be chosen and could be pursued, often under favourable conditions. Experiments could be tried. Rapport could be established between methods tried in this country, and in foreign countries."[1] Neither school nor University took special note of the changed conditions under which the administrator, courtier, soldier and provincial magnate lived, or adopted any special measures for their benefit."

The main reason for the differences in the education of the nobles was the necessity of preparing them for the efficient discharge of their multifarious duties. Every subject that was likely to prove of direct use to them was studied; its advantages pointed out, and its effects analysed. Thus dancing is praised by Mr. Gailhard,[2] because it taught "a gentleman how to keep his body in a good posture; when he stands, sitteth or walketh; how to come in and go out of a Chamber where is company." "He must be taught how to carry his head,

[1] Beginnings of the Teaching of Modern Subjects in England, pp. xxi—xxii.

[2] The Compleat Gentleman, pp. 40—56.

his hands, and his toes out, all in the best way and in the handsomest manner." Mr. Gailhard advocates it, not because it will have a cultural effect on the nobles, but because it will enhance their prestige and raise the index of their personal efficiency. The theory that underlay the writings of all the educationists of the period regarded education as a preparation for the duties for which he was fitted, by the position he occupied in the social scale. Differentiation of functions was regarded as the sole criterion for variations in the type of education, and each student was supplied with an education that was suited to his station or birth. Thus Cristopher Wase, after giving us a tedious account of the Grammar Schools, etc., regarded the education of the nobles as different. "These measures of reasoning would not be boldly extended to the Nobility. They are designed for the highest operations in the State; born peers of the realm, the most ancient and presiding part of the great council of the Kingdom. Their honour and interest in the country safe and planted, so what is prudent in the best of the Commonalty may not be ordinate to their affairs. A pale (?) not of caution only, but of veneration is to be set about them, and therefore they may challenge a privilege of peculiar education."[1]

The same note is struck even by that champion of democracy, Daniel Defoe. "The education of princes," says Defoe, "and children of noble families ought to differ from that of other people, and ought not to be of

[1] Considerations concerning Grammar Schools, by C. Wase, B.M. 1031, d. 3. 1678, p. 74.

the same kind or managed in the same manner as the ordinary school teaching of other people; and for this reason it is usual to appoint governors, tutors and inspectors whose care for the time being should be to make him not a man only, but a man truly noble and great, all he ought to be and all that the world can expect from a man of his birth and fortune; to exalt his soul above the meanest and basest of the ordinary class of men." It was this exaltation of soul "above the meanest and basest of mortals" that explains the fundamental difference between the education of the peer, and that of the pauper. This difference is brought out in Talbot's "Christian Schoolmaster." Talbot argued that Latin was unnecessary in Charity Schools, and asked, "To what purpose should these poor children puzzle their brains to con over and learn by Heart, or rather by Rote, a senseless Jargon of hard words which must, of course, be laid aside and forgotten, when they shall be put out to such trades or employments for which they are designed; of which if they happen afterwards to retain some literal scraps, it will only serve to make them vain and conceited pretenders to the knowledge of what they do not understand." [1]

Discontent with the customary course of studies in the schools and Universities led to the appointment of private tutors. The Universities were denounced by some as corrupt, and debauched, while the students were charged with "debauch (ing) one another, one alone being sufficient to corrupt many;" instead of learning,

[1] Christian Schoolmaster, p. 90.

" they sometimes forget; and when they should improve themselves in virtue, Arts, and Sciences, they abjure all good manners, and become proficient only in vices." It is clear, however, that the discontent was not universal, that many of the writers advocated the education of nobles in the Universities, and that the opposition was confined to a comparatively small minority. Gailhard himself acknowledged that they were seminaries of Learning, and that " the University breeding will be very beneficial, when the good orders of every Colledge shall be put in execution."

Mr. Costeker's fine Gentleman[1] is transferred to the Academy, and stays there[2] for 7 years. He is then removed to the University, where he continues for[3] years, and where he applies himself to " Latin, Greek, French and Italian." Stephen Penton preferred a University education; while Bishop Burnet acknowledged that " public education " had many advantages. It developed a spirit of emulation, " and it provided " many pretty recreations which delight children, and which undoubtedly, if the school is well managed, is a speedier and more successful course."[4] He should, however, be " slow to advise one whose purse can answer to a private education, to adventure on a school."

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[1] The Fine Gentleman, or the Compleat Education of a Young Nobleman, by Mr. Costeker, 1732.

[2] P. 18.

[3] New Instructions to the Guardian.

[4] Bishop Burnet as Educationist, 1914, p. 21.

It is essential, however, to distinguish the education of the "gallant" from that of a real "gentleman." The gallant's "general calling and employment" was "to scorn all business, but the study of the Modes and Vices of Times." As soon as his age is capable of instruction, "the School is brought to him, where, if the foolish mother do not more annoy the Schoolmaster, than he his scholar, the Rod and an Empty purse do for a while preserve him himself." [1] This type was represented by George IV, and imitated by others. Some of the "gentlemen" did, no doubt, degenerate into beaux, and it would be difficult to separate the two by any hard and fast rules.

The main reason for the appointment of tutors was the lack of suitable provision for the instruction of those subjects in which the nobles desired to attain proficiency. This was perhaps the greatest drawback in the Universities of the period. Thus Dancing, Riding, Fencing, were not given due attention. Wallis' reply to Maidwell's proposal shows, however, that the city of Oxford provided facilities for the students, and that any student who cared to learn, could do so, with facility. "As to the business of dancing, singing, playing a musick and the like, there is no cause to complain for want of teachers. For dancing masters, singing masters, etc., there are enough to be had in the University, to teach those that are desirous to learn." He showed that "the speculative part of music was better understood at Oxford than at any other place." As for

[1] Clement Ellis, The Gentile Sinner, p. 23

Riding the Great Horse, "I think we may better spare it, than be troubled with it." He would like to see the manly exercises come again into fashion, as they were 100 years ago, but "the beaux of this age are for greater softiness, to dress well, to perfume, and to pass a Coach from one good house to another." [1]

The private tutor had many advantages. He was under the eyes of the parents, "and better minded his duty," and his advice and precept being strengthened with the authority and presence of parents, had great influence upon his pupil. A tutor of strong character, wide knowledge and deep sympathy, could mould the character and guide the conduct of his pupil. There is sufficient reason to believe that the tutors were not of this type. A number of writers refer to the servility of the private tutors; and the fondness of the parents seems to have hindered their progress. Thus we find Gailhard complaining: "Often, the fondness of the mother will spoil all, accusing the tutor at one time of too much severity, another of neglect, and another of giving them too hard tasks, so that a young man who is not willing to be led to his book, perceiving this, abuses it, and then there is no dealing with him." [2] The statement of Gailhard is confirmed by Burnet. Burnet assigned two causes of the penury of the Governor, or Preceptor: (1) the contempt the employment was exposed to; (2) "the unworthy

[1] Oxford Historical Society's Publications, First Series, pp. 317-320.

[2] Op. cit., p. 17.

niggardness of parents, who grudge to give a reasonable reward."[1] Swift makes the same charge in his Essay on Modern Education.

There is sufficient evidence to show that the charge was well founded, and that the position of many a private tutor was hardly above that of the parson whom Swift has satirised. Many of the prominent statesmen were not educated at either University. Thus Cowper went straight from a private school at St. Albans to the Middle Temple; Harcourt, Trevor, Harley and Bolingbroke had been educated at a Dissenting Academy, while Lord Chesterfield was taught at home till he repaired to Trinity Hall.[2]

There were three stages in the education of the nobles: I. Education at home; II. Education abroad; III. Education after settlement.

I. *Education at home.*—Sir Humphrey Gilbert's proposed Academy may be profitably compared with the scheme of Edmund Boulton, while Wynaston's and Sir Balthazar Gerbiers' projected Academies have many points of interest. It would be easy to show that Milton was greatly indebted to these writers, that his Academy bore a close resemblance to some of the projected

[1] Burnet, On Education, op cit.

[2] Little scions of great houses repaired to petty schools, where they were treated with ridiculous respect. "My wife and I," wrote Peter Wentworth, on April 5 1709, "have resolved to give little Willie the preference as our best beloved, because he may give himself air to his French master and thirty gentlemen's sons, his fellow-scholars, of the honour he has to be so near related to one who possessed so many titles."

Academies, and that he was acquainted with the ideas of Bacon and Comenius.

Much more comprehensive is the plan of Peacham.[1] His emphasis upon the necessity of speaking and writing the English language "properly and eloquently," and his account of the various subjects in which the gentleman was interested received a specific mould from his sound sense, his native wit and his sly humour.

The object was not so much the production of a learned man, as of a noble personage. "It is not to be expected that a young gentleman should be universally learned; this is more than what is required of Doctors and Professors in the Universities." Hence, stress was laid on those subjects which were to prove of direct use to them. The young noble learnt Latin, Logic and Metaphysics, it is true. But the Latin he learnt was different from that which the old Grammar Schools taught, while the Logic was the Logic of Ramus, and not that of Aristotle.

The importance of this education consists in its broad outlook on life, its wide scope, and its pioneering spirit. Thus Defoe[2] insisted that the knowledge of Latin was not essential. The gentleman was to learn natural and experimental philosophy, Mathematics, Astronomy, Geography and Navigation. "You may," he declared, "be a gentleman of learning, and yet reading in English may do all for you that you want."

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[1] Compleat Gentleman. British Museum.

[2] Compleat English Gentleman.

Perhaps the most original of all the books was that of Chevalier Ramsay. His attacks on the education of the Grammar Schools and Universities, his advocacy of progressive methods, and his views on the methods of instruction are remarkable for their brilliancy, their vigour and their originality. He attached considerable importance to Mathematics, "because these habituate the Understanding by degrees, to Penetration, Depth and Attention, which enable it to reason closely, clearly and strongly upon everything that becomes the object of its Reflection." The tutor was to instruct in the first laws of motion, then proceed to a "General Survey of the principal Secrets, and beautiful Discoveries of Natural and Experimental Philosophy, wander over the Globe with pleasure, and discover the Causes of the great phenomena that appear on the Earth, in the Air, and among the Celestial Bodies."[1] Sir Isaac Newton's principles were to be reduced to a few propositions.

Whilst the intellect was thus cultivated, the sciences that "depended upon Imagination," were not to be neglected. "The pleasing Images of Poetry, the agreeable Fictions of Mythology, the Pathetick Discourses of Eloquence" served to amuse youthful minds, enliven their fancy, and polish their taste. These helpful suggestions are followed by others, still more helpful.

It is instructive to contrast these views on the education of nobles with the theories of Bishop Burnet, and Mr. Costeker. Burnet shows the absurdity of

[1] A Plan of Education for a young Prince. Brit. Mus. 1031, g. 7. 1732.

teaching rhetoric and logic to schoolboys. "To teach rhetoric and logic, before one has arrived at a solid understanding of things, is reversing the right order, which requires that we know things, before we think of ordering them." Metaphysics was consigned to the limbo. To the shrewd, supple and chatty bishop, metaphysical disputations were distasteful. He would abolish all vain "disputations in philosophy," and confine them to the University. Burnet laid stress on the knowledge of Anatomy. "I would begin with anatomy, as an easy and useful piece of knowledge;" then came the nature of herbs and trees, and lastly Mathematics.

Mr. Costeker's "Fine Gentleman" learned Latin, French and Grammar in the Academy, and Latin, Greek, French and Italian in the University. His knowledge was not confined to the languages; Law, Divinity, Moral Philosophy, Natural Philosophy, Geometry, Geography and other allied sciences received due attention.[1] There was one subject, however, to which special importance was attached in the education of nobles. History was regarded as specially valuable for the higher classes.[2] The study of history was advocated for the nobles and gentlemen, both on educational grounds and as a class distinction. Sir Thomas Elyot, and Sir Thomas Smith both laid stress upon the practical value of historical study; and Peacham summarised the advantages of historical study; and praised the works of Camden and Selden. Milton

[1] The Fine Gentleman, op. cit., p. 18.

[2] Compare Foster Watson Beginnings, pp. 62-72.

bade the student "know the beginning, end and reasons of Political Societies, that they may not in a dangerous fit of the Commonwealth be such poor, shaken, uncertain reeds, of such a tottering conscience, as many of our great Counsellers have lately shewn themselves, but steadfast pillars of State."[1] All the writers who followed Milton, such as Burnet, Ramsay, Defoe, Gailhard, etc., stressed the importance of history in the education of the nobles.

These were the subjects that were more or less common in the Dissenting Academies, and some of the Grammar Schools.

There were, however, others that were specially suitable for the nobles, as dancing, music, riding, fencing, painting, Architecture, "Optics," etc. Dancing was specially singled out for praise.[2] Gailhard regarded it as an "essential part of an outlandish French breeding." Ramsay points out its advantages, while Mr. Costeker and others show the benefit derived by the young noble from proficiency in the Art. Painting was regarded "as a sort of Poetry to the eyes." Riding was another art to which importance was attached. Maidwell's proposals to teach "Riding the Great Horse" were by no means novel. As Wallis showed, in his reply, some of the undergraduates at Oxford had taken lessons in riding. He showed that an accomplished horseman had given lessons in riding, and that Colonel Codrington learnt the art from him. It is clear, however, that proper facilities

[1] Tractate on Education.

[2] Compare Gailhard, op cit., An anonymous tract "On Education," Brit. Mus. 1734. 1031. g. 7. Praises dancing; points out its advantages; and quotes Milton and Locke.

were lacking in both the Universities and that many of the subjects which the nobles desired to learn were not taught. Wallis' reply that they were not University subjects, and that a disproportionate amount of time was wasted on them, ignored the plea of the nobles. Their main object in education was preparation for the station to which they were designed, and they naturally left those institutions which did not suit them. This may be regarded as one of the causes of the decline of the Universities in the eighteenth Century. They did not keep pace with the intellectual, the commercial and the political progress of the times, and clung to their outworn traditions, and barren formulas.[1]

For the importance of the education of the nobles lay not in its depth, but in its breadth. Education, rather than learning, was the aim throughout. This essentially modified the methods of teaching. Thus, history was an eminently practical subject, as it furnished them with a repertory of precedents which they could use effectively in a Parliamentary debate. Latin was praised not for its disciplinary value, but for its cultural value. This was only one aspect of their education. Another aspect was their broad outlook on life. Everything that was likely to prove useful was utilised. As the nobles came into contact with every grade of English society, and as they patronised Art and Literature, controlled industry, fought in different theatres of warfare, carried on the government, and, generally speaking, maintained their supremacy till the eve of the Reform Act of 1832,

[1] See p. [illegible]

the education was liberal to the verge of dilettantism. Thus, they were to acquaint themselves with the "ordinary rules of Architecture," Chemistry, Astronomy, and Astrology. If they happen to be in a convenient place, "as may be Padua, Montpellier," they were to learn "something in Physick, and the varieties of disease." If they pass through Orleans, or Angers, where were famous schools of Civil Law, they were to get one of the Doctors to read to him. They were also to learn the Law, as it was useful to them in the management of their estates. Again, proficiency in "Tennis, Bowling, the Mall," hawking and fencing was desirable. They were not recreations, but part of their education. Burnet, no doubt, urged in his "Thoughts on Education" [1] that they should be treated as recreations, but there is no reason to believe that his advice was followed. There is sufficient evidence to show that skill in games, dancing, riding, painting, fencing received as much attention and as truly constituted a part of education as proficiency in French or English.

II. *Travel.*—The second stage in the education of a noble was travel in a foreign country. It is probable that the New Learning gave an impetus to travel, and that the example of Erasmus, More, Grocyn, Linacre, Colet and other English scholars who visited Italy in the Sixteenth Century, was followed by the nobles. This has been admirably described by Mr. H. A. L. Fisher in his Political History of England,[2] and explained by

[1] See also L. Einstein "Italian Renaissance in England," Chapter II.

[2] See also L. Einstein "Italian Renaissance in England," Chapters IV—VII.

Professor Foster Watson. It is necessary, however, to insist that many earlier precedents could be quoted to prove the benefits of travel, that the travels of noble Romans to Greece, in search of knowledge, were not unknown to the English nobles, and that very few of the writers of "Courtesy" books referred to the men of the New Learning. This is not all. It was not the nobles alone who travelled to foreign countries. Pym, Hampden, Sidney, Penn Locke, Nevile, Andrew Marvell, Milton, and a number of others, travelled to gain experience, and perfect their education. The educationists of the sixteenth Century were not unanimous on the point. Ascham disliked travel, and quoted the views of the Italians. "Inglese italianto e un diabolo incarnato"; while Mulcaster thought it was not necessary for "learning." It is easy to show that Mulcaster confined education to "bookish" knowledge, and that his advice to young gentlemen to buy libraries of books and learn at home, ignored the peculiar needs of the nobles. Yet there was some foundation for the charges of Ascham. Italy's loss of her independence, and the moral degeneration which supervened, unfitted her for the performance of that duty which she had so gloriously discharged in the fifteenth Century. Moreover, the character of the English scholars had undergone a rapid change. Colet, Inacre, and Grocyn gave way to thriftless, debauched, and ignorant noblemen. There is no need to quote authorities in support of this statement. The influence of Italy on the Elizabethan age is too well known to need quotation of documents.

The seventeenth and the earlier part of the eighteenth Century, saw a change in the original conception of foreign travel. Both Peacham and Bacon advised travel, while Harrington, author of the "Oceana," regarded it as an essential part of education. Mr. Russell Smith's luminous account of Harrington's "Oceana" shows clearly that Harrington attached great importance to travel.[1]

The greatest difficulty was the appointment of a suitable tutor. Again and again, we hear the lack of suitable tutors and consequent failure to achieve the aim in view. It is clear that "cheap" governors were preferred by many wealthy parents, and that the association of impressionable young men with persons of disreputable character was frequent. Gailhard gives us a list of the "Governor's" qualifications for the post. He must be a scholar, and must be "well-brought up, who hath seen the world." Again, dullness was a disqualification. He was to be "Communicative, and not dull, or silent." This does not exhaust the list. He must also be handsome, well-shaped and well-mannered. It is clear that very few governors would have satisfied these conditions.

There is a noticeable difference between the travels undertaken in the sixteenth Century, from those which the nobles undertook in the latter part of the seventeenth, and the early part of the eighteenth Century. The former were aimless, unprofitable, and, in many cases, injurious. The latter were well organised, and thoroughly

[1] Russell Smith, Harrington and his "Oceana," 1914, pp. 68—70.

systematised. The student was instructed in the products, languages, fashions, geographical position, and religion, of the country to which he travelled. He would learn the language of the country, study Geography with the help of a large map, and take advantage of the facilities offered by the towns through which he might pass. The Academy was not to be neglected, and many of the Arts in which the French delighted were to be learnt there. He would go to France, cross the Alps, study medicine in Padua, and pass on to Germany. Here the language would be learnt, and Architecture studied. The Low Countries would come next, and here he will study the religion, the institutions and the history of the Dutch.

The time spent on foreign travel varied. Three years seems to have been the average. It is important to notice that the travels were carefully planned, and rigidly adhered to. It was not an aimless wandering, but an educational pilgrimage. Every sphere of activity was carefully explained, and thoroughly grasped. This was the ideal set up by many writers of Courtesy books; many, as we know, conformed to it, and carried out the instructions of their tutors with zeal. The study of the memoirs, and biographies of the period shows that the advantages of foreign travel were incalculable, and that they were wisely planned, and excellently carried out. It would, however, be idle to deny that many of the travels engendered dissipation, superficiality, and extravagance among the nobles; that they lacked application; and that they imported some of the evil customs—as drinking, gambling, etc.—of which many of the contemporary writers complain, from the Continent.

The success of the travel depended upon the character and influence of the tutor. Sufficient evidence would lead one to believe that the advantages of the travel counter-balanced its disadvantages, and that the Whig oligarchs who dominated the country in the eighteenth Century had undergone a long and successful training for the high position which they occupied.

III. *Education after Settlement.*—Travel in a foreign country was only the second stage in the education of the nobles. The nobles had been occupied hitherto by intellectual and social education. He was now to bend his energies to the task of advancing himself in the wide world. This may be called "Education of the World." Social education and education of the world are not interchangeable terms. The ideal of the latter is frankly materialistic; as there were few regular teachers of this type of education, a noble fresh from his travels had either to gain his knowledge by the process of trial and error, or to ask the advice of those who had gone through similar experiences.

This hiatus was filled up by books on "Settlement" after travel.[1] The advice given is not valuable, from an ethical point of view. The aim, throughout, is advancement in life. Everything that proves a hindrance to the attainment of this ideal—if ideal it can be called—

[1] The Institution of a Gentleman, 1660. William Higford, Esq., B.M., 1388. a. 27. 1660. "Two Discourses, the first Concerning private settlement at Home, after Travel, the second concerning the Statesman," 1682. By J. Gailhard, B.M. 523. b. 7. Other tracts could be quoted on the subject, but they are not so representative.

should be removed. Such passages as the following are common: "Love is a fire which requireth fuel, and therefore I trust you will take care by your marriage to advance and augment your estate, that thereby your affectionate mother may be enabled to make provision for your brothers."[1] Playing is not only allowed, but encouraged. "I am not so supercilious to conceive, but that it may be fitting decorum for you to play, when by noble invited thereunto nay; not to play is a defect."[2] Prudence is apparently regarded as a cardinal virtue, and a young gentleman must sacrifice love, honour and friendship, on the altar of that deity. Polonius' advice to his son, and Chesterfield's "Letters" have the same features, and are permeated by the same spirit. Friendship is cultivated for the sake of gain, and a moderate amount of gambling is allowed, in order that the young gentleman may ingratiate himself with the nobles. It is unnecessary to trace the development of this theory. It had, no doubt, been acted upon by a considerable number of people. While the majority of commoners learnt it after a series of bitter experiences, the nobles were instructed in the art by skilful tutors. Their travels had brought them into contact with different classes; their education at home had been "real" and not "formal"; while their proficiency in dancing, music, riding and other exercises had made them agreeable companions. They were instructed in the ways of the world by hard experience, old and experienced advisers, and public opinion.

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[1] Higford, Institution, p. 12.

[2] Higford, pp. 14—15.

SECTION VI.

THE OLD ENGLISH UNIVERSITIES.

The education of the nobles was a good example of the way in which the curricula of existing educational institutions were adapted to the needs of the ruling classes. Old subjects were subjected to a keen scrutiny, and underwent a process of rapid change; while many new subjects were introduced, and became a part of school curriculum. The results of this fusion of the old with the new were seen in the adaptability, the fertility of resource, and the keen thirst which characterised the nobility, not only of France,[1] but also of England. M. Taine has vividly described the life of the nobles in the Ancien Regime,[2] while Lord Morley has brought to life the work of the Encyclopædists, and the part taken by that band of devoted workers in the intellectual enlightenment of France.[3] The nobles took a prominent part in the literary movements of the time, and discussed in their salons the wildest theory of Rousseau, and the latest fashion in dress. This receptiveness would have been impossible in an age of barren scholasticism. It is clear that the education they had received in their Academies had prepared them for the part they were to play in the intellectual life of the country, and that their education was different from that of which Squire Western and Baron Thundertentronk were the

[1] This point was stressed by Gailhard in his Two Discourses.

[2] Ancien Regime.

[3] John Morley's "Diderot and the Encyclopædists," "Rousseau," and "Voltaire".

typical products. It would be easy to show that the energy of character, and openness to new ideas, which the English Nobility showed in the eighteenth century were largely the result of the excellent education they had received.

During this period of intellectual activity and colonial expansion, the old Universities distinguished themselves by their inactivity and their intellectual sloth. "As the lectures of Divinity were neglected, so those of Civil Law, and what was done at all, was by a deputy. The Medicine was likewise neglected. . . and as for the Greek lecture the reader thereof read scarce one lecture from this year till about 1664."[1] Green's verdict on University education in the Eighteenth Century is as follows: "Education may be found anywhere save in the lecture room."[2] Chesterfield wrote in 1749, that "Cambridge is sunk into the lowest obscurity, and the existence of Oxford would not be known if it were not for the treasonable spirit publicly and often excited there." Adam Smith sought in vain for the proper means of being taught the sciences which it is the "proper business of these incorporate bodies to teach," while Bentham summed up the effects of University education in these words: "Mendacity and insincerity—in these I found the effects—the sure and only sure effects of an English University education."[3]

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[1] Life and Times of Anthony Wood, edited by Clark, Vol. I.

[2] Studies in Oxford History, chiefly in the Eighteenth Century, by J. R. Green, p. 30.

[3] Bentham, Church of Englandism, XXI.

Mr. Godley's opinion on the character of the Professorate is worth quoting: "There appears to be every reason to believe that the Professorate in general, with very few exceptions, had ceased to lecture long before 1700." Hamilton attributed it to Tutorial jealousy, as the Colleges put them down to give the monopoly of instruction to their own Fellows. This is possibly true, as they maintained their supremacy down to the first half of the Nineteenth Century, and it required the authority of a Royal Commission to introduce reforms and limit their privileges. It is significant that Harrington proposed to scatter the Colleges about the country and to alter the course of studies, introducing foreign Languages, Law, Agriculture, Military Studies, dancing, fencing and travel. He disliked the system of government at the University, the unlimited power of the Heads of Houses, "those little living idols or Monuments of Monarchy," and the common practice of arranging the election of the Fellows.[1] The complaints recur with a frequency that is monotonous. "Fellowships," complained a writer in 1750[2] "are rarely given to scholars of low condition, whatever be their merit. Men of family and fortune are, now, not only ready to accept of them, but make great interest to procure them." Prideaux[3] suggested the removal of a Fellow who had not made provision for himself by a fixed date

[1] Compare Russell Smith, Harrington and His Oceana, pp. 68—70.

[2] "A Series of Papers on subjects the most interesting to Nation in general, and Oxford in particular," p. 13.

[3] "LVIII Articles for reformation of Universities."

to a special residence named "Drone Hall," and proposed other reforms. The writer just quoted complained that "possessed of endowment, they live not in simple frugal manner, so necessary to health, and study and virtue, which their founders desired they should. A plain diet, in a moderate proportion, at their founders' table, at stated hours, twice a day, so acceptable to the scholar, going to bed in sobriety and rising early, no longer pleases." [1]

The controversy over the proposed regulations of the Vice-Chancellor of the University of Cambridge for the maintenance of discipline was responsible for the publication of valuable pamphlets. "The gentlemen on the side of the Regulations, represent the present Learning and Discipline in the University in the most melancholick dejected condition, while extravagant and Immorality are drawn in triumphal attitudes, easily baffling the united efforts of authorities to suppress them." [2] The undergraduates and resident graduates suspected that the authorities were endeavouring to extend their Prerogative.

The account of the University of Oxford given to us by Nicholas Amherst, in a series of papers, need not be taken seriously. Not so the charge brought by Gibbon. He himself excepted Bishop Lowth and John Burton from the charge, and he allowed that his father may have been unfortunate in the selection of his College Tutor.

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[1] P. 13.

[2] The Academic, Brit. Mus. 272 g. 6, p. 10.

He admitted that Sir William Scott's and Blackstone's lectures had done honour to Oxford, and that learning had been made a duty, a pleasure and even a fashion at Christ Church. Brodrick thinks that he was "strongly prejudiced against the ecclesiastical character of Oxford, and irritated by the necessity of quitting it, by his conversion to Romanism."[1] It is clear, however, that Gibbons' charges had some foundation. Hurdies' vindication of Magdalen College from the aspersions of Mr. Gibbon seems to acquit Gibbon wholly of a gratuitous libel. He enumerated fifteen of the existing twenty Professors, and showed that the Professor of Hebrew, Praelector in Anatomy, the Vinerian Professor and Praelector in Chemistry did actually lecture on certain days of the week. The remaining eleven either lecture—but only once term—or intend to lecture, or have lectured, but desisted for want of an audience. "The remaining five," adds Mr. Hurdie, with unconscious humour, "may possibly read their lectures as punctually."

Two examples of the methods employed by the Professors will be sufficient. In 1790, the Professor of Modern History salved his conscience by employing a deputy, who is not puffed up with pride like the modern deputies. On the contrary, "he will wait on gentlemen in their own apartments," like a barber.

Bishop Watson[2] tells us that in 1764, when he was only 24 years of age, "he was unanimously elected by the

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[1] Brodrick, History of the University of Oxford, pp 179, 180.
[2] Anecdotes of his Life, 1818.

Senate of Cambridge University, assembled in full Congregation, Professor of Chemistry." "At the time this honour was conferred on me," he tells us with charming frankness, "I knew nothing at all of Chemistry; had never read a syllable on the subject, nor seen a single experiment in it." A few years later, his University was kinder still. At 34, he was appointed "to the first office for honour in the University, the Regius Professorship of Divinity." Then, and not till then, he applied himself with great eagerness to the study of divinity. If troublesome people wanted to argue on theological questions with the Regius Professor of Divinity, "I never," he tells us, "troubled myself with answering their arguments, but used on such occasions to say to them, holding the New Testament in my hand, "En Sacrum Codicem." This was a simple plan, and, it must be confessed, under the circumstances, a very convenient one. Wallis' reply to Maidwell's proposal showed that instruction in Chemistry, anatomy, botany, mathematics and astronomy could be, and was, obtained by Professors and duly qualified persons. "I do not know any part of useful knowledge proper for scholars to learn, but that if any number of persons desire therein to be informed, they may find those in the University who will be ready to instruct them. So that if there be any defect therein, it is for want of learners, not of teachers." As to public Professorial lectures, Wallis speaks very vaguely, and of the majority of the Professorial body, he makes no mention. Amherst asserted in 1720,[1] that no one had lectured publicly in

[1] Terrae Filius. British Museum.

any faculty, except in Poetry and Music, for three years past.[1]

It is clear from the evidence presented above that the majority of the Professors were negligent, and that the years between the Restoration and the close of the reign of George II constituted a period of stagnation in the Universities. This was due greatly to the absorption of both Universities in politics. The disastrous effects of this devotion to party warfare have been sufficiently emphasised by Brodrick and Godley, and are too well known to need description.

It is instructive to note that the majority of the writers of the first rank, such as Goldsmith, Swift, Congreve, Pope, Gay, Defoe, Smollett, Thomson, Prior, Fielding, Burke, were not old University men. Nor do we hear the praise of either University from the pen of any of the members who achieved fame.

The effects of this stagnation on the national life were far-reaching. Very few epoch-making discoveries in science were made by members of either University. It was the outsiders, and not the lecturers or Professors at Cambridge or Oxford, who discovered scientific laws of far-reaching importance, who invented machines that revolutionised the industry and commerce of England, and who were foremost in the agitation for reform. The correspondence of Darwin, Huxley, and Spencer, shows that they owed little to either University, and that the bulk of scientific work of great importance to the destiny

[1] Godley, Oxford in the Eighteenth Century, Chapter III.

of the human race, was done by men who had received no encouragement, and whose merits were not recognised till long time afterwards.[1]

Perhaps the most violent attack on the Universities was delivered by the Revd. John Brown, Vicar of Newcastle. Brown wrote his book at a time when the Newcastle Ministry was leading the country headlong into ruin; when the popular clamour for Chatham was deafening the feeble protests, and inglorious excuses of Newcastle; when Admiral Byng had been shot at his quarterdeck, and the whole nation was sunk in the lowest state of depression. "The inestimable estimate of Brown," says Cowper[2] "rose like a paper kite and charmed the town."

Brown attempts to show that the English nation had degenerated; that luxury and licentiousness were eating into the vitals of the race, and that the nation had been corrupted by its most powerful organisations, and its most respected leaders. The "degeneracy" of the times was due to many causes, and Brown has no hesitation in supplying us with a complete list. The Public Schools and the Universities contributed their share. In the Schools "the pupil is not carried on from words to things,"[3] while in the Universities, the youth, "instead of being initiated in Books, where the wisdom of Ages lies reposed, our untutored youth are carried into

[1] See Huxley's "Essay on German Universities," and Lives of Spencer, Darwin, and Tyndale.

[2] Table Talk.

[3] Estimate. B.M 522, g. 10, p. 31.

the world, where the ruling of Objects that catch the Imagination, are the Sallies of Folly or of Vice."

Brown declared that "an abuse through Time, hath insensibly crept upon the Universities themselves and greatly impaired their Use and Credit." "The public fountains of learning were dried up," and the Professorships, "founded as the means of general Instruction, degenerated into Sine-cures." He complains of the usurpations of the College Tutors. "Thus the great lines of knowledge are broken, and the fragments retailed at all Adventures, by every member of a College, who chuseth to erect himself into a Professor of every Science." The main result of such a system is "but a partial and superficial instruction."

Brown's criticisms were in the main just, and they directed the attention of the contemporaries to a real defect in University education.[1]

Brown's book was answered by a host of critics.[2]

The defenders of the University reminded him of the day when his University was "torn and harassed,"

[1] See also a very able essay on "the Reform of Universities." It is concerned mainly with Scotch Universities and criticises their curricula and the method of admission to the Universities. The writer thought that Scotland had too many Universities, and that two were enough. Pamphlet in the Goldsmith's Library, London.

[2] See "Letter to the Author of the Estimate," 1758, B.M. 1103. d. 15 Defends the College System. "Giving Letters," 1758 B.M. 1103. d 14. A worthless piece, showing neither knowledge nor understanding See Brown's "Explanatory Defence of the Estimate," B.M. 522, g 12 1) and compare his sermon on the "Female Character and Education," 694. 1. 6 (2). "The Real Character of the Age," B.M 537. e. 5 (3). 1757.

and when the "voluntary exertion of that same encroaching, officious, inter-meddling spirit," produced confusion in the Commonwealth. They did not deny that new statutes were required, but "old rags of legislation ought not to be flung away till you are sure of a better garb, nor patched up and adapted to the present mode without the skill of a master workman."

As regards the license of the undergraduate, "Had the Governors of Colleges been transformed Arch Pedagogues, and the Tutors into over-grown schoolboys, during the superintendency of a late Provost, who can answer what might have happened in the rage of Discipline?" As regards Brown's advice, the writer[1] was not certain whether the Tutors of Oxford will submit to be catechised and taught their duty at 40, or 50, but he assured them that "such instructions were not calculated for Meridian of Cambridge, where Nature and Art are not so desperately backward, and slow in their advances."

Another writer declared that Brown had written too hastily, "the general satire overshoots its mark; the bullet whistles vainly over the head it means to wound."

Dr. Johnson's defence of the Universities was conducted on novel lines. He prefaces it by a diary of a typical College don, who is intellectually, mentally and physically lazy; and though he acknowledged that the Universities had degenerated, he declared that "the genius of the place exerted a powerful influence; that they

[1] Letter to the Author, etc.

surpassed the fashionable Academies of our metropolis and the gymnasia of foreign countries," that, though they " had somewhat fallen from their Primæval simplicity," are such "as influence, in a particular manner, the moral conduct of their youth." [1]

Brown, in his reply to these charges,[2] explained that he was not, in that passage, " questioning the legal and statutable Administration, but pointing out the Defective Form of our College Institutions." [3] He had, he explains, been pointing out the use and necessity of a subordination of Instructors. He asserted that a general want of a system of checks on the action of University Authorities, was "a capital Defect in our University Establishments, and that both Instruction and Discipline suffer from this drawback."

The writer of a reply to Brown's rejoinder asserted that "usefull learning was never in a more flourishing state in both Universities, that Colleges were never more under regular Discipline, and that Tutors were distinguished by Diligence and gravity." [4] These statements are unreliable, as the author admits that he did not possess first hand knowledge, but had " been told, by men whose words will pass for Arguments."

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[1] The Idler, N. 33.

[2] P. 61.

[3] "An Explanatory Defence of the Estimates," B.M. 522, g. 12, 1—3. See, also, "Some Doubts occasioned by the Second Volume of an Estimate," 1758, British Museum.

[4] See "Some Doubts occasioned by the Second Volume of an Estimate," B.M. 522. g. 12 (3), 1758, pp. 11—13.

The critics of the old Universities ignored that aspect of their education which has endeared them to all who have been "bred" there. Samuel Wesley brought out the characteristic features of the University education of the period. The old Universities did not aim at mere instruction. They knew that a mass of unorganised knowledge was worse than useless; that pedantry was not the ideal of University education; and that culture could be imparted only through the systematic contact of students with men of a wide learning, high character, and lofty ideals. That indefinable quality, which we associate with culture, is not the product of mere instruction; nor is it due to the perfection of the technique of Methodology. Well-organised curricula, well-conceived methods of teaching, and "correct" principles of University administration, are no doubt useful. No one will deny the utility of the new science of "Education," and the American educationists, who have taken a prominent part in the agitation for the regularisation of educational technique, and formulation of a "scientific" conception of education, ought to receive their meed of praise from every educationist. But these are, after all, means to an end, and the end is not a mere manufacture of "efficient" citizens to order, but the development of all the capacities—intellectual, physical, and moral—of the individual. That the Universities did not pay adequate attention to intellectual education, there can be no doubt. But this defect ought not to prevent us from assessing their real merit. They have never aimed, and do not aim now, at the production of bookworms, and pedants. We may disagree

with their conception of the ultimate end of education; but there can be no doubt that the conscious pursuit of the higher ideal which they deliberately placed before themselves, and the undoubted success which they have achieved in the realisation of these ideals, have made them the most efficient institutions in the world. And this ideal was not lacking in the eighteenth century. It was placed prominently in view, and even the bitterest opponents of the Universities admitted the indefinable feeling of "reverence" which these national institutions had inculcated. Gibbon's charges, Sir William Hamilton's savage attacks, and the coarse gibes of Bentham, lose all their force when we reflect that they were eminently precocious in their youth, and that they set up an ideal of intellectual education which was not realised by any foreign University during the period. The German Universities were in a far worse condition, and the blighting effects of narrow "Scholasticism," the narrowing effect of Wolf's "philosophy," and the cramping influence of the "Professors" have been described by Paulsen.[1] The other Universities were not by any means efficient. The low condition into the French Universities had fallen; the numerous abuses which were perpetrated within its walls, and the lethargy which was such a characteristic feature of the academic world in the eighteenth

[1] See "Paulsen's German Universities;" and, "History of German Education;" and compare Graves' "History of Education," and Monroe's "Text-book in the History of Education;" Compare also Quick's "Educational Reformers," and Graves' "Peter Ramus," and Schlosser's "Europe in the Eighteenth Century."

century, need not be detailed here.[1] Queen Catherine did no doubt found the University of St. Petersburg, and Maria Theresa, and the eccentric Joseph II did, in his peculiar way, and in accordance with the reforming principles which he had imbibed, and which he tried to apply so imprudently, introduce some reforms in the Empire. But the reconstruction of the University of Vienna was not seriously undertaken until the end of the eighteenth century. The Universities of Italy, Spain, and Portugal exhibited the same lethargy. A kind of torpor seems to have crept into the sacred precincts of these hallowed institutions, and they were awakened from their sleep only by the cannon of Napoleon.

A comparison of foreign Universities with the old English Universities leads one to the conclusion that Oxford and Cambridge were far superior to French and German Universities; that though the amount of learning which their student carried away with them was limited, their broad outlook on life, their width of view, and the development of a cultural spirit amongst all who had the good fortune to be educated there, placed them head and shoulders above their compeers in foreign lands. The critics of the old Universities neglected this feature,

[1] See Compayre's "History of Pedagogy;" numerous works on Rousseau. On the latter, read Doctor Boyd's latest work on Rousseau. It is a gallant attempt to rehabilitate the sentimentalist; the works of Taine, Morley, De Tocqueville, and others need not be cited here. All of them throw light on the subject. Monographs have been written on "Fenelon," the "Little Schools of Port Royal," and the Christian Brothers' Schools in France. See also books cited above, Graves, Monroe, Quick.

a feature that has extorted a graceful tribute from Oxford's most remarkable product; [1] a feature that has endeared them to all who have resorted to them from far and near, and made them the breeding-ground of administrators, soldiers, and captains of industry. It is in the development of this cultural spirit, the formulation of this lofty ideal, that their merit consists; and if Gibbon, Hamilton, Bentham and a host of other ignorant critics, had paid attention to this aspect—an aspect by which they were temperamentally incapable of profiting—they would have known that these two institutions realised many of the ideals which Plato had enunciated in his "Republic."

SECTION VII.

EDUCATION OF WOMEN.

Education of Women.—The influence of women had been felt at the close of the reign of Elizabeth, and for a few years after the accession of James I. This female influence long declining, passed away with the downfall of Charles I; and the debauchery of the Court of Charles II rendered its revival impossible. Woman was in danger of sinking into a Court or household drudge. "Toilet," complained Addison, [2] "is their great scene of business, and the right adjusting of their hair the principal employment of their lives." Addison's endeavours to make feminine charm and delicacy an element in social intercourse, and his attempt to promote the education of

[1] Cardinal Newman. See his Idea of University Defined.

[2] Spectator, N. 10.

women, seem to have met with a certain amount of success, for we find him rejoicing, in the following passage: "My fair scholars are already deeper scholars than the beaux."[1] The influence of women on the politics, and education of the period has been underrated. Nobody can read the letters of Lady Mary Montague, of Mrs. Delany, of the Duchess of Queensberry, of Mrs. Howard, of Lady Ormonde, Lady Bolingbroke, and the diary of Lady Cooper, without realising the significance of that influence. Mrs. Astell, prompted by her friend Atterbury,[2] had proposed the erection of a "Monastery, or a religious Retirement."[3] This would be a "type of Heaven." Her main object was "the formation of right ideas, and acquaintance with the nature of those objects that present themselves to her mind."[4] She did not claim equality with men, "nor that women should teach in the Church, or usurp Authority where it is not allowed them." Permit us, she assured her friends, "to understand our own duty, and not be forced to take it upon trust from others." French language was to be taught, "not in order that they may be able to read Romances," but for the purpose of studying the philosophy of Des Cartes, Malebranche and others. It is needless to go over her grounds for the establishment of this monastery. Nor should her denunciation of women for their propensity to "conquest" of men,

[1] Spectator, N. 92. Compare Courthope, op. cit., Chapter IV.

[2] Atterbury's Letters, Vol. I. Letter to Smallridge. "Had she as much good breeding as good sense, she would be perfect."

[3] A Serious Proposal, p. 60.

[4] P. 76.

their gossip, and their idleness detain us. They are all reflected in the literature of the period.

The proposal of Mrs. Astell seems to have been liked by Queen Anne who, we are told, "wonderfully admired this project, and made up her mind, should she ever have it in her power, to endow it with £10,000."[1] After her accession, the whole plan was upset by Bishop Burnet, who rang a loud alarum of "popery," in the ears of Her Majesty, and declared "that Mary Astell's College would be called a nunnery." Swift's coarse satire of the "Protestant nunnery," and "seraphic discourses" of the "Madonella," merely showed his utter lack of sentiment. Its expression in language he regarded as cant; its expression in action as affectation and folly. He looked on woman's beauty with the eye of an anatomist, and on woman's education with the eye of a selfish employer. "You can never," he assured a newly-married girl, "arrive in point of learning to the perfection of a schoolboy." Her part was to be a humble one. She was to study English works on History and travel, so that she may prepare to take an intelligent part in conversation.

Laying aside the grandiloquent account of Mrs. Makin, who proposed to devote half the time of the projected school to works "of all sorts, dancing, music, singing, writing and keeping accompts," and the remainder to Latin and French, it may be said that the education of the girls was different

[1] Strickland, Queens of England, Vol. VI, pp. 245—6.

in several respects from that of the boys. Lady Mary Montagu's account of her own education shows that the knowledge of the Classics was not deemed essential at the time; while her letters exhibit the common tendency to differentiate learning from education. The former was the business of the "pedant," while the latter was the object at which many a noble aimed.

The girls were therefor to be taught those subjects which would increase their efficiency and render them fit companions. Defoe's Academy,[1] "would deny women no sort of learning, but teach them, history, languages, music and dancing." In Law's "Serious Call," Matilda's daughters read only the Bible and devotional books, though they attained proficiency in the domestic arts. Lady Mary Montagu's advice on the education of her grandchild follows the same lines as Swift's. Arithmetic and philosophy are to be taught; but special importance is attached to needlework, drawing, and English poetry.

The education of the Princesses was, no doubt, modelled on different principles, and was carefully adapted to their stations. Thus, Lady Cowper recalls in her Diary that the Princess Anne, "at five years old, reads and writes both German and French to perfection, knows a great deal of history and geography, speaks French very prettily, and dances very well."[2] It is instructive to remark that her Tutor was Leibnitz, and her guardian, the enlightened Electress of Hanover. Though some of

[1] Defoe, Essay upon Projects.

[2] See her Diary, p. 38.

Macaulay's criticisms on the neglect of education among women are unfounded, it cannot be denied that there was foundation for some of his charges, and that the education even of the Princesses did not reach a high level.

Their education was to fit them for taking part in conversation, and for managing the household. It recognised the differences of sex, and consequently of function, and laid emphasis upon those subjects which were to prove directly useful to them.[1]

SECTION VIII.

THE POOR.

The education of the poor during the period has not received adequate attention. No reliable account of the forces that moulded the action of and gave an impetus to

[1] *Note on Education of Women.*

See also the following works :—

(1) (Wheeler The Protestant Monastery, B.M. 852, p. 20, 1698.

(2) Life of Mrs. Godolphin, By G. Burnet.

(3) Wickham Legge, "English Church Life from the Restoration to the Tractarian Movement," 1914.

(4) George Ballard, Memoirs of several ladies of Great Britain, 1752. See especially the lives of Duchess of Newcastle, pp. 255–301. Elizabeth Burnett; Lady Chudleigh; Lady Halkell, born 1622; Lady Pakington. They were all cultured and accomplished women.

(5) Swift, Tatler, pp. 1—32.

(6) Thomas Hearne, Remarks and Collections Oxford Historical Society, 1885, Vol. I, p. 188.

All these throw considerable light on the education of Women in the eighteenth Century.

the movement initiated by the leading men of period has been given us. Yet the outlines of the policy pursued during the period are clear enough. As the education of the nobles was adapted to make them efficient in the performance of their special duties, so the education of the poor was modified by the commercial progress of the times. This is the main feature that distinguishes their education from that of the nobles. While the education of the latter was characterised by its many-sidedness, its progressive spirit, and its pioneering methods, that of the former received its specific mould from the commercial and industrial position occupied by England during the period. The theory that underlay the education of the poor during the period had been stated by many writers before, and acted upon in the latter part of the reign of Elizabeth. Commerce and manufactures could not be developed without Labour, and many laws had been passed to foster the industry during the period. It is not surprising, therefore, to come across treatises advocating a reorganisation of education, to suit the needs of English merchants and manufacturers. This had been done under Elizabeth, and a series of labour laws passed to make the workers efficient industrial units.

The fundamental difference between the labour policy of Elizabeth and that of the Whigs was due to the fact that the sense of social solidarity, acquired by Englishmen under the Tudor absolutism, perished in the constitutional struggles of the seventeenth century. The central Government under Elizabeth had united the nation, and regarded all classes as members of one body, of which the

Crown was the head. The English Revolution shattered the foundations on which this theory rested, made the Whig oligarchs supreme in the country, and modified the original conception of the relation of the different classes to one another. The literature of the period teems with references to the multitude; and their vices, their drunkenness, and their laziness are insisted on by a series of writers. Remedies are suggested, no doubt; but these remedies reflect the contemptuous pity, the lack of sympathy and desire for justice, which give to the eighteenth century respectability and its survivals to-day their peculiarly sour taste. The following hymn of Dr. Watts clearly shows the difference between the two views—

> "Whenever I take my walks abroad,
> How many poor I see.
> What shall I render to God,
> For all His gifts to me?
>
> How many children in the street,
> Half naked I behold,
> While I am clothed from head to feet,
> And covered from the cold"

The Elizabethan, under pressure from central Government, would have put an end to poverty by clothing these "half-naked children," and by treating them as members of the same body.

This view of the poorer classes is borne out by the literature of the period. The mob is presented to us, at rare intervals. The Sacheverell riots bring it into prominence, while the crowded meetings of George Whitefield are sometimes graced by the presence of

the sceptical Chesterfield, and the cynical Walpole.[1] This factor must always be taken into account in every inquiry into the education of the poor. They are regarded as the means whereby the English trade can be expanded, and English manufactures developed. This conception of the end of education necessary modified the means whereby the aim was to be achieved. The primary motive was here, as elsewhere, efficiency. It was the preparation of the individual for the efficient performance of his duties in life. There was, therefore, no difference between the end which the nobles set before themselves and those which the poor realised. Both made efficiency their aim, and both adapted their education to suit the circumstances. Though there was no difference as regards the aim, there was great difference as regards the means. Efficiency was interpreted in different senses by the two classes. It is this difference between the two views of the aim of education that is such a remarkable feature of the eighteenth century.

The education of the poor came to be regarded as one of the most important means of expanding the English commerce and developing the English colonies. England's geographical position; her commercial rivalry with France; her dependence upon her Navy; her plantations across the seas; and the insecure state of some of her industries—these were the factors which were emphasised in connection with the education of the poor.

[1] Compare the following remark of the Duchess of Buckingham. "It is monstrous to be told you have a heart as sinful as the common wretches that crawl on earth." [Gledstone's Life of Whitefield, p. 304].

Again, the increase of wealth could be brought about by foreign trade alone, and, as the latter depended mainly upon the English Navy, it followed that everything that could increase the efficiency of the Navy was to be encouraged. This was admirably pointed out by Brokesby. "The increase of our wealth must be from a profitable foreign Trade, and trade cannot be carried on without seamen, and seeing our trade apparently sinks, and our seamen now scarce, would it not be possible if some of our supernumerary Free Schools near the seaside were converted from their present use, or if that be thought not advisable, that others be erected not far from our Ports, Harbours and Creeks, where youth may be freely taught to read and write exactly, but specially may be thoroughly instructed and accomplished in all those parts of the mathematics which prepare and fit them to become seamen?" "If schools of this nature were conveniently placed at fit distance all over the kingdom, near the sea coasts, and masters qualified for the business," then "there would be enough for the Royal Navy, for merchandise, for recovery of the fishing trade, and for improvement of them all." [1]

Brokesby expressed in a concrete form the ideas by which some of the educationalists were guided at the time. Thus, soon after the Restoration, a mathematical school was founded at Christ's Hospital. The boys were to be competent in grammar and arithmetic, and were to be taught the art of navigation, and the "whole science of arithmetic." Then they were to be bound

[1] Of Education, by F.B. (Francis Brokesby) 1701, pp. 47—51.

apprentices for seven years to captains of ships. Books, globes, maps, and other mathematical instruments were ordered for the instruction of the boys, who were to remain at school till sixteen years of age.[1] Lewis Maidwell thought that its "Design at Origine was too Low, and too Narrow, Scarce Teaching all the virtues and offices of a Good Pilot, or master of a vessel."[2] Accordingly, he came out with a brand-new scheme of a Mathematical School, obtained Letters Patent to "erect and establish a Royal Schole, where 40 Scholars, sons of gentlemen, were to be instructed gratis in the modern languages and mathematics." A bill was brought in, and an attempt made to get it passed, but the close of the Session prevented its passage into law, and the project fell through. It is clear, however, that the Parliament itself had taken up the matter. Thus the House of Commons resolved, "That provision be made by Law for the better education of youth in the art of Navigation."[3]

The reasons adduced by Maidwell for the erection of a Mathematical School are interesting, as they were deduced from a theory that was commonly held at the time. Davenant had pointed out in a series of brilliant essays, the necessity of arranging the commerce and industry of England according to her geographical position, and making the English Navy supreme. The two—commerce and the English Navy—were linked

[1] Compare F.H. Pearce's Annals of Christ's Hospital, pp. 98—134.

[2] Preface to an Essay upon the Necessity and Excellency of Education, 1705. B.M. 8306, CC. 11

[3] Quoted from Maidwell, op. cit, p. 44.

together, and the aim of English policy was held to be the attainment of commercial supremacy through the Navy.

This idea was developed into a powerful plea for Free Trade by subsequent writers. Sir Dudley North carried Davenant's theories to their logical conclusion. He showed that the foreign trade of England depended upon a strong Navy, and that it could not be secured without efficient seamen. He bade England take advantage of her geographical situation, and seize the opportunity offered her at the time.

It would be difficult to exaggerate the influence of these ideas on the education of the poor. As foreign trade was regarded as synonymous with wealth, and as the former could be attained only through a strong Navy, it followed that every agency that could make the Navy efficient was to be resorted to. The most important agency then, as now, was education. Maidwell's "Essay" is permeated by the spirit of the times, and he gives voice to it in no uncertain terms. "Self-preservation,"[1] he asserted, "is the Principal Article of the Law of Nature, and we are guilty of the Blackest Ingratitude if we despise them that do us Good." He showed that "all wise Governments have preferred an Education necessity to their Constitution, and their Interest." The Egyptians, the Phoenicians and other nations, are dragged in here, as elsewhere, and an attempt is made to trace the history of the Mediterranean Sea.

[1] P. 33.

Plato, Aristotle, Cicero and others are not ignored. He proposed to teach "Geometry, Arithmetic, Algebra, Mechanics, Statics, Hydrostatics, Land Surveying, Fortification, Perspective, Drawing, Trigonometry, Astronomy, Chronography, Architecture, Calendar, 'Promiscuous Naval Learning,' Latin, French, Italian, Spanish, Portuguese and Dutch."[1] This pretentious list is preceded by liberal quotations from ancient philosophers. These, and other features of the book, force one to the conclusion that Maidwell was something of a charlatan, and that the failure of his plans was due partly to his own dishonest character.

Statutes 2 and 3 Anne, Cap. 6, empowered any two or more justices of the peace in their several divisions, and all mayors of towns, to bind and put out anybody of the age of ten years or upwards, "who was chargeable to the parish, or who shall beg alms, to be apprenticed to the master or owner of any English ship or vessell, until such body shall attain the age of one and twenty." The Act seems to have proved effective during the period.

The motive power in the education of the poor was supplied by the religious societies founded in the last quarter of the seventeenth Century. Their aims and methods of instruction, their fervent zeal and their intense sympathy with the poor will be pointed out in another Section of this chapter.[2] Here it is only necessary to state that religion played an important part in the education of the poor, and that the growth of the Charity

[1] Pp. 49—63.

[2] See the Section on the Charity Schools.

Schools in the first half of the eighteenth Century would be inexplicable to us unless we recognise the importance of the religious views of these pioneers.

These three factors, Navy, Commerce and Religion, profoundly modified the education of the poor. Commerce was regarded as the only source from which wealth could be derived, and as Navy was the mainstay of English Commerce and its bulwark against foreign invasion, the connection between the two was intimate. Hence, Education came to be regarded as the most important instrument for the realisation of these ends. It was clear that the English manufactures depended for their growth on the skill and knowledge of the English workman, and that their sale in foreign countries and at home would depend upon the cheapness, the workmanship, and the utility of the English articles.

The problem was complicated by the increase of pauperism in the country. It became acute after the Revolution, and caused an enormous amount of misery to the poor in the Eighteenth Century. The defective Poor Laws, insufficient control by the local authorities, a series of bad harvests, long wars, and the lack of supervision by the central government, may be assigned as the causes of the increase. The first person to notice the increase in the number of beggars and to criticise the absurd system of relief was Sir Josiah Childe.[1] He asserted that the poor in England "have always been in a

[1] New Discourse of Trade. A Method concerning the Relief and Employment of the Poor. B.M. 1027, i. 18.

most sad and wretched condition," and that the children of the poor, bred up in Beggary and Laziness, "do by that means become of unhealthy bodies, and more than ordinary subject to many loathsome diseases." He admitted that the laws were admirable and that they had proved useful in the reign of Elizabeth; but he asserted that they were badly executed, that the deserving poor received no charity, and that they bred up beggars in the country. Childe proposed that the "City of London and Westminster, Southwark, and all other places within the lines of communication, should be grouped into one association," for the relief of the country was to be administered by powerful corporations possessing extensive powers and ample resources. The "Fathers of the Poor" were to be invested with the right of transporting the poor to the plantations, assessing rates, erecting "Petty Banks, and Lumbards, and of controlling the constable." It is, however, in his provision for the education of the poor children that the importance of his treatise lies. "The Girls may be employed in mending Cloathes of the Aged, in Spinning, Carding, and other Linnen manufactures, and many in Sewing Linnen for the Exchange." The boys were to be employed in "picking Oakum, making Pins, rasping Wood, making Hangings, or any other manufacture of any kind, which, whether it turn to profit or not, is not much material, the great business of the Nation being first to keep the Poor from Starving."[1] Childe left the details of the boys' education to be worked out by the "united wisdom of so grave an Assembly."

[1] Discourse touching Provision for the Poor. B.M. 1027, i, 18 (2).

Childe's treatise seems to have attracted considerable attention. He had laid his finger on the right spot, and pointed out the essential causes of the failure of the complete breakdown of the System. Sir Matthew Hale owed a great deal to the tract of Childe. Many of his proposals reappear in Hale's Discourse, while parts of his tract reproduce the substance of Childe's tract. It is, however, distinguished by its deep piety, its eminently practical character, and its concern for the poor. He thought that a "Due Care of the Poor as an Act of the Greatest Humanity among men, and of great Civil Prudence and Political Wisdom in relation to the State," but "as things now are, our Populousness becomes a Burden to the Nation, by breeding up whole races, Families, and Generations, in a mere Trade of Idleness, Thieving and Begging, and a barbarous kind of life, which must in time prodigiously increase and overrun the whole face of the world and Eat out the very heart thereof." He pointed out the grave defects of the poor laws, and propounded the remedy. The Justices of the Peace at the Quarter Sessions were to set out and distribute the Parishes in their several counties into several Divisions, in each of which there was to be a workhouse for the common use of the division. By the incorporation of these workhouses, "Charitable-minded persons would have, as it were, a Pillar whereunto to fasten their Charity." The English manufactures would be developed, and the poor employed on productive work. "Woollen manufactures or Cloath, the staple commodity of this Kingdom, would be more, and these other woollen manufactures, as Kersies, Serges, Baize, which, though

confined to several parts of the Kingdom, would be by this means diffused over the whole Kingdom." This was not all. The poor may be employed in making "Linnen Cloath, Laces of all Sorts, Nets, Sails, etc.," and thus the linnen manufactures would be developed and the wants of the Kingdom supplied.

As regards the education of the poor, Sir Matthew Hale has nothing original to say. His views are, however, characterised by good sense. He thought that "by means of these Workhouses, there will be an opportunity for one or two persons, skilled in any manufactures, to instruct twenty in the Trades, by common resort, meeting and daily residence of Children and young People there, and there may be opportunity to teach children to read, without any Interruptions in the Imployments of them that are able to teach them, or of them that are able to work." It is clear that reading is not emphasised, but is introduced to vary the monotony. Sir Matthew Hale's views on education were permeated by the spirit noticed in the beginning of the chapter. The poor were to remain the "hewers of wood and drawers of water." Their education was to be nothing else but a daily round of work, varied by the teaching of reading. Even this proposal marked an advance in the education of the poor. It was better to keep them employed and give them an occasional lesson in reading, than to make them confirmed loafers and a burden on the community.

These tracts had drawn the attention of the leading economists to the necessity of alleviating

the lot of the poor. The matter came before the Council of Trade in 1697. The first year was occupied chiefly in collecting statistics, and receiving evidence from a few philanthropists, like Thomas Firmin, and John Cary. Locke thereon drew an elaborate report on the state of the poor, and presented it to the Council. He urged a strict execution of the laws against "debauchery," and advised that "all men, sound of limb and mind, above fourteen and under fifty years of age, begging in maritime counties out of their own parish without a pass, shall be seized on either by any officer of the parish where they so beg, or by the inhabitants of the house themselves where they beg," and sent to the next seaport town, "there to be kept at hard labour till some of His Majesty's Ships, coming in or near there, give an opportunity of putting them on board, where they shall serve three years." This thorough method was in consonance with the spirit of the times. Cromwell had deported hundreds of rebels to Barbadoes, while a number had been deported by James II after Monmouth's Rebellion. Compared with this treatment, Locke's treatment was mildness itself.

It is, however, in its suggestions for the education of the poor that the importance of Locke's Memorandum consists. He suggested that all boys and girls under fourteen years of age and upwards, found begging out of the parish where they dwell, should be sent to the next "working school." Working schools were to be established in every parish, which all poor children above 3 and under 14 should be obliged to attend. These

schools were to teach them spinning or knitting, "or some other part of the woollen manufactures," unless in counties where the place shall furnish some other materials fitter for the employment of such poor children. The school was not confined to children, for Locke expressly stated that "grown people also may come to the said working schools to learn where work should be provided for them." He suggested that the materials to be employed in these schools and among the poor people of the parish be provided by a common stock to be raised out of a certain portion of the rate. The guardians were given the power of setting up and ordering working schools, as they "see convenient within each corporation respectively, to which schools the children of all that are relieved by the said corporation, from 3 to 14 years of age, shall be bound to come as long as they continue unemployed in some other settled service." These proposals were discussed by the Council, and an attempt made to bring in a Bill in conformity with these views. We are told by Sir Frederick Eden that a Bill was actually brought in in 1705. It seems to have been dropped, however, for we hear nothing further about the Bill in the Journals.[1]

The Memorandum of Locke bears traces of the influence of Childe and Sir Matthew Hale, and contains many suggestions put forward by the latter. Locke's importance lies in his insistence on the necessity of reform in administration, in his provision of a school, and in his proposal for reorganising that administrative

[1] State of the Poor, Vol. I, p. 248.

machinery which had perished in the seventeenth century constitutional struggles.

John Cary developed the theory tentatively put forward by Locke. He proposed [1] that the laws about "vagrants, Rogues, Beggars, Lewd Woman, Bastards, etc.," be comprehended in one Statute, and that encouragement be given for erecting "Hospitals, Houses of Correction, and Workhouses," and for maintaining and employing the poor in all cities and towns, under the management of Corporations. In these workhouses, "the impotent poor shall be provided for, the vagrants [2] punished, and young people of both sexes bred up to work till the age of sixteen, and also taught to read."

Cary defended his proposal in a vigorous pamphlet, entitled "A particular Answer to the most material Objections made to the Proposal." [3] In this tract he brings out the importance of the poor children in a series of unanswerable propositions. He showed that it was the "children of the poor who by Husbandry and Trade in two hundred years [4] have increased the Rents of England, from less than five to more than fifteen millions per annum," and he pointed out that it was the poor children "who supply your Majesty's Fleet and Army with both Sailors and Soldiers."

Cary's friendship with Locke and the influence he exercised on some aspects of Locke's economic policy lead

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[1] A Proposal, B.M. 1027, i. 18.

[2] Pp. 2, 3.

[3] B.M. 1027, i. 18. A Particular Answer. By John Cary.

[4] Preface.

one to the conclusion that the data for Locke's Memorandum were supplied by John Cary,[1] and that some of the proposals of Locke had their origin in the capacious brain of the restless philanthropic merchant of Bristol.

Cary persuaded several of his influential neighbours to form a Committee of sixty "guardians of the poor" to join with him in building a great workhouse where all who did not choose to earn their living in other ways should be compelled to maintain themselves. This plan was authorised by a special Act of Parliament.[2]

Cary's influence on the movement will be realised by the fact that a number of cities and boroughs secured permission from Parliament to erect workhouses that adopted his plan as their model. Exeter, Hereford, Colchester, Kingston, Shaftesbury, Lynn, Sudbury, Gloucester, Plymouth and Norwich were allowed by private Acts of Parliament to erect workhouses, levy rates and frame rules for their maintenance, and frame rules for their administration.[3] The Bristol workhouse became the model for the workhouses of other corporations, and contained features which are worthy of study even at the present day.[4] Cary gives us an interesting account of this experiment in a pamphlet. The workhouse was divided into classes, one for the old and impotent, and

[1] Compare also Fox Bourne, Life of Locke, Vol. II, pp. 342—3.

[2] 7th and 8th William III, Cap. 32, Private Acts.

[3] Compare Eden, State of the Poor, Vol. IV, pp. 226—410; Sir George Nicholls, History of the English Poor Law, Vol. I, pp. 353 to end of the Volume.

[4] An Account of the Proceedings of the Corporation of Bristol. By John Cary, 1700, A most interesting account of this experiment.

the other for children. The girls were taught by a "schoolmistress to teach them to read," and were supervised by a mistress, "whose business was to look after the kitchins and lodgings, and to provide their meals at times."[1] One hundred girls were received and set to work at "spinning or worsted yarn; all which we first caused to be stript by the mistress, washed and new clothed from Head to Foot."[2]

We are told that "things answered to our expectations; our children grew sober, and worked willingly." There was, however, one very serious drawback. The managers had thought that the charge of their maintenance would be defrayed out of their labour, and that the workhouse would be a profitable concern. Cary himself had calculated the profits that would be derived from his scheme.[3] Accordingly changes were introduced in their diet and fixed times appointed for their work. Other changes were introduced later on, and the education completely reorganised. The book ends in a triumphant tone; "The Success hath answered our Expectations, we are freed from Beggars, our old People are comfortably provided for, our Boys and Girls are educated to sobriety, and brought up to delight in Labour; our young Children are well looked after, and not spoiled by the neglect of ill Nurses."[4] There is reason to believe

[1] Pp. 10—12.

[2] P. 11.

[3] See his trenchant answer to his Proposal.

[4] Pp. 19—20.

that this optimism was justified. It was a daring innovation, and introduced startling changes. Yet the plan worked successfully. The most interesting feature of the scheme was the provision of education in the workhouses. Locke's influence is traceable in the whole plan of the institution, but more so in the education of children than in the provision for the old. Cary, however, introduced many subjects not included by Locke in his "work school."

Cary's ideas were developed by many writers in the eighteenth Century. Proposals were made for establishing a Charitable Fund in the City of London, "to relieve Necessitous persons from the oppressions and evil practices of ill men, and provide poor People with coals and other necessaries at a cheap rate in the winter and Time of War."[1] Voluntary gifts and loan of money were to be handed over to a fund, and Free Schools established in several parishes "for the education of poor People's children, to teach them to Read, Write, and Cast Accounts, and work."[2]

Perhaps the soundest of all the proposals was put forward by Henry Fielding.[3] After describing the terrible sufferings of the poor, and stating the causes of the growing misery, Fielding proposed the erection of a workhouse, "large enough to contain 5,000 persons and upwards," and the hiring of Teachers of Manufacture "for

[1] A Proposal. B.M 1097, i. 18 (14), 1706

[2] A Proposal. B M, 1027. i. 18 (14) 1706, p. 17.

[3] A Proposal for making an Effectual Provision for the Poor. By Henry Fielding, 1753, B.M. 1027, i. 18.

the better Instruction of the Labourers in the Manufactures and Mysteries now exercised in this kingdom, as well as for the introduction of foreign manufactures and Mysteries into the said kingdom."[1] His elaborate regulations for the administration of the workhouse, and the minute details of his scheme need not detain us here. They contain little about the education of children, and are concerned mainly with the supervision of old persons.

These theories were not without their effect on the education of the poor in the first quarter of the eighteenth Century. It would be easy to trace the progress of the workhouse schools in the early part of the eighteenth Century, and to estimate the influence of Locke and Cary. This is rendered possible by an invaluable series of pamphlets in the British Museum. One important volume, entitled "Tracts relating to the Poor," contains some of the most important authorities on the subject,[2] and describes the education given in the workhouse schools of the period with a minuteness and detail that are surprising. We glean further information from the productions of Mr. Sidney Webb.[3] The "Statutes of the Realm" supply us with invaluable information; while the standard treatises on the Poor Law by Eden, and Nicholls, throw a flood of light on the problem. It is possible, therefore, to reconstruct the history of the workhouse schools established

[1] P. 40.

[2] Press Mark, 1027, i. 18. Tracts relating to the Poor.

[3] English Local Government, Manor and Borough, 2 Vols. Parish and County. By Sidney Webb.

by the local authorities in the first quarter of the eighteenth Century. Their general characteristics have already been expressed, and it would be useless to go over the ground again. They all show the influence of the three factors enumerated above.[1] Thus we are told that in the Bishopsgate Workhouse there were 93 boys and 50 girls, "taught, cloathed and maintained." They were employed in spinning Jersey, and constantly attended by turns "in the Reading and Writing Schools, about two turns every day."[2] Half the girls were kept at "the Reading and Sewing School, for making up and mending the linen for Boys and themselves," while the other half spent their time "in knitting and footing the Children's Stockings." From an account of this Workhouse published in 1725, it appears that 1,782 children had been "educated, discharged and placed forth apprentices to officers of Ships, to Trades, and to services in several good Families." The accounts of the workhouses in Whitechapel, Limehouse, Wapping, Mile End, and Ratcliffe do not call for special notices. Their features are the same as those of the Bishopsgate Workhouse. The Greycoat Hospital in Westminster deserves, however, a special mention. We are informed that "130 poor children of this Parish are not only instructed in the Principles and Duties of Christianity, but also in the means of getting a Livelihood by their own Labour, and

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[1] An Account of several Workhouses for employing and maintaining the Poor. B.M. 1027, i. 18.

[2] All the important pamphlets on the London Workhouses and Charity Schools, in the Guildhall Library, have been consulted.

entirely Cloathed and Maintained."[1] Again, the boys of this school went in large numbers as apprentices in the Navy. This fact led to the proposal that the brighter boys should be taught Arithmetic and Navigation.[2]

A very interesting account is furnished us of the Girls' School in Greenwich. We are informed that the "most experienced spinners are put to spinning Linnen, that as little waste might be made as possible," while the beginners were "put to spin first." A Mr. Matthew Marryott, of Olney, having with great success established workhouses in Buckinghamshire, was invited to Greenwich "to propose a plan by which the like may be done there." He seems to have done his work thoroughly. It would be difficult to find a better school than that at Greenwich. Its methods of instruction and the reforming zeal of its teachers are alike remarkable. Thus we are told by a writer that the "Ladies who have the oversight of it seem to have carried it out to the utmost perfection, so as to enable the children to shift honestly by their Industry." The writer concluded, "Whoever will take the trouble to visit the school will with pleasure see a proof of what has been said. A mistress governing with as little severity as possible, and the children applying themselves to learn all that is taught in the school with the utmost cheerfulness, and the employments aforesaid not at all interfering with their learning to read and say the Church Catechism, and attending the publick prayer

[1] P. 20.

[2] Compare Miss Day, An Old Westminster Endowment.

of the Church every day in the year." This pleasing picture of the workhouse school shows the spirit that pervaded the organisation of some of the workhouses. Many other schools could be named that displayed the same energy and revealed the same zeal. We are told in an account of the workhouse at Stroud in Kent, that the charity schools were annexed to the workhouse, and that the boys were set to spin and thus earned *2d.* and *3d.* per day, and "so have not only their Education, Cloaths, and Money to place out, but partly maintain themselves even while they are at school." It is, concluded the writer, "a great pleasure to me to visit them often, to see them sometimes industrious at their Wheels, sometimes diligent at their Books, and to find them mornings and evenings devoutly praying God and singing Psalms." [1]

The education provided in the country workhouse schools seems to have been more vocational than that in the London workhouses. In a number of cases, reading was not taught at all, and boys' instruction was confined to the acquirement of skill in spinning and knitting. Mr. Sidney Webb has shown [2] that a spinning school was established by the Wisbech Corporation, and that the Nottingham Common Council voted in 1710, £10 a year, "towards the spinning school to commence when the school is established." It is clear that the local needs of the borough were emphasised in the curricula of the workhouse and charity schools,

[1] P. 41.

[2] Manor and Borough, Vol. I, pp. 145, 393.

and that many of the corporations determined the lines along which the workhouses were to be conducted. This did not interfere with their instruction in the charity schools. The work of the two seems to have been co-ordinated by the local authorities. Thus we are told that the boys in several parishes in Bedford "are set to spin Jersey for the Drapers, who pay them for their work. Before they can do any work, they are sent to the Charity School, and taught to read and learn their Catechism." [1] The influence of Marryott is perceptible here, as elsewhere.[2]

The accounts of two schools in Northamptonshire bear out this view. We are told that "the Mistress takes all the children one day after harvest into the Bean Fields, where they gather and lay in Heaps as much Bean Stubble as serves them for Firing all Winter." This did not interfere with their instruction in school, for we are informed that "the work of these children is so ordered that it is no manner of hindrance to their learning to Read and say the Catechism, the Common Prayer, the Collects for the Day, the Bible, and other useful Books of Instruction." [3]

In many other schools co-ordination was secured by what may be called the part-time system. Thus in Findon, 16 girls were constantly kept "to spinning Jersey," four took their "turns in doing the work in the family," while three others learnt "all sorts of work to

[1] P. 81.

[2] See above, P. 95.

fit them for service, *e.g.*, spinning Linnen, Knitting, Gloves, Sewing, Making," etc. As to their learning to read, "the mistress teaches three of them at a Time who are called out of the Spinning Room, and read as long as she thinks proper, and then three others succeed, till they are all heard, every morning and afternoon." Sundays and other Holy days were devoted to "reading the Bible, the Whole Duty of Man, and other Books printed chiefly for the use of Charity Schools."

It is clear that the two were carried on *pari passu*, and that the system was common in some parts of the country. In a number of country workhouses, however, even instruction in reading was dropped, and the boys set to pick oakum and spin.

Cases of the exploitation of child labour occur. Thus we are informed that the Trustees of a Charity School agreed to employ the children of the Charity School "in some useful labour besides their Learning." The parents offered strenuous objection, while one of the subscribers to the charity school "declared that unless children were employed in some sort of work, to accustom them to Labour," he would withhold his subscription. A meeting of the Trustees thereupon fixed the hours of work, and arranged with a woollen garter-weaver in the town to supply them with work. The quarrel was amicably settled.

The impression produced by the study of these documents is favourable. The teaching of boys was conducted along entirely new lines. Ingenious methods were devised to obviate the necessity of corporal punishment,

while reading, writing, and catechism were taught in the best workhouses. These workhouses were erected during the first quarter of the Eighteenth Century and were modelled upon Cary's workhouse at Bristol. Hence the theories propounded by John Cary were not mere daydreams, but an expression of the earnest spirit and deep piety which characterised the philanthropists of the period. He had discussed the subject with Locke, and impressed him with his ability and enthusiasm.[1]

The workhouses performed useful service to the nation by giving free education to the poor. There were, however, several serious drawbacks in the existing system. Little or no teaching in writing, reading, and arithmetic was given in the majority of country schools. The ideal of the workhouse master was the maintenance of the institution through the earnings of its inmates. It is clear that the impotent poor could not do the same amount of work as a healthy man, while the "sturdy beggars" were often lazy and obstinate. The work seems, therefore, to have devolved upon the children. It is therefore hardly surprising that little instruction in the three R's was given in a number of workhouses. Education degenerated into "vocationalism" of the narrowest type, and the labour of the children was exploited in the interests of the rate-payers. The latter regarded every increase in the poor rate as a robbery of their hard-earned money, and denounced any scheme that involved expense. It is clear that reading and writing were regarded as luxuries, that even

[1] Fox Bourne's Life of Locke, op. cit.

the salary of the workhouse schoolmaster averaging about £20 a year, was grudged by the closefisted rate-payer, and that the practice of making the children earn their living led ultimately to the disappearance even of the three R's from the curriculum. This does not apply to the London schools, which, as we have seen, were excellently conducted, but it seems to have been common in the country. The State had framed various measures for the apprenticeship of boys to trade, and many statutes had been passed in the previous reigns. The history of the modern laws relating to the apprenticeship of education of the boys may be traced to Statute 27 Henry VIII, Cap. 25, Section 4.[1] The fourth section had authorised head officers and constables of every city, town or parish to " take up all children between the ages of five and thirteen years, who are begging or in idleness, and appoint them to masters in husbandry or other crafts to be taught." But their cruel punishment, and inhuman treatment of the poor, tended to make them ineffectual; and though the reorganisation of the poor law under Elizabeth effected considerable improvement, no really satisfactory solution of the difficulty had been suggested by any responsible authority. In the reign of Queen Anne, however, we can perceive new forces at work; new theories of political obligation developing in complete harmony with the philanthropic, the educational, and the literary movements of the period. Greater care is shown for the child, and better provision made for his welfare. The

[1] For these and other sections, the Statutes of the Realm, 1820, have been consulted throughout.

connection between Commerce, Navy and education is stressed, and emphasis is laid on the reformative, rather than the deterrent theory of crime. Statute 2 and 3 Anne, Cap. 6, empowered all magistrates, etc., to bind and put out any boy of the age of ten years, etc., "to be apprenticed to the master or owner of any English ship or vessel, till such boy shall attain the age of 21. The statutes lay down minute regulations on the number of boys each master was authorised to take; the training of apprentices, and other details. The sedulous care of the state for the "training of youth in industrial occupation," and its encouragement of navigation were also shown in a section of the Schism Act, whereby teachers of navigation were excepted from the Act.

The Acts for the erection of Workhouses in Worcester, Hull, Exeter, Plymouth and Norwich exhibit the same tendency. Provision is made for the education of poor children, the Corporation is empowered to raise money for their erection, to contract with other parishes in the same country for receiving and setting its poor to work, and a "pious, sober, discreet person, well qualified for a schoolmaster" is to be appointed. "He shall in some convenient room within the said workhouse read daily morning and evening prayers at certain hours, to be for that purpose stated to, the poor people and others belonging to the said workhouse;" he "shall teach every one of the said poor children to read and write, and cast accompts, and shall also teach such of the poor children as have a capacity of inclination to learn the art of navigation, and such part of mathematics as lend thereunto."

This considerate care for the mental culture of the lowest classes is quite refreshing.[1]

The importance of this Act can hardly be exaggerated. It was probably the best expression of the new spirit which characterised legislative activities. Though it applied only to Plymouth, it was followed by a number of other boroughs and cities, and workhouses became as efficient as Charity Schools. They became the agents through which the poor citizen could be equipped for the battle of life, and through which English navy, English commerce, and English education were to be developed. It was the completest manifestation of the growing tendency to co-ordinate the different aspects of national life, and to unify, and organise them upon one broad principle, that was clearly grasped and consistently pursued. That principle was very vague at first, and its real significance was not realised by any statesman till the time of William Pitt. But it was acted upon by statesmen during the reign of Anne; it was constantly appealed to; and was never lost sight of even during the unseemly squabbles, and unsavoury intrigues of Bolingbroke and Harley. It aimed at the growth of English Industry, English Commerce, and English Colonies, through education and through wars, through peaceful penetration, and through treaties. Material prosperity was the sole test employed; and preparation for industrial efficiency, the chief aim of the educational ideas of the period. The movement for the reform of the Poor laws, and the education of workhouse children, was cordially supported by a number of influential men,

[1] Nicholls, History of the Poor Law, Vol. I, p. 367.

and, as has been pointed out already, a number of workhouses were built on those plans.

The question of children's education was intimately connected with the far more important question of the employment of the poor. Education itself was valued only in so far as it would fit the children to live useful lives. The proposals of Hales, Childe, Locke and Cary have already been mentioned. The pamphlets in the Goldsmith's Library throw further light on the matter. The suggestions put forward by a host of writers need not be detailed here, as many of them were based on Locke and Cary. Some were, however, entirely novel, and though none of them was carried into effect, an analysis of the leading theories of the Economists of the period is probably the best means of bringing into consciousness the vital connection of the subject. The most important of the reformers aimed at the employment of the poor, and every proposal was defended on the ground that it would not entail any expense to the country, and that the profits of the inmates will be sufficient to defray all the expenses of the undertaking. Laurence Braddon thought that all the problems of poverty could be solved "by the Charitable relief, regular government, and judicious employment" of the poor. If one general law embodying the essential features of his doctrine were passed, its effects would be immediately felt. The execution of his plans would result in the comfortable maintenance of the impotent poor, the application of appropriate and just punishments, the employment of the capable poor, and, most important of all, the gradual disappearance of the Poor Rate. The

Royal Navy would be supplied with seamen; the various trades will be expanded by the increased skill and the application of sound methods, and the children would be cared for. All authority over the poor was to be concentrated in a despotic organisation, imposing rules, framing laws, organising industries, and educating children. The total amount needed was estimated at 10 million pounds. The chief merit of Braddon's scheme lies in its ingenious methods for the education of children. Education was to start at the early age of 3, and near each of the cities proposed by him, several small ships were to be "constantly rigged, (and) on board of those ships, those boys, at their Playtime," were to be instructed in "the names of all parts of the ships, both in hulk of Rigging, and the proper service to each of them belonging." Some of the most experienced masters, who were members of the Trinity House, were to compose a book, containing all the important rules. That was not all. The boys were also to be exercised "at Land arms, by some experienced super-annuated Sergeant. They were then to "be put to sea, in the service of their Corporation or for some other service, for the Coasting Trade, or short voyages." Very "convenient" Colleges were to be built for the study of all branches of Mechanics. These Colleges were "to improve some parts of the mechanical, as much as most parts of the Smithy Trade has been improved at Birmingham." [1]

[1] Laurence Braddon, Relieving the Poor, 1721. Goldsmith's Library of Economic Literature. There are other pamphlets by Braddon on the same subject.

Another writer suggested that "schools for husbandry should be erected in every country, wherein master of the English method (of husbandry) should teach at a fixed yearly salary, and Tusser's old Book of Husbandry should be taught to the boys, instead of a Primer or a Psalter." [1]

Nearly every proposal contains elaborate plans for the education of children, and though we are not certain whether all the sections of the various acts passed in the reign of Queen Anne, were executed, there is no doubt that the plan of Cary was always kept in view, that some sort of instruction was imparted to every child, and that the condition of the poor was better than it had been before.[2]

These proposals were subjected to severe criticism by Daniel Defoe.[3] He showed that the proposals of these reformers would disorganise industry, by cheapening the cost of production, and by throwing thousands of workers out of employment. He asserted that there was no lack of labour in England, that thousands of hard working, honest men were unemployed; that manufacturers had already been settled in different corners of the kingdom, "from whence they are mutually conveyed by

[1] Some consideration for the promoting of Agriculture, 1723.

[2] See also A Present Remedy for the Poor, 1700. Goldsmith's Library. The children in the workhouse were to be "taught to read, with cipher" and other necessary learning, with the principles of true Religion, by the minister and his Reader, or schoolmaster." Four commissioners were to be appointed, for the effectual carrying out of this work.

[3] Giving Alms no Charity 1704. Goldsmith's Library of Economic Literature.

a circulation of Trade to London." The erection of workhouses would lead to the ruin of the landed interest, and the small shopkeepers; this would be "taking the bread out of the mouths of the poor of Essex to put it into the mouths of the poor of Middlesex." If new trades were discovered, or a new market opened, the case would be different, as there will be no competition, and increased production would enrich the country. But Defoe showed that it was impossible to do so, in a short time. He declared that poverty does not proceed from want of work, but from misfortune or crime. Defoe's analysis of wages is, no doubt, crude; but it has the merit of simplicity. His discussion of various economic problems did not result in the formulation of a distinctive theory of economics. They were too practical, and too journalistic, to be useful to the student of economic theory. But he grasped the significance of international trade with marvellous insight. He analysed the causes of poverty, and explained the working of some of the economic laws, with lucidity and vigour; and, lastly, he showed the value of charity schools to the nation, and pointed out their importance. The results of the above inquiry may be summed up by saying that the philanthropic movement in the latter part of the 17th century was merely an expression of the deep changes that were revolutionising the structure of economic theory and practice in England. Education came to be regarded as the most important agency for the development of English trade, the expansion of the English Navy, and the betterment of the position of the individual; while the different spheres of activity were

co-ordinated, and unified by one broad principle which permeated the entire structure of English society. The principle laid stress on expansion—economic, naval, and territorial,—and emphasised the necessity of organisation.

It was not till the time of the younger Pitt that the ideas tentatively put forth by a succession of reformers were developed to their logical conclusion, and consistently applied.

The history of Irish Charter Schools during the period exhibits the same tendency. The primary aim of the Charter Schools was conversion of Roman Catholic children to the Protestant religion. Bishop Boulter's scheme of 1733 had for its object the "rescue of the souls of thousands of poor children from the dangers of Popish superstition and idolatory, and their bodies from the miseries of idleness and beggary." The Society proposed to the Catholic parents to take their half-starved children, between the ages of six and ten, to feed, clothe and lodge them, and to give them not only "a free general education," but also an industrial training which would be of the highest possible benefit to their prospects, to teach the boys farming and the girls the elements of domestic economy, and lastly, to apprentice the boys, and provide the girls "with places, and even with portions when they married." The children were entirely removed from the society of their parents, were forbidden to hold any communication with them, and were apprenticed only to Protestants. Lecky [1] has passed very

[1] History of Ireland in the XVIIIth century. Edition 1892, Vol. I, p. 232 *et seq.*

severe criticism on the administration of these schools, and it cannot be denied that John Howard, John Wesley and others, denounced these institutions, and regarded them as a disgrace to Protestantism. It is clear from the Report of The Parliamentary Committee (1788) that the schools were very inefficiently conducted, that their instruction was totally neglected and that sometimes whole schools suffered from itch or other maladies due to dirt, cold, or insufficient food. The revelation of these abuses produced a reaction against the policy of government in subsidising these schools, and though grants were frequently given, the real education of the Irish dates only from 1834. Lecky's account of these schools suffers from serious drawbacks. He neglected to trace the abuses to their proper source, and he seemed totally ignorant of the Charter Schools of Erasmus Smith.

These were founded in the reign of Charles II, and a pamphlet containing a full account of these institutions exists in the Goldsmith's Library. Again, he neglected to estimate the value of these institutions properly. Industrial training was placed in the foreground. As Froude puts it, "The principle of the institutions was industrial education, with the Church Catechism as its base."[1] A farm was attached to each school for practical instruction in agriculture, trades of all kinds were in theory carried on within the walls; and the children were taught to weave their own clothes. Froude's eulogy of these schools, "as the best-conceived educational institutions

[1] English in Ireland, Vol. II, p. 491 *et seq.*

which existed in the world," and his statement that "Ingenuity could have devised no better gift to impoverished Ireland than a school of this kind in every harmony," should be compared with Lecky's account of these institutions. Lecky relies mainly on Steven's merciless exposure in his "Inquiry into the abuses of the Chartered Schools in Ireland," and substantiates his statements by reference to the accounts of these institutions by Howard, Wesley and other critics. The study of authorities leads one to the conclusion that their plan was rightly conceived; that their founders were inspired by a sincere desire to promote the commercial and industrial condition of Ireland; that they were efficiently conducted at the beginning and served a very useful purpose; and that their subsequent decline was due solely to their confusion of religious with commercial aims. Had they aimed solely at giving sound commercial education without interfering with the religious convictions of the people, they might have regenerated the whole of Ireland.

SECTION IX.

CHARITY SCHOOLS.

The origin of the first Charity School is doubtful. Archbishop Tillotson frequently enforces the duty of educating the poor in his Sermons, and a number of divines in the seventeenth century follow him. Thus we are told that Bishop Ken "found so much ignorance among the grown poor people that he feared little good was to be done them . . . This put him upon setting up many schools in all the great towns of his

diocese for poor children to be taught to read and say their Catechism." [1]

The stimulus to the Charity Schools seems to have been given by the opening of a large Roman Catholic School in the Savoy in the latter part of James II's reign. To counteract its influence, Archbishop Tenison established a Protestant School at St. Martin's, and some other zealous churchmen set up the Bluecoat School in St. Margaret's, Westminster. Bishop Smalridge maintained that "the Blue Coat, erected in 1688, being the first of its kind, may modestly challenge some sort of precedency by right of primogeniture." [2] This is borne out by the account furnished us by the accurate Seymour.[3]

It is doubtful, however, whether London possessed more than two Charity Schools before 1698. Evidence leads us to believe that the schools were set up merely to counteract the influence of the Catholic Schools in the vicinity, and that, as the danger to Protestant religion was removed by the Revolution, no further progress was made with the foundation of Charity Schools. Seymour mentions only two Charity Schools that could trace their origin to a later date than 1700. It is possible that more than two charity schools existed in London before 1700, and the statement of Stow may be accepted on this point. There is, however, no reason to suppose that these

[1] Prose Works of Bishop Ken, with a Memoir of his Life, by Hawkins, pp. 6–7.

[2] Sixty Sermons, 1852. By Bishop Smalridge.

[3] R. Seymour, Survey of London and Westminster, etc., 1734, Book I, Chap. XIII, pp. 174—5.

schools were connected with the charity school movement started by Gouge.[1]

The documents of the period do not lend support to the theory that the charity schools founded in the reign of Anne were connected with a "wider movement stretching back to the mid-Sixteenth Century;" nor is there any evidence to support Mr. Montmorency's theory of the connection of these schools with the movements in the middle of the Sixteenth Century.[2]

The main cause of the foundation of the charity schools was the revival of "pietism." It was a demand for the expression of piety and devotion in individual action; conduct was to be inspired by inner light, deep reverence and true conception of religion. There followed naturally love of God and love of man; the spiritual and the social went together. The movement had its origin in Germany, and was led by Spener, 1625—1705. But its influence was not confined to that country. It affected the educational system of France; it led to the foundation of numerous schools in the American Colonies;[3] and it produced a profound effect on the charity schools founded by the Society for Promoting Christian Knowledge. On the religious side,

[1] See, Stow and Maitland's History of London, 1756, Vol. II, pp. 1274—8.

[2] Montmorency's article on "Charity Schools" in Monroe's Cyclopædia of Education, Vol. I, pp. 574—77. See Mr. A. Gordon's articles on Gouge, in D.N.B.

[3] We find A. H. Francke corresponding with American colonists. See, "A Continuation of the Account of the Orphan House in Georgia," R. M. 8275 a. 30, 1742. By George Whitefield.

however, the influence of pietism in England seems to have been limited. This is clear from the account given to us by Dr. Josiah Woodward.[1] Dr. Woodward states that about 1678 "several Young Men of the Church of England in the cities of London and Westminster were touched with a very affecting sense of their sins, and began to apply themselves to Religious Thoughts and Purposes." The movement was spontaneous, and was merely an expression of the general unrest produced by the conflict of intellect with emotion and will. It emphasised practical Christianity, pious conduct, and faith; the heart rather than the intellect was the seat of religious beliefs.

The original aim of the "sober young men" was the discussion of religious topics rather than reformation. They were, however, "not a little grieved from day to day by the profane and filthy consolations of such as proclaimed their contempt and religions in the public streets,"[2] and "therefore they longed in their minds for a legal suppression of these scandalous Enormities." Accordingly, "some of these gentlemen collected an Abstract of our Penal Laws against vice and Profaneness, and drew up such prudential Rules as are fit for the legal conviction and prosecution of such as offend them." Having secured the support of the Queen, the Justices, and some of the Bishops, they caused copies of "all these to be printed, and to be sent all over the Kingdom and

[1] "An Account of the Rise and Progress of the Religious Societies."

[2] "An Account of the Rise and Progress of the Religious Societies," p. 65.

lodge Blank Warrants in Many Hands all over the City, for the ease of Informers and other Persons concerned; with many other excellent Expedients to further a General Reformation." [1]

The progress of these Societies was surprisingly rapid. There were twenty societies in London alone; [2] while "Religious Societies" numbered 32. The influence of Francke on the English charity schools was profound, and there is no reason to believe that the founders of the charity Schools derived their idea mainly from the charity Schools of the great reformer.

Dr. Woodward referred to the institution in his sermon in 1700. "It was a particular case very like to this, that moved the present Divinity Professor to compassionate the Ignorance of the Poor People, and by his Exhortations and Interest to procure the Erecting of a College for the Maintenance and Instruction of about two hundred poor Children." A number of English divines praised Francke's work; while White Kennett ascribed his success "to an almost miraculous Providence." [3]

Francke's own account of the "orphan House" at Glaucha [4] shows clearly that he was in touch with the philanthropists in England and America; that there was a small number of English students in his school; and that many of the English divines sent various gifts to the institution.

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[1] P. 71.

[2] P. 83.

[3] See Pietas Hallensis, Part III, 1716. B.M. 8355. a 44 Introduction.

[4] Pietas Hellensis, 1703; Part III, 1716. A Continuation of the Account, 1742.

It is clear from the above that the English charity schools benefited considerably from the ripe experience of Francke. Steele gave a pleasing account of the sight presented by the "gentleman in the pulpit pleading movingly in behalf of the poor children, and they for themselves much more movingly by, singing a hymn."[1] Atterbury spoke of it as an admirable design which had met with deserved success, while Bishop Bull exhorted the clergy of the diocese of St. David's "to erect charity schools wherein the children of the poor may be taught to read and write and repeat our excellent Church Catechism." He was informed that many "poor people in the diocese were very desirous that their children should receive the Benefit of such an Education." His estimate of the value of these schools is expressed in the following quotation from his Life by Nelson, "I hardly know any Charity that is attended with greater advantage to the Souls and Bodies of poor Creatures than this which I recommend to you."[2]

Another evidence of their popularity was the enormous increase in the number of these schools throughout the country.

In the establishment of these schools, in all the details of their management, and in every exertion for their support, we see Robert Nelson exhibiting the most constant and active interest. "The Minutes

[1] Spectator, Nos. 294, 380, 430, advocated the cause of the charity schools. See Addison's glowing account of the charity schools in the Guardian, N. 105.

[2] Life of Bull, pp. 442—452, 1713.

of the Society show him in correspondence with the promoters of schools at York, at Nayland in Suffolk, at Oxford, Beverly, Leicester, Wooton under Edge, Bray, Cirencester and Tring."[1] Secretan has given interesting extracts from these sources, and shown the part played by Nelson in the organisation and administration of the Schools. They were all supported by voluntary contributions, nor was any recourse had to the State for assistance. Thus, in the parish of St. Giles in the Fields, nearly £400 was raised from voluntary subscriptions and collections at church. At the fashionable watering-place of Tunbridge Wells, 70 children were taught through the contributions of the nobility and gentry who resorted thither. At Cuddesdon, twelve poor girls were put to school at the Bishop's charge, while at Salisbury the whole expense of one school was borne by Bishop Burnet, "who frequently visits and catechises the children, and sets them portions of Scripture to get by heart, which he sees performed himself, and then rewards and encourages their diligence by giving them Common Prayer Books, money, etc." In many churches of the metropolis, charity sermons were preached monthly or quarterly for the maintenance of the schools, and general interest was enlisted by quarterly school examinations at nine or ten places in the town.

In 1704, London contained 54 charity schools for 1,386 boys and 745 girls. The voluntary contributions amounted to £2,164, and the collections to £1,042. The account shows that 306 boys and 75 girls had been

[1] Secretan, Life of Robert Nelson, p. 123.

apprenticed. It is interesting to notice the charge of a school for 50 boys. It seems to have been about £75 per annum, for which a schoolroom, books and firing were provided, a master paid, each boy supplied with 3 bands, 1 cap, 1 pair of stockings, and a pair of shoes.[1] The charge of a school for girls was £60.

The account for the year 1705 has several novel features. There is, to begin with, an increase in the number of schools, scholars and subscribers. Thus, in London, more charity schools were founded, while the number of boys and girls was respectively 1,462 and 775. The subscriptions too showed an increase. The voluntary subscriptions amounted to £2,242, and the collections at sermons to £1,071, while 337 boys and girls were apprenticed. It is, however, in its account of the charity schools in the provinces that the account is interesting.[2]

The clergy seem to have taken a prominent part in the education of poor children. Thus, we are told that at Northhill in Bedfordshire, "the minister pays for all the poor whom their parents send to school, and that Bishop Burnet contributed £40 a year to the support of two schools for 30 boys and 20 girls. In other places parsons were made parish clerks, on condition that they would teach a number of children gratis.

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[1] An account of the Methods whereby the Charity Schools have erected and managed. B.M. 226. 7. 8 p. 39. The account was published in 1704, in connection with Dr. Willis' sermon.

[2] Account, British Museum, 226. h, 8. (6), p. 14.

There was no falling off in the number in the succeeding years. In 1707 London contained 55 charity schools—for 2,585 children. Of the latter, 1,862 were "cloathed, 186 set to work, and 798 apprenticed." In the country, 216 schools had been erected, £10,227 subscribed, and 3,715 children taught.[1]

It was, however, in 1708 that the greatest progress was made. London possessed 74 Charity Schools, with 1,944 boys and 1,064 girls. Of these, 2,492 were clothed, 206 set to work and 1,147 apprenticed. The same rate of advance is visible in the counties.[2]

There is reason to suppose that the local authorities took a keen interest in these institutions, that they founded many charity schools, and that these schools were very popular. The history of the charity Schools in the eighteenth century is the history of the modern elementary education in England, and we see the first signs of the educational revival in these schools. That is not all. Some of the worst features of the modern elementary school were not visible in the early part of the eighteenth century, while the lack of support on the part of the state removed that danger of interference by an outside authority which has haunted many an educational reformer. Their freedom from criticism, and their enterprising methods infused a new spirit into the institutions; while the energy of character and the

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[1] A List of the Charity Schools. Miscellaneous Sheets, British Museum, 16. m. 24. No. 85.

[2] British Museum, 226. p. 8. Account for the Year 1708.

persistence of will which their founders displayed, left their mark on many a charity school.

Thus we are told that at Chester, "the £500 formerly mentioned to be raised for a Settled Fund, is now well secured, the city having engaged all their revenue for that purpose. And they are so sensible of the Benefit of this charity that they are, in both spiritual and worldly respects, endeavouring to erect a school and hospital for the master and children and to appropriate some lands that will come into their disposal for maintaining the same." At Durham, the Dean and Chapter maintained 4 charity schools, while at Leeds, the Corporation gave a large and convenient house for a school and also a month's Assessment for repairing and fitting it for harbouring of the Poor children." At Newbury, the Corporation settled on the local Charity School £40 per annum, and "intended to provide the children with books out of the Offertory money, and to bind some of them out apprentices." At Norwich, "the setting up one or more charity schools having been proposed, the same was readily and unanimously agreed to," and the "Lord Bishop, the Dean and Chapter, many of the magistrates, Gentlemen and Traders of the City" encouraged the design. At York the Archbishop encouraged the design, and contributed largely to its support; while the Dean and Chapter subscribed liberally. "The Right Honourable the Lord Mayor, the Aldermen, and Commonalty of the City have subscribed liberally out of their own private purses." The Corporation of the City presented a large hall and fitted it up for the "lodging and Entertaining of poor boys at £100."

They became popular in Wales and were supported by the miners. The List supplies the name of twenty places in Wales where charity schools had been established. They spread to Ireland. Dublin contained 3 charity schools, while other parts of Ireland probably contained more. The reports add, "in all likelihood there are many more (in Ireland) than are here mentioned, there appearing there a great disposition to charity."

The popularity of these schools may be gauged by the fact that they were supported by workmen in some parts of the country. Thus we are told that at Wintleon, in Yorkshire, "the workmen of an Iron Work, who are about 4 or 500, allow one farthing and a half per shilling per week, which, together with their master's contribution, maintain their poor, and affords about £17 per annum for teaching their children to read," etc.

The Governor and Company of Mine-Adventurers of England allowed £2 per annum "for a Charity School for the Children of miners and workmen belonging to the said Company;" moreover, "the said Company also give £30 yearly to a Minister to read prayers, preach and catechise the children." Another Charity School was maintained by the same Company in Glamorganshire for the Children of miners and workmen.

The Universities showed admirable judgment, and displayed remarkable zeal in the foundation of these schools. At Oxford, the city vied with the University in this pious enterprise. The latter set up a charity school for 54 boys, and collected subscriptions amounting to about £250 per annum. Out of this, "the

University allows the Master £40 per annum, a Chamber furnished for a School, and two chaldrons of coal yearly." The City, too, "set up a Charity School for 50 boys," fitted the rooms, and provided Bibles, Prayer Books, paper, pens, coals, etc.[1] There were further developments. Perhaps two schools were deemed insufficient, for we find "some unknown hands at Oxford," acquainting Robert Nelson that "the University, observing the streets filled with idle children, notwithstanding the City and University have set out two very considerable charity schools, have resolved to erect another towards which they have subscribed between £50 and £60, and opened a school for about 90 children, most of them girls." They therefore desired Mr. Nelson's advice about the application of their funds to the best advantage, and requested him to furnish them with rules for the better government of the Schools.[2]

Cambridge did not remain behind the sister University. Schools were established "for teaching above 300 poor children the knowledge and practice of the Christian religion, and such other things as are suitable to their condition." They were supervised by the Ministers, and encouraged by the Vice-Chancellor of the University. "The Pro-Chancellor is pleased to take the trouble of stating and passing the account of the Receipts and Disbursements of the said Schools. The body of the University and town assist and encourage this design."

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[1] See a most interesting "Account of the Charity School at Oxford." British Museum.

[2] Secretan, Life of Robert Nelson, p. 125.

The subscription, we are informed, amounted to about £230 per annum.

It is needless to quote further instances of the popularity and growth of these institutions. No English county seems to have been without them; while their example was followed by a number of Dissenters.

It has been pointed out that some of the charity schools were annexed to the workhouses, and that complete co-ordination between the two was secured. The authority cited above, mentioned only 9 Charity Schools; but there is reason to believe that this was an underestimate. It is possible that the majority of charity schools established by the Corporations were worked in conjunction with the workhouses, and that many of the children from the latter received their instruction in the charity schools. This would, in many cases, obviate the necessity of a workhouse schoolmaster; and the burden on the rate-payers would thus be considerably lightened.

The Aims and Methods of the Charity Schools.

The methods employed and the subjects taught, by charity school teachers are interesting and useful. They show the connection between education and commerce; they bring into prominence the part played by the schoolmasters in this revival; and they illuminate many obscure points in the history of elementary education in the eighteenth century.

Some of the most efficient of the charity schoolmasters were sent to the country, to help the organisers

of these schools to train the teachers, and inspect the schools.[1]

The lack of training Colleges, and the necessity of acquainting the newly-appointed teachers with the methods and policy of the charity schools, led to an interesting proviso. It was provided that the newly elected masters consult with 4 or 5 of the present schoolmasters of these schools for the more ready performance of their duty. "And it is recommended to them to communicate their art and the diverse methods of teaching and governing their scholars, used according to the different Capacities, Tempers and Inclinations of the Children." This was not deemed sufficient, for the newcomer was recommended "to see and hear the present Master teach their scholars, and upon occasion to assist them in teaching."[2]

The curricula of the charity schools was more liberal than those of the workhouses; while the special needs of a particular county were met by the introduction of special subjects. Our interest lies, however, in the provision made by various schools for teaching navigation and commercial subjects. The girls were generally taught to read, knit, sew and to spin; while the boys were instructed in reading and writing and casting accounts. The curiculum, however, varied with the locality. Thus, in a Charity School on the East Coast, "50 boys were taught to read, write, cast accounts, and the art of Navigation," and a number of boys were

[1] Pamphlets on Charity Schools in the Guildhall Library.

[2] P. 3.

apprenticed to the Navy. At another place in Essex, the boys were "taught to read, write and cipher." In Lincoln, a curious arrangement of the curriculum was adopted. We are told that "the boys are taught to read and write," while the girls "read and sew."

The differences between the methods employed in the Charity Schools, and those in the Grammar Schools were brought out by Kennett with admirable clearness. "I must say, that for schools of this nature, we have enough, and many of them well governed. If any worthy person be now inclined to Erect and Endow any schools, it should be, in my opinion, an English School, a provision for teaching the children of the poor their mother-tongue, to know their letters, to spell, to speak, to understand their Bibles and Prayer Books, and so proceed to write and cast accounts, and to know the common forms of a daily business in a family, a shop and a parish." [1] This account of the method agrees in the main with those furnished by Talbot, and the Reports of the Charity Schools. The three things which were deemed useful in "every state and Circumstance" of their life were: (1) reading, (2) writing and (3) Arithmetic. "After they have acquired ability to read, they should be set to do Catechism, Common Prayer Book, the Psalter, the Bible, the Exposition of the Catechism, and the Whole Duty of Man." As soon as they could read, "they were to be entered in the second part of School learning, *viz.*, writing." The last part was Arithmetic. Talbot shows

[1] British Museum, 4776. bb. 94. Twenty-five Sermons preached at the Anniversary Meetings of Charity Schools, p. 64.

that Latin was "unnecessary in these Schools, which by a vulgar error has been esteemed very necessary to the education even of the meanest children, because, as to their knowledge of Latin, which is to be had in Petty Schools, whither such children are usually sent, and which seldom carries them beyond the rudiments of that Language, it is so very little as not to be useful to any purpose of their Education, not so much as to fit them for the lowest Degree of any possession that requires a competent Skill in it; which cannot be attained by those whose parents or friends are able to maintain them in a regular course of studies, proper to that end." The aim was a practical one throughout, for "to what purpose should these poor children puzzle their brains to con over and learn by heart a senseless jargon of hard words, which must of course be laid aside and forgotten when they are put out to such trades or employments for which they are designed; and which, if they happen afterwards to retain some literal scraps of it, it will only serve to make them vain and conceited and pretenders to knowledge of what they do not understand?"[1]

This extract from a work on the methods of instruction in the Charity Schools shows the leading features of these institutions. The founders were actuated by lofty ideals, and inspired by devotion to the cause. The misery, the wretchedness and the immoralities of the times could be removed only by persistent zeal, unwearied

[1] Talbot, "The Christian Schoolmaster, or the duty of those who are employed in the Publick Institutions of Children, especially in Charity Schools" B. M. 8306. bb. 23. 1707. pp. 85—92.

effort, and unflinching courage. The first quarter of the century showed that men of the type of Robert Nelson, Dr. Bray and others were not lacking, and that succeeding years served only to redouble their energies, and deepen their sympathy.

Perhaps the best testimony to their untiring efforts is to be found in the accounts of the Charity Schools erected in the reign of George I. The total number of Schools in London, in 1719, was 130, and the number of boys and girls educated there, 5,154. In the provinces, progress was made at the same rapid pace. There were altogether 1,182 Charity Schools in the counties of England, Scotland and Wales, with 18,537 boys and 3,541 girls; while in Ireland, 130 Charity Schools had 1,920 boys and 401 girls on their roll.[1]

Subsequent reports show that the progress was maintained, that the number both of schools and scholars showed an appreciable increase, and that a greater number were apprenticed to the Navy, or the leading merchants. Thus, in 1727, London contained 132 Charity Schools, with 3,181 boys and 2,049 girls. "Since the setting up of Schools, 4,982 boys had been put out apprentices, and 2,147 taken by friends." Of the girls, "1,419 had been put out to apprentices, and 2,709 to services." The total number of schools in the counties of England and Wales, exclusive of London, was 1,257. The number of boys and girls respectively was 18,843 and 3,781. In Ireland, there were 161 schools for 2,397 boys and 567 girls.

[1] Sherlock's Occasional Sermons, B.M. 694 g. 8, pp. 27—40.

There were altogether 1,615 schools in 1727, educating 33,062 children. The list does "not include North Britain;" and there is evidence to believe that the number of scholars was much greater in many counties. The accounts show that in 280 charity schools, the exact number of scholars could not be given, and that there was considerable difficulty in arriving at a correct estimate of the number of girls educated in some of the schools. Taking these facts into account, we may place the total number of children educated in the charity schools in 1727, at 40,000.[1]

These figures show the extent of the influence of charity schools in the eighteenth century. They were encouraged by all classes, supported by all denominations, and praised by the majority of writers. The Queen contributed to their support; the merchants and tradesmen conferred their favour on the children educated there, while the magistrates praised them, and pointed them out as ideal institutions.

Their success was due to the fact that they satisfied the needs of the times. Their education was based on the theory that had guided the education of the nobles, and that was the main cause of the pioneering spirit in education. It aimed at the production of efficient citizens and it made religion the basis of their action. The sermons of the period bring out these

[1] See a Sermon preached by Joseph Watson, on May 25, 1727. Brit. Mus. 694. h. 12 (23), pp. 41—49, contains the account from which the above figures have been quoted.

two aims—utility, and propagation of the Church of England among the masses—clearly.[1]

The regulations of the Charity Schools and the practice of the masters tended in the same direction. Every master was a member of the Church of England, and all were obliged to teach the Prayer Book, the Catechism, and the Psalter.

The support rendered by the clergy was of inestimable value to the nation, and this support would have been withheld from any educational movement that was dissociated from religion. It is undeniable that the essentially religious character of the Charity Schools was not only necessary, but also useful. The wretched state of the poor, their misery, their poverty, and their gross ignorance, were pointed out by a number of contemporary writers, and acknowledged to be true. Any movement which aimed at rescuing the children from their sordid life, would have the cordial support of all. The leaders of the Society for Promoting Christian Knowledge made the reformation of the poor through religion and education their sole task, and spared no pains to accomplish the aims set in view. Hence, their success. They merely put in a concrete form the ideas propounded by Locke, Carey and others. As pointed out above, as early as 1665, Sir Josiah had complained of the defective poor laws and of the growth of paupers; Sir Matthew Hale developed Childe's theories, while Locke enunciated the fundamental principles on which the poor law reform

[1] See the Circular in "Two Hundred Years," by Allen and McClure, pp. 136—138.

must be based. These theories were embodied in practice in the numerous workhouses, modelled on Carey's institution at Bristol. They attained one of the aims which the charity schools prominently put forward. They turned out efficient workmen, and skilful agricultural labourers. There was, however, one thing missing in these institutions. The religious Spirit was conspicuous by its absence. Though they taught the Catechism, they could not communicate the zeal and piety which were such an essential feature of the charity schools. There was no religious atmosphere. We notice the absence of that infectious zeal which radiates even the musty reports of the Charity Schools. The founders purposed to prepare the children for the efficient discharge of their duties, and to fit them for the life for which they were designed by their station in life. In the achievement of this economic aim, they improved upon the methods and curricula of the workhouses; re-arranged the curriculum to suit local needs; and evolved a machinery that was used with such effective result by the succeeding generation of schoolmasters. Nor was their influence confined to education. They apprenticed a large proportion of their scholars to the Navy, and placed thousands in employment at home. It is needless to quote statistics to prove the point. Every report on the Charity Schools contains a mass of materials on the matter. All point to the same conclusion. The influence of this activity on English Commerce was far reaching. It is clear that their efficient education, their progressive methods, and their pioneering devices, rendered them formidable rivals. This is borne out by the pamphleteers

of the period. Thus Mandeville, who subjected them to merciless criticism complained that "the generality are so bewitched with the usefulness and Excellency of them, that whoever dares openly oppose them is in danger of being stoned by the Rabble. This is the general cry, and he that speaks the least word against it is uncharitable, hard-hearted and inhuman, if not wicked, prophane and atheistical wretch." [1]

Mandeville's view of this world is the reverse of Shaftesbury's, of whom he speaks with withering scorn. The pedantic fine gentleman, whose delicacy placidly ignores the very existence of vice and misery, who finds in the cultivated taste of a virtuoso sufficient guidance and consolation through all the weary perplexities of the world, was poles apart from the cynic who thought that of "virtue and religion there is not an hundredth part in reality of what there is in appearance." [2] With Shaftesbury virtue corresponds to a certain harmony pervading all the works of nature, and recognisable by the human intellect. With Mandeville, it is a mere fashion, changing as rapidly as taste in buttons, or in architecture. With Shaftesbury nature is an impersonal deity, of whose character and purpose we can form a conception by tracing out the design manifested in the marvellous order of the visible universe. With Mandeville, nature is a dark power, whose action can only be inferred from facts, not from any *a priori* theory of

[1] An essay on Charity and Charity Schools, B. Mandeville, 1723, p. 304, *et seq.*

[2] Fable of the Bees, p. 205.

design, harmony and order. Whilst Shaftesbury contemptuously rejects the theory of the savage origin of man, Mandeville gives a kind of conjectural history describing the struggle by which man gradually elevated himself above the wild beasts, and formed societies for mutual protection. He ruthlessly destroys the fine coating of varnish which Shaftesbury has bestowed on human nature, and shows us with a grin the hideous elements that are fermenting beneath. The grin is simply detestable; but we cannot quite deny the facts. Nowhere does he show his love of paradox more clearly than in his criticisms of charity schools. His deduction of the incompetence of the masters in charity schools from the lowness of their salary was characteristic of his methods of argument. More plausible was the argument that the children in these schools could not learn good manners, as, "Whilst they are at School, they are either learning or saying their lessons to him, or employed in writing and arithmetic, and as soon as school is done, they are as much at liberty as other people's children. It is precept and example of parents of those they eat, drink and converse with, that have an influence on the minds of children."[1] The argument seems plausible; yet it is easy to detect its fallacy. Hendley[2] pointed out the absurdity of measuring a man's manners by his income, "so that a man's manner is to be measured by his income, and a man with £40 a year must necessarily have double the manners and civility

[1] Pp. 304—312.

[2] Defence of Charity Schools, p. 11. Brit. Museum.

of one with but £20 a year." Again, Mandeville overlooked the real aims of the Charity Schools in his criticism. It was not, replied Chandler,[1] the intention of the founders and supporters of Charity Schools that the children should be bred up in liberal Arts and Sciences; but rather that they "should be instructed in the common and necessary principles of piety and virtue, that so they may discharge the duties of the lower stations of life, for which they are designed, with fidelity and good conscience, to God and man."

It was, however, in his criticism of the economic aim that underlay the movement that the force of Mandeville's argument consisted. He asserted that the welfare of society required that labour should be performed "by such of their members as are in the first place sturdy and robust and soon contented as to necessaries of life; such as are glad to take up with the coarsest manufacture." This was put with brutal frankness in another part of the same tract. "In a free nation, where slaves are not allowed for, the surest wealth consists in a multitude of laborious poor." Hence, "to make the society happy and people easy under the meanest circumstances, it is necessary that great number of them should be ignorant as well as poor." This paradox was followed by another violent attack on the poor. "The felicity of society requires that the knowledge of the working poor should be confined within the verge of their occupations, and never extended beyond what relates to their calling. When obsequious and mean services are required, they

[1] Doing good recommended, B.M. 1112, e. 19.1728, p. 26.

are never so heartily performed," as from inferiors to superiors. "A servant can have no unfeigned respect for his master; as soon as he has enough sense to know him to be a Fool."

Their very absurdity seems, however, to have produced a bitter pamphlet war. The main cause of the violence of opposition to this theory lay in the fact that it contained a germ of truth. Thus Chandler did not deny that Mandeville's charges against the Charity Schools were justified. "I know myself," he admitted, "that the charge is too true; and if it be owing to the vices and negligence of the masters, the only influence that can be drawn is, that better care should be taken, and better masters provided for the purpose." [1]

Again, it must be admitted that the "overstocking and raising up of a poor and indigent tradesmen," of which Mandeville complained, had some foundation in fact. The British Journal had voiced the same complaint, and pointed out the consequences of the practice. Nor was Mandeville's charge against some of the schoolmasters of charity schools without foundation. There was a widespread impression, which could hardly be without foundation, that these institutions tended to become nurseries of Jacobitism. Mandeville's love of paradox, his cynicism, and his coarseness, spoiled his case. He shares Swift's contempt for the human race; but his contempt, instead of urging him to the borders of madness, merely ends in a horse-laugh. Defoe found no difficulty

[1] Chandler, op. cit., p. 30.

in disposing of his flimsy arguments and illogical conclusions. "Some masters have misguided the children, instead of instructing them, therefore, Charity Schools are pernicious and destructive. Let us see how it will bear on parallel cases. Some Masters of Colleges and Tutors in Universities have been wicked men, therefore no Universities should be suffered." [1]

Chandler, Hendley and Defoe showed that trade would be increased rather than diminished by the "Specific" education imparted by the Charity Schools; that "the best and skilfullest sailors are sent out from some of these Schools," and that the Charity School Children made, generally, the best citizens.

CONCLUSION.

Efficiency is the sole test by which the education both of the paupers and the peers is measured. This is the leading feature of both types of education. The controversy over the Charity Schools is but another phase of the educational controversy. Just as the Dissenting Academies cut out new paths and introduced progressive methods, in their course of development, so the education of the noble and that of the pauper was the result of a series of trials and errors. Ultimately, only those subjects were emphasised which were likely to be of direct use to the student and which responded to the commercial and industrial needs of the times.

To put it briefly, education and commerce were intimately connected, and the former was adapted to suit

[1] Compare Applebee's Journal for July 6, July 13 and July 20, 1723. Brit Mus. Periodical Publications.

the methods whereby commerce could be expanded, Colonies developed, and the Navy strengthened. This is the leading feature of the education of the period. The most effective reply to the charges of Mandeville was supplied by Archbishop Secker. His[1] exposition of the principles that underlay the foundation of charity schools; his enunciation of the religious principles which it was the duty of the charity schools to inculcate; his trenchant criticism of the methods which the critics of the charity schools employed; and the forcible expression he gave to the theory of industrial education, are all distinguished by the versatility, the keenness, and originality characteristic of the author. He showed the advantages of learning to the poor. Its object was not to enable them to live by their pen, "work is what these children are destined for, and it should be constantly held in view." But he disapproved of their entering upon work, while at school; masters and mistresses, he declared, were unqualified, and could not teach the children; nor were manufactures ready at hand. Another difficulty was the fear of competition which many small tradesmen entertained. He advised the managers to apprentice the boys, after they leave schools, to suitable persons. "Not only the persons with whom they are placed, but the employment in which they are fixed should be well considered." We get valuable information on the careers of these children. "Great many" of them had gone to sea; of the "rest, those who are bred in the town mostly became either apprentices or household servants."

[1] Works of Thomas Secker, 1825, Vol. V.

Secker's replies to Cato, and other critics of charity schools, are effective. He denied that more money was required from, or given to, these children than to others, and showed that most of them gave only 40*s.* and only a few £5. Another charge brought against the managers related to their apprenticeship. They were, asserted the critics, "put out to worthless persons, in bad circumstances, who take their money, and then break." Secker has no difficulty in exposing the hollowness of such a charge. He showed that the proportion of boys and girls, who had been apprenticed to various trades, was only two-thirds, in respect of boys, and one-quarter, in respect of girls. The rest of the children were employed in different occupations, but the greater majority became servants. Secker admits "that some masters refused to employ them," but he denies that this was due to their education. The rise in prices was not due to the flooding of market with unskilful workers; luxury and dissoluteness, the two hideous vices of the age, were the prime cause of the increase.

Secker is significantly silent on the changes that had crept over the charity schools. They had been kept free from political movements, and only the pious zeal, and unflinching devotion to their cause of their founders, had saved them from being swept away in the melee. Bolingbroke neglected to utilise them for his political ends, but others were not so scrupulous or careless. Dr. Watts, in his "Essay towards the encouragement of Charity Schools," refers to the abuses that had crept in, and

entirely modified the original character of these institutions. "Many others were formed by persons of the re-established Church, to which several Dissenters subscribed largely; but at last, they found by sufficient experience, that the children were brought up, in too many of these schools, in principles of disaffection to the present government, in bigoted zeal for the word Church, and with a violent enmity and malicious spirit of persecution against all whom they were taught to call Presbyterian." [1]

Abuse of the Dissenters was not their only crime. Far more serious was the charge that the charity schoolmasters instilled principles of Jacobitism into their children. Archbishop Wake refers to it in his charges, while Bishop Gibson admits that there was some foundation for it.[2]

He exhorted the charity schoolmaster to "keep up strictly to the ends of their Institution, and to stand clear of Abuses and mismanagements of all kinds; that they may deserve the protection of government, and be a pattern of Order and Regularity to all the rest." The Bishop referred to "Complaints of Inconveniences and Abuses in the Charity Schools of the city, as well as in the County," and admitted that, in some cases, the complaints were justified. Gibson then discussed the curricula of the schools, and advised the teachers to keep

[1] Works, Vol. I, p. 527.

[2] Directions given to the Clergy of the Diocese of London, British Museum. 861. K. 22. 1744, p. 13, etc., by Edmund Gibson, Bishop of London.

all "fine writing and fine singing" out of the schools. He feared that "if charity schools grew by degrees into those polite sort of education," the boys and girls would be "apt to please themselves with their proficiency and to think that they are somewhat better than others of their own rank." These "refinements" were distasteful to all, and the good bishop failed to understand why an ambitious boy should wish a change in the social scale. Again, "teaching the children to sing Anthems, and such psalm-tunes as are uncommon and out of the way" were condemned. "As a farther means to keep the charity school children from any aspiring or conceited thoughts, the masters and mistresses may do well to put them frequently in mind to be thankful to God, and grateful to their benefactors." He then referred to the attempts of the Jacobites to "get the management of the charity schools, and to make them instrumental in nourishing and spreading an aversion to the Protestant Succession." Gibson admits that the fact was "notorious," and could not be denied, but "much of that leaven is worked, both because they are not now under the same influences as before, and because for some years past the Behaviour of the Children has been inoffensive, and many of the masters and mistresses have studied to give proofs of their sincere Affection to Government." Another formidable critic of charity schools, Cato, must be noted. Cato asserted that the charity schools were first begun and encouraged by pious men, "many of them Dissenters," and then our "High Clergymen everywhere exclaimed against them as dangerous innovations, and attempts to subvert the Church and the National Religion." The

statement is totally devoid of foundation, and even an elementary knowledge of the history of these Schools would have convinced him of the falsity of his premises.

Cato declared that the High Churchmen had got complete control of these Schools, and that it had become part of "their duty to Prate people out of their money; to decry superstitious and factious men out of their shops and their businesses, and old doting women out of their Infirmaries, to hear too often seditious Harangues upon the power of the Clergy." [1] He bewailed "the debauchery of the principles of our nobility and Gentry 'by the Universities,' and those of the Common People by our charity schools," and complained that "under the false pretence and affectation of Charity, they destroy real Charity, take away the usual support and provision for the children of the lesser Tradesmen, and often from those of decayed and unfortunate merchants and tradesmen." He showed the effect of the increase of shopkeepers on English manufacture, and drew a gloomy picture of the miseries that would be wrought by the extension of the influence of these schools. The product was declared to be "a sort of idle and rioting vermin, by which the Kingdom is already almost devoured, who are become everywhere a public nuisance, and multitudes of them daily for want of employment betake themselves to the Highway and housebreaking, others to Robbing and Sharping." Another effect was the destruction of all the Charities "which were before given to the Aged, Sick and Impotent." Cato

[1] Cato's Letters. British Museum. 714, a. 6. Vol. IV, 1733. The Letter is dated June 15, 1723 and Numbered 133.

thought that "no Education ought to be more discontinued by the State, than putting Chimeras and Airy Notions into the Heads of those who ought to have pickaxes in their hands, than teaching People to read, write and cast accounts who, if they were employed as they ought to be, can have no occasion to make use of these requirements unless it be now and then to read the Bible, which they seldom or never do." "What benefit can accrue to the public by taking the Dregs of the people out of the Kennels, and throwing their Betters into them?" The popularity of these letters was due mainly to the charm of their literary style, the keenness and insight with which the various elements of the question were logically separated, and the shallow theories, cheap prejudices, fallacious reasoning, and brilliant paradoxes which they so skilfully combined. In this respect, Cato merely followed in Mandeville's footsteps.

Cato's statements should not be rejected without examination, and though his charges against the charity school boys were grossly unfair, his complaints of the conduct of the charity schoolmaster were justified. Dr. Doran informs us that the "noisiest, and most violent of the Jacobite mob or army were the charity school boys. Possibly they thought that any change must be better for them. The real criminals were, it is said, the masters and mistress of the Schools, who poisoned the children with principles which would surely conduct them to Bridewell or the gallows."[1] A review of the above authorities forces one to the

[1] London in Jacobite Times.

conclusion that the charity schools were undergoing modification; that this was due partly to the influence of the Jacobites and Non-jurors; and that the Dissenters separated themselves from the movement immediately they realised the danger, and founded their own schools.

It is likely that when the High Churchmen dissociated themselves from the Societies for the Reformation of Manners, they concentrated on the control of charity schools. Their withdrawal from the Societies was followed by their capture of these schools. Mr. Garnet Portus[1] has failed to notice the significance of this step; but the study of a large mass of documents in Dr. Williams' Library, including about 60 sermons preached to the Societies for the Reformation of Manners, leads one to the conclusion that the withdrawal radically modified the original character of these Societies, and that the energies of the High Church clergy were diverted into another channel.

The Dissenters' Charity Schools.—The first charity school was opened by three Dissenters in 1687, in Gravel lane, and named *Zoar*.[2] Nightingale mentions, however, some charity schools in Lancashire.[3] Newcome refers to his visits to the charity schools at Poulton, and Ribchester; and White Syddall's trust provided a school at Stand.

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[1] Caritas Anglican, 1912.

[2] Wilson, Dissenting Churches, Vol. IV, pp. 188–90.

[3] Lancashire Nonconformity, Vol. I, p. 112; Vol. II, p. 250; Vol. III, p. 224.

Dr. Williams' Trustees were directed to appoint several schoolmasters, at a salary of £8, to teach 20 poor children in each of the towns named. As, however, some towns objected, the scheme was varied and other towns substituted, as Newmarket in Flint, Pwllehi in Carnarvon.[1]

Other charity schools are heard of at Bartholomew Close, and Shakespeare's walk, Wapping. Murch [2] tells us that Samuel Bourn founded a small school at Calne, for teaching 20 poor children; while Thomas Crosley [3] gives a detailed account of the Dissenters' charity school at Horsley Down, in Southwark. All sects of Dissenters were represented, and the design met with "such approbation and encouragement that a subscription of more than a £100 p.a. was soon obtained." Rules were made, and the school opened amid scenes of unusual excitement. The boys were clothed, taught and fed, and were also supplied with all the necessary books, *viz.*, spelling books, Bible, Catechism, psalm books, writing, and Cyphering books. The example set up by the London Dissenters was followed by other Nonconformist bodies, and charity schools multiplied. The debates on the Schism Bill showed that the Dissenters possessed many charity schools, while various writers on the Schism Bill testified to their excellence, their popularity, and their utility.

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[1] Jermey, Dr. Williams' Trust.

[2] History of the Presbyterian Churches, 1835.

[3] History of the English Baptists, Vol. IV, pp. 114 *et seq.*, 1740.

SECTION X.

THE CHARITY SCHOOLS IN INDIA.

The history of charity schools in India is intimately connected with the work of Augustus Herman Franck. The Danish Missionaries at Tranquebar studied the Indian languages and Literature, and founded a charity school for Malayalee boys, "not only providing them with food, but instructing them also in their own and the German language." [1]

No further reference is made until 1717, when we come across the following statement. "Several charity schools are erected at Tranquebar in the East Indies."

In 1710, the S.P.C.K. undertook the management of charity schools in India, assisted the missionaries there with money,[2] a printing press, paper and other necessaries. The account of these schools in the Society's Report for 1734 was more encouraging. "Their congregation more and more increases; they faithfully instruct and catechise the Malabarian and Portuguese boys in both languages."

Their growth was surprisingly rapid, and a large number were founded in the Madras Presidency. The influence of Francke is visible in every important Report

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[1] See a most interesting collection of "East India Missions Reports and Correspondence," 1709—1813. This volume of over 700 pages is a mine of information on the subject. Compare also various numbers of Calcutta Review, especially Vol. 25; Hough, History of Christianity in India, Vol. III; Thomas, History of British Education in India; Roper Lethbridge's Works on the History of Education in India; Macaulay's Minute, edited by Woodrow, 1862; Sir Charles Trevelyan's Education in India.

[2] See East India Missions, p. 25.

of the Society. He helped them with money; sent his promising students and capable teachers to the East Indies; corresponded with the missionaries in India; discussed educational methods; introduced educational reforms; and influenced the policy of the missionaries. Francke's influence on Indian charity schools was lasting, and the Society for Promoting Christian Knowledge expressed their obligation to him in nearly every important report.[1] The great Missionary, Schartz, who arrived in India in 1760, extended the system, and built charity schools at all the important places in Madras.

In the General Accounts of the Society for 1747, 1749, 1750, etc., the progress of these schools is detailed; while Francke's zeal, his benefactions to the mission, his frequent advice, and the unstinted support he rendered, are eulogised. The charity school, formed after the model of the Orphan House at Halle, educated and maintained about two hundred children, of whom the most promising were trained for the service of the Mission. They were first prepared for schoolmasters, and when they had sufficiently approved themselves in that office, were promoted, as the necessities of the Church required.

Charity schools, and other charitable institutions sprang up in different parts of India. The Baptist Missionaries of Serampore founded the "Benevolent Institution" at Calcutta, and established an efficient College at Serampore; the Calcutta Charitable School,

[1] See East India Missions, passim.

founded in 1729, rendered important service to the cause of education in India; while the institution of the Free School Society led to the growth of vernacular schools in India.[1] This slight sketch of the history of charity schools in India shows that they were not confined to England; that their influence on the development of British education in India was effective; and that the progress of British education in India was facilitated by these institutions.

[1] See Adams' Report on the State of Education in Bengal, 1835. Lives of Carey, Marshman and Ward, Vol. II, pp. 422 *et seq.*; the Calcutta Review, Vol. I; Appendix to the Parliamentary Report of 1832; and Leitner's Indigenous Education in the Punjab.

Volume II

INDIAN BANKING AND CURRENCY.

PREFACE.

INDIAN BANKING AND CURRENCY.

The purpose of this book is to set forth the principles determining the mechanism of India Exchange, and to apply them to the study of historical changes in the value of the rupee. The student of Indian Economics often expresses regret that his science does not submit itself to the laborious method of inquiry which has proved so useful in the natural sciences. His phenomena are too complex to permit of their reduction to simple elements, and of the bringing together of these elements into different combinations so as to study the varying results.

The book is designed primarily for Indian students. My object has been to review the fundamental principles of monetary science, and to apply them to complex problems of Indian Currency. It is not too much to say that the evils of what I may term a parochial outlook on Indian Currency are among the most serious economic evils with which Economics has to deal; and the

practical problem of finding a solution of the difficulty is of international extent and importance.

In the voluminous literature on money, there seems to be very little that approaches accurate formulation and rigorous demonstration. What is at the present time needed is a clear and general public understanding of principles underlying the Paper Currency, Gold Standard Reserve, and exchange fluctuations. Chapter I deals with Indian Banking and Paper Currency. I have tried to show that the adoption of some of the methods of German banks will result in a distinct gain to the Indian banks. In Chapter II, I have summed up the results of my researches into the development of Indian Currency. This aspect of currency has been strangely neglected by the economists. It is founded mainly upon the Minutes, Appendices, and Reports of the Herschell Commission, the Fowler Committee, the Chamberlain Commission, and the Babington Smith Committee on Indian Currency. Chapter III traces the growth of the Gold Standard Reserve, and explains the mechanism of the Gold Exchange Standard. I am of opinion that a deeper knowledge of monetary science is essential if we are to clear our minds of those vague conceptions which have proved such a pitfall to students of Indian Currency. I believe the best means to this end is the application of historical and comparative methods. It is impossible to estimate the significance of this phenomenon without the illuminating analysis, significant details, and conceptual grasp which only the historical method can produce. This has been supplemented by the comparative method, and an attempt has been made to trace

the evolution of the Gold Exchange Standard in other countries.

In the last Chapter, I have attempted to explain the principles of foreign exchanges. This seems to me to be essential to a thorough grasp of the causes of exchange fluctuations. Exchange fluctuations are so intimately connected with our economic life, they affect our interests in so many ways, that our view of their functioning is coloured by the vividness and intensity of the perception of our own interests. Scientific analysis is impossible, as the indispensable element—the objectivity of judgment —is lacking. They are like little "monads," without any windows to let in the light. Fragmentary impressions are as frequent as distorted views. We must, if we want a comprehensive analysis of the phenomenon, start with the fundamental principles—not mere theories, or day-dreams—and try to apply them to the complex problem of instability.

I have accordingly attempted an explanation of the principles that underly Foreign Exchanges; and applied them to the fluctuations in the exchange value of the rupee.

The work is based mainly upon the Reports, Appendices, and Minutes of Evidence of the Herschell Commission, the Fowler Committee, the Chamberlain Commission, and the Babington Smith Committee on Indian Currency and Exchange. In order to maintain the unity of presentation, I have avoided footnotes, inverted commas, etc., and other references, as much as possible.

For Chapter I, I have consulted the publications of National Monetary Commission, and the Reports, Appendices, etc., to the various Commissions and Committees on Indian Currency and Exchange. I have also consulted the writings of Conant, Macleod, Walker, Jevons, Gilbart, Leroy-Beaulieu, and Irving Fisher. Chapter II is based mainly upon my own researches into the development of Indian Currency. For Chapter III, the Minutes of Evidence, Appendices, etc., of the Commissions and Committees have been laid under contribution. In this Chapter, I have attempted to trace the development of the Gold Standard Reserve from 1900 to 1920. The last section is the result of my study of the following writers: Aldenham, W. W. Carlisle, Cernuschi, Conant, Fisher, Giffen, Goschen, Kemmerer, Hepburn, Laughlin, Lenormant, Keynes, Willis and Walsh. Kemmerer has proved specially useful, and I have derived invaluable information from his writings. Chapter IV discusses the causes and effects of exchange fluctuations on the import and export trade of the country. In addition to the authorities cited above I have utilised the Report of the International Financial Conference at Brussels, 1920, and the publications of Statistics and Finance Departments, Government of India.

My thanks are due to Mr. J. T. Gwynn, I.C.S., C.I.E., for supplying me with valuable documents, and for suggestions and criticisms.

I am greatly indebted to the Hon'ble Mr. K. Srinivasa Iyengar, Member of Executive Council, Madras, and Vice-Chancellor of Madras University, for valuable

assistance, and helpful suggestions. I should have found it difficult to prosecute my researches without the keen, and sustained interest which the Hon'ble Mr. K. Srinivasa Iyengar has consistently shown in the Research work of the University.

It is a pleasure to acknowledge specifically and with gratitude valuable assistance from M.R.Ry. K. C. Desikachariyar, Avergal, B.A., B.L., Editor, "Local Self-Government Gazette"; Mr. Vaidya Sagar Pandya, the vigorous Secretary of the Indian Bank, Madras; Sir William Beardsell, of Messrs. Beardsell & Co., Madras; Sir William Beveridge, K.C.B., Director of the London School of Economics, University of London; and Rao Sahib M. C. T. Muthiah Chetty, M.L.C., Chairman of Stock Exchange, and Sheriff of Madras.

There are two persons to whom I am more indebted than to any others. These are my teachers, Professor C. F. Bastable, Professor of Political Economy, University of Dublin, and Professor Alfred Marshall, formerly Professor of Political Economy, University of Cambridge.

SHAFAAT AHMAD KHAN.

7th January, 1921.

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INDIAN BANKING AND CURRENCY.

CHAPTER I.

SECTION I.—INDIAN BANKING.

Leroy Beaulieu[1] defines a bank note as "a promise made by a banker to pay a definite sum to bearer at sight." The bank note symbolises the progress of credit in modern times. The evolution of organised credit and the origin of bills of exchange and discount are interesting, as they mirror the essential features of the economic development of the leading European countries. Substitutes for metallic money are so necessary and natural that the organic development of this process occurred with remarkable uniformity among the most advanced commercial peoples of Europe. The history of usury has been sketched by Sir William Ashley in his "Economic History," and the student is referred to that storehouse of information for details of the devices which were frequently resorted to. It is, however, in modern times that the fullest development of credit took place. Credit stimulates the movement of business,

[1] Traite d' Economic Politique, III, p. 463.

multiplies markets for the benefit of capital, creates the means of buying and producing, and provides a profitable investment for funds which they would not or could not themselves make use of. The most important function of credit is the transferability of capital. This is due mainly to the discovery of credit. Great accumulations of capital, not required either for immediate consumption, or for maintaining existing process of production, are essentially modern phenomena, and though ancient history affords several notable examples of great reservoir of capital, no substantial progress was made in the organization either of joint-stock enterprise, or of regulated companies. These were the main types of economic institutions during the 17th century; and very few companies of that period exhibited the flexibility of the typical companies which credit has called forth. Bagehot brings out vividly the difference between modern methods and medieval undertakings.[1] "We have entirely lost the idea that any undertaking likely to pay, and seen to be likely, can perish for want of money; yet no idea was more familiar to our ancestors, or is more common in most countries. A citizen of London in Queen Elizabeth's time could not have imagined our state of mind; he would have thought that it was of no use inventing railways, (if he could have understood what a railway meant) for he would not have been able to collect the capital with which to make them. At this moment, in colonies, and in all rude countries, there is no large sum of transferable money; there is no fund from which you can

[1] Lombard Street.

borrow, and out of which you can make immense works." The growth of credit in modern times is reflected in the easiness with which capital is transferred from one country to the other. The transfer was not made to any considerable extent in metallic money, but in commodities for which credit has been organised. New countries have been developed by the organization of credit; and Great Britain has supplied great quantities of agricultural and manufacturing machinery. This has naturally resulted in the transfer of capital to manufacturers in England, and thus instruments for the development of new industries were created. The history of the industrial enterprises which England organised throughout the 19th century vivifies the theory which a succession of economists, from the time of Adam Smith to the time of Bagehot, have regarded as the corner-stone of their Political Economy. The period from 1815 to 1845 exhibited all the signs of over-accumulation of capital. Englishmen showed great eagerness in investing their surplus capital in American securities, and it is calculated that by 1840 they held 2,000,000 dollars in American securities. An American writer has supplied a vivid picture of England's efforts. From 1886 to 1890 she was engaged in developing the resources of young foreign communities, taking securities in payment; and during the five months from February to August 1890, £100,000,000 in new securities were brought out on the London market. The writer thus describes the dealings of Englishmen with the Americans early in the 19th century:

"Englishmen bought nearly all of our products for cash, sold their own to us on credit, and in addition

supplied us with letters of credit against which we could draw in all parts of the world. The effect of such an arrangement would obviously be to reproduce American capital engaged in foreign trade by English capital supplied by the great Anglo-American mercantile houses in London and Liverpool or by the numerous joint-stock banks which eagerly discounted the paper of these houses. The American capital thus liberated from trade became available for carrying on the various improvements within the country."

In the development of backward countries by rich nations banking has played a most important part. It is mainly through the extension of credit facilities, that the unusual progress of modern societies has become possible. The transfer of capital to new countries depended ultimately upon the type to which banking organization approximated. The Bank Charter Act of 1844 would, if carried to its logical conclusion, have retarded considerably the growth of English trade in the latter half of the 19th century; while the introduction of a certain amount of elasticity in the paper currency of India would have popularised the notes, extended credit, and facilitated commercial enterprise.

The development of German Banking during the last fifty years illustrates the importance of banking credit to industry and trade. A series of illuminating articles on German Banking issued in connection with the National Monetary Commission of America throw a searching light on the organization of credit and banking arrangements in Germany.

As Robert Franz Herr, Editor of Der Deutsche Œkonomist, Berlin, points out.[1]

The period following the founding of the German Empire witnessed a vigorous development of German industry, especially of the mining and electrical industries, which required a continuous inflow of new capital. At the same time, German foreign commerce, particularly with oversea countries, kept on steadily increasing. The banks furthered this development by forming joint-stock companies, granting long term credit, assuming shares and bonds, and placing the new undertakings on the stock market and selling them to the public. "There is no doubt that but for their policy of furthering the industries, the economic development of Germany would have taken considerably longer than has been the case."[2] The placing of capital in industrial investments is thus described by Herr Franz. The Bank extends a certain amount of credit to the industrial corporations, which is used by the latter successively in proportion as its

[1] In his lucid article on the Statistical History of the German Banking System, pp. 7—114; compare the second article on the Organization of Credit and Banking Arrangements in Germany, by Geh Oberfinanzarat Waldemar Mueller, Director of Dresdner Bank, Berlin; see also the Minutes of Evidence before the Industrial Commission Report; Professor Henzi Hauser's "Germany's Commercial Grip upon the World," the Times Financial Supplement, October 1, 1909; various numbers of the Banker's Magazine and the Economist; and an interesting course of lectures upon German Banking, delivered at the London School of Economics, in 1913.

[2] Miscellaneous articles on German Banking, published by the National Monetary Commission.

enterprise develops. Such "investment" credit, owing to its very nature and purpose, cannot be refunded within a short time. It is granted from the start with a view to being converted into capital of the industrial corporation (through the increase of capital stock), or into long-term amortization credit (through bond issues). In order to repay its debt to the bank, the industrial corporation issues new stock or bonds. The bank must for the time being take over the additional new securities by changing the "book-credit" into "issue-credit." This, however, enables it to shift the risk, assumed by the granting of the original credit, to the wider spheres of the investing public, and to recover, above all, the invested capital. Only in this manner can the bank retain its power of action, and it must be admitted that as a general rule the German banks have operated in this regard with great skill and circumspection, so that they were able both to meet their own obligations and to satisfy the demands for short-time working credit.

In order to obtain the means for granting industrial credit and to dispose of the enormous amounts of newly-created industrial securities, it was, and is necessary to attract in as large a measure as possible the surplus funds of the community available for capital investments.

For this purpose the joint stock banks spread a network of deposit branches, destined to serve as reservoirs for the inflow of available funds, and, at the same time, as distributors for the industrial securities created; with the same end in view, the large Berlin banks, either through the acquisition or exchange of stock (for

permanent investment), entered into friendly alliances with the provincial banks.

The creative power which in a comparatively short time placed German industry in a commanding position, took its origin with the men who put to practical use, and in the interest of economic progress of the nation, the achievements and inventions in the domain of science. Until the seventies of the last century the London Banks directed the financial regulation of German foreign oversea trade; but the establishment in 1870 of the Deutche Bank at Berlin revolutionized the German trade. The Bank in its charter adopted the following programme: "It is the purpose of the Corporation to do a general banking business, particularly to further and facilitate commercial relations between Germany, the other European countries, and oversea markets." That the Directors of the Bank carried out their design, is evident from the enormous expansion of German trade. The introduction of the gold standard in Germany in 1873 removed the main obstacles to the circulation of German currency in the international market, and the Deutche Bank established branches at the central points of German oversea trade where other German joint-stock banks, especially the Disconto Gesellschaft and the Dresdner Bank followed the example of the Deutche Bank, and founded transmutation, mining and industrial enterprises in foreign countries. The eight Grossbanken had in 1912 a capital of nearly £60,000,000 with a reserve fund of £19,000,000. The deposits were £241,000,000. The Deutche, the Disconto Gesellschaft, and the Dresdner had each a capital of £10,000,000.

Their deposits were £79,000,000, £30,000,000 and £44,000,000 respectively. The eight Grossbanken were represented on no less than 697 companies, chiefly trading concerns and banks, machine construction and instrument-making, mining, smelting and salt works, and foreign companies. In Germany, Belgium and Austria-Hungary, however, the rapid development of industrial enterprises tempted many of the large banks into loans of a questionable character, which involved some of them in considerable losses. Herr Mueller, Director of the Dresdner Bank, admitted that Bank Directors occasionally became fascinated with enterprises and inventions and burnt their fingers. But he asserted that an inquisitorial inquiry as to the object for which credit is required by the entrepreneur would end in the rupture of negotiations with the Bank. The Bank's principal task is to determine whether the liquidable assets are sufficiently secured, even should the purpose for which the borrowed money is to be used, turn out a failure or be unprofitable, and to find out whether its situation permits of an increase in the amount of its loan. "It is not incumbent," insists Mueller, "on the lender to go beyond this and play the part of Providence. Consequently, it is an erroneous view to hold banks responsible, not only for finding out whether they can grant credit safely, but also for the use made of such credit by the borrower." This defence of German banking expresses the possibility of competition from other holders of money besides bankers. Many of them are desirous of disposing of their own capital, and are keenly competing for new profitable and commercial undertakings.

Thus, the banker will determine, to a certain extent, the movement of capital on the margin between different enterprises, offering various degrees of security and profit, and he may be able to decide when the margin of profitable development in any one direction has been reached, and when encouragement to further expansion in that direction ceases. But he cannot always keep the course of industry within the limits which his caution may enjoin, as overproduction in any industry and the consequent fall in prices and stagnation of market may seriously affect its own position. The dangers involved in commercial banking were brought prominently in view by the German bankers during the crisis of 1901, and were the subject of a heated discussion at a convention of bankers held at Frankfort, in September 1902.

German banking has a special interest to India at the present time; for India occupies the same position which Germany occupied about the middle of the last century. Her industries, her mineral resources, and her export trade, will depend more and more upon an efficient system of commercial banking. At the present time there is urgent need of commercial banks in the country, and the movement initiated by the Tata Industrial Bank should be supported by every prominent industrialist. The primary function of a commercial banker is that of a broker and dealer in money; and he makes himself the custodian, and his bank, the reservoir of money, by depositing the money of other people. By gathering up the capital of others, and diverting it to industrial undertakings, the banks further the development of undeveloped industries, and facilitate the

circulation of capital. The banker's merit consists in distributing the money of the depositors in such a way that he should always be able to repay it according to his promise; and it is due mainly to this that modern banking has become arbiter of the direction of investment, and organization of investing.

The development of Indian banking in modern times has not been treated satisfactorily by any writer. Charles N. Cooke's "Rise, Progress, and Present Condition of Banking in India" is probably the most systematic treatise on the subject. It gives an accurate account of nearly all the important banks of the period. It supplies us with some very interesting extracts; explains the causes of the failure of a number of banks; and furnishes us with valuable statistics. But the book is badly planned; the author's criticisms are often unjust; and there is no attempt to explain the phenomena which he describes. We must take the book as it is, with all its faults and merits, and try to build up our knowledge upon that basis. The progress of Indian banking, we know, was not uniform during the period; its history followed a zig-zag course; and we cannot discover any casual sequence. Many Indian banks rose, fell, and rose again, and this movement was strengthened by the strange dearth of well-conceived laws on the subject. The three Presidency banks are exceptions. But the peculiar position they have occupied is due, to a great extent, to their connection with the Government.

From time immemorial the banker has always been an important member of Indian society. Every strata

of that society possessed its own banker, who discharged his functions with an honesty, a probity, and a fidelity that were hardly surpassed by the goldsmiths in England in the 17th century, or the Florentine bankers in the 15th century. The Jews played an important part in the financial administration of Medieval Europe, but their expulsion from England left a serious gap, and it was not till about the end of the 17th century that banking institutions were firmly planted. In India, on the other hand, the Empire had its banker, the Soubah had its banker, the Zillah had its banker, and the village had its banker. The bankers wielded enormous powers both under the Hindu and the Muhammadan rulers, and no imperial council was complete without this indispensable element of Indian society. Charles Cooke has painted the character of Indian bankers with a loving hand. "The native bankers themselves are patterns of commercial morality. The dishonouring of a *hoondee* is an event of rare occurrence with them. They transact business with each other, and with their constituents, with a total disregard of those forms which English commercial men deem essentially requisite, and without the aid of which, indeed, an English house of business would scarcely be secure. One striking feature of native banks has always struck us as peculiarly gratifying. The business is usually carried out by gomashtas, or clerks holding a confidential position in the firm. They are often poor men, and yet are never called upon to furnish security. Their remuneration is not high, and they have often the entire disposal of the capital of a *Cootee*; yet it rarely happens that a firm loses anything by their dishonesty."

Cooke's glowing account of Indian bankers helps us to understand the reputation which many shroffs enjoyed in the estimation of European merchants. The shroffs, who have their agents established in every important city, conducted their exchange operations by means of *hoondees* which were the only currency not legalized, and as such superseded, in general payments, the use of metallic money. But when *hoondees* were not available, the medium of exchange was coin, and sealed bags containing 1,000 and 500 rupees were passed from place to place. These metallic payments were extensive, but there is scarcely an instance on record, of the bags being found to contain less than the declared amount. The greatest difficulty therefore was experienced in procuring the necessary funds for manufacturing, etc., and merchants, who wished to place money in any particular district, were compelled either to purchase bills on the Government treasuries or *hoondees*. Remittance by bullion, in the case of private individuals or firms, was seldom resorted to, except where stations were contiguous to Calcutta, and communication easy of access. More than one case could be instanced in which the leading commercial firms of Calcutta had occasion for years to forward large sums to Murshedabad and Kishnagar, as well as to accept bills drawn on them from thence, for advances to their indigo and silk constituents. In almost all instances these constituents were compelled to draw at a considerable percentage as *shroffage*, or the firms were obliged to send up treasure under an escort. In nearly every instance, probably to the extent of *three-fourths* of the whole advances, the agents found it

necessary to adopt the latter course, as from the scarcity of money with the native Bankers, the charges were most exorbitant. In one instance a premium of 3 rupees per cent per month, equal to 36 per cent. per annum, was paid for bills on a mercantile house in Calcutta, and the premium on the Bank of Bengal notes is known to have been as high as 6 and 8 per cent.

In regard to bills, the Government were not always in a position to cash them, consequently *hoondees* were extensively taken, and, in the absence of anything better, proved a most convenient mode of remitting funds. The circulation of these *hoondees*—the most perfect form of the Indian commercial system—was very great, and though millions were invested in them, the loss by bad debts, arising out of the dishonour of the investments at maturity, was an insignificant fraction. The terms for which *hoondees* were, and still continue to be drawn, in the upper Provinces, vary considerably. At Patna, for instance, the term is 41 days after date; Benares, Mirzapore, Lucknow, and Bombay draw at 51 days; Fatehgarh, Furrakabad, and Delhi at 61 days; Lahore and Multan at 121 days.

Before the establishment of the Bank of Bengal, the European system of banking had been introduced by the great Agency Houses of Calcutta, the failure of which, for enormous sums, is well known to the Indian public. They were not merely merchants and agents, but united with that business banking in all its branches, and were known as the merchant princes of India. They were agents for the whole civil and military service; and were

also agents for the planters and merchants settled in the Upper Provinces. They were bankers receiving deposits, bankers making advances for the produce of the interior, and bankers issuing paper money. The defunct agency and banking firms had a note circulation which was extremely beneficial to them in carrying on their diversified operations as ship-owners, house-owners, farmers, manufacturers, and money-lenders. After the establishment of the Bank of the Bengal, but more especially, after the passing of the Act in 1813, which partially removed the restrictions placed upon Europeans settling in India, great inducement was given to extend the number of banks, and there successively started into existence several private banks in connection with the Agency Houses. A review of the history of principal banks in India in the first half of the 19th century leads one to the conclusion that they were badly organised and poorly staffed. The Directors of many of them were guilty of gross fraud, and the regularity with which charges were brought against the Bank Directors of the period testified to the existence of a deeply-rooted evil. The frauds were of the most ingenious character, and the ignorant public seems to have swallowed all the baits which the silver-tongued organisers of these bubble companies systematically dangled before it. An account of the principal Banks during the period 1800—1866 is essential, as it gives us an insight into the financial and commercial methods of the period. The growth of the Presidency Banks has been traced by Sir James Brunayte in his well-known "History of the Presidency Banks," and the ground need not be gone over here again. The influence of the existing banks on

the Chartered Banks has not, however, been properly estimated; and no reliable history of these institutions exists in an organised form. The standard work of Cooke, a few pamphlets written during times of crisis, and meagre extracts from the newspapers of the period are all that we possess; and the reconstruction of their history will necessitate an elaborate inquiry, and demand a sufficiency of data, and a perfection of technique, that are impossible at the present. A slight sketch of these banks, based mainly on pamphlets, Cooke, and newspapers of the period is attempted here.

(*a*) *The Oriental Bank Corporation.*—The company was formed at Bombay, under the name and title of the Bank of Western India, having for its basis a capital of fifty lakhs of rupees (or £500,000 sterling) in 10,000 shares of five hundred rupees each. The chief object of this institution was to supply the want of a bank for the conduct of Exchange and other legitimate banking business, from which the Bank of Bombay was excluded from its charter. The office opened for business in October 1842, and subsequently branches were established at Colombo, Calcutta, Hong-Kong, and Singapore. The operations embraced Exchange, Loans, Deposits, and all legitimate Banking, under certain restrictions set forth in the bye-laws embodied in the deed of co-partnership. The Bank pursued a chequered history and sustained severe losses, through robbery, forged bills of exchange, hoondees and cheques. A forged bill of exchange for Rs. 15,000 was successfully negotiated at the Bank in 1851. In the same year about a lakh of rupees was taken from the cashier's safe. In 1850 the

Bank sustained severe losses through the failure of Mr. T. R. Richmond. In 1848 the paid up capital of the Bank amounted to £903,182, and the Reserve Fund amounted to £128,381. The Bank seems to have been efficiently managed and it weathered many a storm. A number of branches were established and its agents were to be found in Australia, China, Singapore, Calcutta, Madras, Bombay and London.

(*b*) *The Union Bank* was established in 1829 with a capital of 16 lakhs of rupees consisting of 600 shares of 2,500 sikka rupees each. In June 1839 the capital amounted to 100 lakhs; an agency was established at Mirzapore in the same year, and advances were made upon indigo factories, and, worst of all, the personal security of the borrower. The succeeding years witnessed a number of calamities. In 1848 the accountant defrauded the Bank to the tune of 1,20,000 rupees; the agency of Mirzapore was closed; and in January 1848 the Bank stopped payment. This had long been foreseen, but many had closed their eyes to the possibility of such an event until the crisis came upon them. "No bank," says Cooke, "ever failed under circumstances so discreditable, and so humiliating to those who were the cause of the stoppage." The methods employed by it throw a flood of light on the commercial morality of the period. In 1839 the system was adopted of making advances to the indigo houses of Calcutta, on the deposit of title deeds of their factories, and assignment of annual produce. Another scheme was to introduce into the Bank the Scotch system of lending money on cash credits, to be granted on the personal security of the

borrower, with the addition of such collateral security, real or personal, as might be thought sufficient; such loans were not like those hitherto granted to be debited to the borrower in one sum, and to be repaid by him at an appointed time, but were to be drawn for, from time to time, as his necessities required, and repaid as his returns became available.

The deed of partnership offered an obstacle to this scheme, inasmuch as it prohibited loans for a longer time than four months; but this was got over by taking the borrower's note of hand at three months' date, giving him an assurance that on his paying up the interest, his note would be renewed, unless the Bank gave him six weeks' notice to the contrary.

The first advance on this sort of security was in December 1839, when a loan of Rs. 2,50,000 was made to the Calcutta Docking Company, collaterally secured by deposit of the title-deeds of the docks. In February 1840, a large loan was made to the owners of certain collieries, on the collateral security of coals at their depots, and the deposit of title-deeds of the mines. Soon after, a loan was made on the collateral security of some buildings near Calcutta. And later again, a proposition was favourably received by the Directors for granting such cash credits to Calcutta tradesmen.

In January 1840, the following proposition of a Director, regarding advances on indigo factories, was circulated among his colleagues. "If a Planter and Agent conjointly deposit deeds of a block worth one lakh,

and agree to consign the whole produce to the Bank at the end of the season, I would advance a regulated portion of the value of the block, say, two-thirds, at the commencement of the season, and increase the advance to the full value, or even to a portion of the produce, say two-thirds, on the Planter's certificate that he had such in his godowns."

In fine, it was determined, by the Directors, to make advances on cash credits collaterally secured by mortgages, and among others by mortgages of indigo factories.

Those engaged in the cultivation of indigo were not slow in availing themselves of the accommodation thus offered them. In June 1841, there were outstanding on the security of indigo factories, sums due to the Bank, amounting to Rs. 43,15,000, and in the year 1842, the *credits granted* on such securities amounted to Rs. 1,37,85,477 (equal to one million, three hundred and seventy-eight thousand five hundred pounds sterling). On the 31st December of that year, there was due to the Bank on these accounts Rs. 56,37,000, above half a million sterling.

In 1842, the loans and credits on deposit of goods and other securities, under which title these cash credits were comprised, amounted to Rs. 96,43,320-13-1.

Some attention to them appears about this time to have been directed by the proprietors; some failures had taken place, and questions were asked respecting the losses which the Bank might sustain through them, and respecting reports that the greater part of the assets of

the Bank were appropriated to the accommodation of a few favoured houses. At the half yearly meeting on the 16th July 1842, the amount due under the same head had increased to Rs. 97,62,935-13-10. The following account of its transactions is interesting, as it shows what portion was invested in goods in the bonded warehouse, what amount in the cultivation of indigo and other factories, and what in other property:—

	RS.	A.	P.
Credit to Planters and Agents on the security of deposit of title-deeds of indigo and saltpetre concerns	57,70,135	13	1
Credit on silk filatures	1,57,500	6	0
Credit on collieries	2,84,270	2	6
Credit to tradesmen on joint and several personal securities	3,89,265	12	6
Credit to public bodies	2,54,756	0	0
Credit on goods	20,54,766	2	5
Credit on shares, etc.	8,52,241	4	4
Total ...	97,62,935	13	10

In the interval, say between 1841 and 1843, or, to speak more positively, at the close of 1842, by the failure of indigo houses,[1] 60 lakhs of rupees, say £600,000 sterling, were locked up in indigo concerns; about £300,000 sterling in claims on indigo houses, partly secured by factories, and nearly an equal sum, say £250,000, required for annual expenses of cultivation.

Two firms alone owed the Bank about 30 lakhs of rupees (three hundred thousand pounds), leaving nothing

[1] Messrs. Fergusson Brothers, Gilmore and Co., and others.

but indigo factories to the Bank as security for this debt. These 60 lacs of the Bank's capital were in fact sunk, and the question was, how could they be got out again?

Other indigo houses, besides those which had failed, partook of advances under this system. As a pretty fair specimen of the manner in which the Directors, who were members of the above-mentioned firms, helped themselves to the Bank money, it may be mentioned that Colville Gilmore and Co. were debtors, at one time, of twenty-four lakhs of rupees, one-fourth part of the whole capital of the Bank; and that Cockerell and Co. took cash credits to the amount of 16 lakhs of rupees.

(c) *The Bank of Hindostan* established by the late firm of Messrs. Alexander and Co., about 1770, was the oldest institution of the kind in India. Though it was a branch of the business of one of the first firms of the period, yet its operations were entirely distinct from their trading business, as is evident from the fact that Mr. Barretto, of the firm of Barretto and Co., who had no interest in the houses, was a partner in the Bank for a few years. The circulation of its notes was confined entirely to Calcutta and the immediate neighbourhood, the Government having refused to allow their reception into their Collector's Treasuries in the Mofussil. They also refused to recognise them on the spot as a legal tender. The amount of the issues of this Bank was very fluctuating, sometimes not exceeding two or three lakhs; at other times reaching to twenty or twenty-five lakhs, according to the state of the market. On two occasions this Bank most successfully supported very

severe runs upon it. Once in 1819; when in consequence of some forgeries, the proprietors issued a notice to the public, pointing their attention to the mode of distinguishing the genuine from forged notes. Some evil-disposed persons gave to this notice a false character, and spread reports among the people, that unless the notes were brought in by a certain day, they would not be paid. The consequence was an immediate run, which brought in all, or nearly all the notes, then outstanding,—about 18 lakhs; which being cashed without difficulty, and the real tendency of the notice explained, were issued again within a few hours. The second occasion was in January 1829, when the failure of Messrs. Palmer and Co. spread the greatest alarm among the inhabitants of Calcutta. The Bank of Hindostan met the demand with the utmost promptness to the extent of about 20 lakhs of rupees. It continued its operations till the month of December 1832, when the most awful commercial crisis that ever visited India, by drawing into its vortex all the old firms, necessarily caused the stoppage of this Bank; for although it had commenced operations as an independent institution, and quite distinct from Messrs. Alexander and Co., it had latterly become so closely mixed up with the trading part of their business, as to be unable to weather the storm that wrecked the firm. Very few of its notes, however, were in circulation at the time the house failed.

(*d*) *The Benares Bank.*—This Bank which earned an infamous notoriety by its failure, was established in 1844-1845, chiefly by the influence of *Colonel Pew*, who, some years back, was a man of large fortune

and unbounded credit. He was seized with a mania for speculating, however, and the Benares Bank was one of the results of his madness. When the Bank was started in 1845, its capital was proposed to be Rs. 5,00,000, raised by the sale of 1,000 shares of Rs. 500 each. The first instalment of Rs. 250 each, was all that was ever paid on the shares, and even this was done on many occasions, by borrowing the amount from the Bank, on the security of its own scrip. Unable to call up the full price of the shares, the Bank determined on issuing new ones.

The Bank continued to issue new shares till the total amount was 6,000, giving a nominal capital of Rs. 15,00,000, of which, however, no more than Rs. 9,00,000 was ever paid up, much of it having been so by loans from the Bank. Formidable irregularities were discovered in 1848 in the management; the Directors having purchased their stock with money borrowed from the Bank. They held their ground by the value of the votes of parties, who had not paid up their shares, and who had paid their first instalments by loans from the Bank at twelve per cent. interest. When the Bank stock was selling in the market at from thirty to fifty per cent. discount, the Directors purchased in the stock of their friends at par, and cancelled the shares. They also invested nearly the whole capital in the Ganges Steam Navigation Company, from which, under any circumstances, it could not have been withdrawn, if desired, and which pursued a ruinously losing career.

Further disclosures were made in 1850, about the irregularities in the management. From the investigations

before the Insolvent Court, it appears that Colonel Pew was the principal debtor to the Benares Bank, having, as the Chief Director, advanced enormous sums of the Bank's capital to himself, of course without available security; and he came up as an insolvent debtor chiefly to be relieved of his debts to the Bank. The sole business of the Bank was money-lending—the maximum interest drawn by it ten per cent., and out of this, dividends of twelve per cent. were proposed to be paid. The selling price of shares was fixed by the Directors, who sold their own at premiums of from twenty-five to fifty per cent. When they found they had more of this than they could manage, a vast mass of them were cancelled—that is, sold at ten per cent. premium to the Bank, from which they had been bought at par, and paid for with the Bank's money. Colonel Pew's share of this transaction realised for him Rs. 1,00,000 in a forenoon. Out of Rs. 9,00,000, *the entire assets of the Bank*, Rs. 7,00,000 to Rs. 8,00,000 *were borrowed by him.*

These discreditable transactions could not be slurred over, and a Court-martial was held at Simla on the 17th May, 1850, when Captain Fagan and Dr. Butter were found guilty of the charges laid against them in the matter of the Benares Bank and sentenced to be cashiered. The Governor-General refused to pardon them.

(*e*) A number of small banks were founded during the period. We have—

i. *The Commercial Bank*, which commenced operations in 1819, and failed in 1833.

ii. *The Calcutta Bank*, established in 1824 by Palmer and Co. It ceased operations in 1825. Its notes were refused by the Government Treasuries, as were those of the Bank of Hindostan, and Commercial Bank.

iii. *Bank of Mirzapore.*—This Bank partook of the character of the numerous banks floated in that era of speculation. In 1835-36, Mr. Bathurst, a young man, from England, "of plausible manners, suave address, and gentlemanly appearance;" the son, or otherwise near relative of a highly respected civil servant, whose name is still a byeword at Mirzapore, determined upon striking out for himself a new business which was to make his fortune. He announced the establishment of a Bank, to be called "The Bank of Mirzapore." In connection with this undertaking, he came to Calcutta, had the necessary plates engraved, and a large stock of notes printed; with these, and other materials, and the promise of support of a highly respectable firm in Calcutta, if he went on cautiously, he returned to Mirzapore and commenced business. As may be supposed, the native mahajuns did not, at first, readily enter into his views; but Mr. Bathurst's ingenuity soon supplied him with all the sinews of war, and obtained for his bank-notes a limited circulation. He appointed an agent in Calcutta, to whom he remitted funds to be applied in the payment of Bills on Calcutta, which he negotiated at Mirzapore. The punctuality which characterised these transactions for a time, inspired the mahajuns with confidence, and they began to lend him money and take his notes, of which he had sent a goodly supply to Calcutta to be put into circulation. The public, however, had not the same

confidence in them as in the notes of the Bank of Bengal, and Mr. Bathurst's expectations were disappointed. In 1837 the Bank collapsed, and the originator was compelled to leave India, to avoid unpleasant proceedings.

iv. *The Agra and United Service Bank, Limited.*—The Bank was intended to supply the place of those private Banking Houses which were accustomed to receive, at a high rate of interest, the accumulated savings of people of all grades in the civil and military employ of the East India Company. A plan was promulgated and the scheme of a joint service Bank at Agra was set on foot. The Agra Bank was founded with a capital of Rs. 10,00,000 in 4,000 shares of Rs. 250 each. It was excellently managed and gave fat dividends to the share-holders. This was probably the most efficient of all the private banks of the period.

(*f*) *The North-Western Bank of India* was established at Mussorrie as a private bank in 1840, with a capital of Rs. 5,000 for merely local discounts; the capital was doubled in the following year; and it was converted into a joint stock Bank, with a capital of Rs. 5,00,000. There was a suspicious increase of capital from time to time; several irregularities were discovered; fraudulent entries were proved to have been made in the book; and the Bank was wound up.

(*g*) i. *Delhi Bank Corporation, Limited.*—This Bank was founded in 1844, with a capital of Rs. 20,00,000.

ii. *Dacca Bank.*—This was an insignificant Bank, established in 1846, with a capital of Rs. 5,00,000. It had no charter, nor did it issue notes.

iii. *Simla Bank, Limited.*—The Bank was founded in 1844, and the subscribed share in 1848 was Rs. 16,00,000, of which Rs. 14,62,000 were paid up. It established branches at various places, and seems to have been managed efficiently.

iv. *The London and Eastern Corporation.*—This Bank was founded in 1854, with a nominal capital of half a million pounds, of which £50 per share was paid up. The number of shareholders was 98. It attained an unenviable notoriety under Dr. J. E. Stephens. The Directors and Managers seem to have been guilty of serious crimes. Its charter was alleged to have been fraudulently obtained; and the statements it put forth at the last meeting were declared to have been deceptive. A series of frauds were perpetrated by the Directors and Managers, and most discreditable transactions came to light.

v. *The Agra Savings Fund* was founded in 1842, chiefly for members of the Uncovenanted Service. Its business, as well as that of the Uncovenanted Service Bank, was chiefly among members of Uncovenanted Service.

vi. *The Commercial Bank of India* was established at Bombay in 1845, for the purpose of affording encouragement and aid which, it was thought, were not sufficiently given by the other banks.

vii. *The Government Savings' Bank* was established in 1833 to afford to all classes, a means of investing their savings, free from all the uncertain influences of commerce. An elaborate code of laws was drawn up

by the financial department, and this seems to have been the model upon which subsequent rules relating to Savings' Banks were based.

viii. *Bank of Asia.*—This was projected in London in 1841, but owing to various disputes, it exercised no influence and was broken up.

ix. *The East India Company.*—This was another venture of the familiar type but it had never a start, and the plan did not materialise.

x. *The Punjab Bank*, with a capital of Rs. 5,00,000.

xi. *Central Bank of Western Asia.*—This was established at Bombay in 1860, with a capital of Rs. 5,00,000.

Other banks may be mentioned here, *e.g.*, Banks of Hindostan, China and Japan, established in 1862, with a capital of a million pounds; Bank of Rohilkund, Rampur, established in 1862. People's Bank of India, Limited, established at Calcutta in 1861. It contained some original features, and seems to have been popular. Bengal Bank was established at Calcutta in 1790; Bank of India Project in 1828 by an accomplished forger, Rajkissor Dutt; the General Bank of India was founded probably in 1790; and the Karnatic Bank was established at Madras, (circa) 1791.

The above sketch shows clearly that the majority of the banks were badly managed, that the Directors were often dishonest, unscrupulous and thoroughly untrustworthy. The Indian people have often been blamed for

hoarding gold and silver ; India has been denounced as the " sink of precious metals ; " and a great amount of ignorant criticism has been levelled at the incapacity of the Indian people to utilise the agency of the Indian banks. Some of the criticisms are well-founded, and we cannot shut our eyes to the fact that a rapid development of banking in India would have accelerated her commercial progress, if Indian Banks had been linked to the indigenous industries. It is possible that the commercial development of India would have been facilitated, and probable that her industries would have been built on a sounder foundation, had she taken full advantage of all the banking institutions of the period. The hoarding of precious metals, to which constant references are made by nearly every English writer on Indian currency, would have disappeared, if greater honesty had been shown by the Banks founded in the first half of the 19th century. The public were justified in viewing with distrust the bubble companies that floated on the stormy speculative eras of the period, and they were not at fault in their judgment of the character of the founders of the early Banks. Hoarding was certainly a more economical device than investing the savings of one's lifetime in the majority of the banks of the period. It is difficult to exaggerate the influence which these pernicious institutions exercised on the subsequent development of Indian commerce and industry. The Indian people had been habituated to banking from antiquity ; their earliest records reveal the existence of a banking system, which, though it did not exhibit all the essential features of modern banking, at any rate resembled some of the

banks of the present day. The models set before the people were so poor, the corruption of many of the banks was so notorious that the people hesitated to take advantage of the facilities of that description. If better example had been set before them, and high ideal of business morality realised in the actual working of the earlier banks, the movement formed for utilising the banks would have spread. Hoarding would not have disappeared, as it is traceable to historical causes, and cannot be eradicated until perfect confidence is established amongst all classes of the community. It is solely upon confidence that the credit of a bank rests; and once this sensitive plant is uprooted, it is impossible to calculate the harm that is done by such a calamity. This is especially so in a country like India, where frequent changes of Government, constant revolutions, and incessant wars had destroyed all sense of security, and engendered an abiding distrust of foreign institutions. This is probably the most important cause of the lack of development of banking facilities, and the slow progress of the habit of investment, in India. The criticisms of Keynes, Findlay Shirras and a host of other writers on Indian currency ignore this feature of the monetary history of India. They do not explain the causes, nor have they properly estimated the effects of this habit. The above criticisms are not directed either at the Exchange Banks or at the three Presidency Banks of India. They were efficiently organised, and excellently administered. A few cases of gross irregularity did occur, on certain occasions; but they were too few to shake the credit or impair the administration of these enterprising institutions. I need not trace

the history of the Exchange Banks, or that of the three Presidency Banks here; as they do not chronicle either an exceptional growth or a rapid decline. The Bank of Bombay is probably an exception, and the events which Watcha has so vividly described in "A Financial Chapter in the History of Bombay City" need not be detailed here. The dominating personality of Premchand Roychand has been subjected to a keen psychological analysis, and this Napoleon of Indian Finance, with his devious ways, his silver-tongue, and polished manners, launched the fickle citizens into the stormy sea of speculation. This dictator of the share market was the cause of frightful ruin. A frantic speculation, unprecedented and unparalleled in the annals of monetary India, seized the City of Bombay during the two stormy years, 1863-64, and 1864-65. As the American Civil War had cut off the cotton supply of Lancashire; the price of cotton went up at a bound and Surat cotton, which prior to 1863 was sold in the Liverpool market at 3 to 5 pence per pound, began to fetch as much as 20 to 24 pence. Not only did the quantity of cotton exported increase, but its value also. The effect was seen in the mania for speculation in which nearly every prominent Indian tradesman took part.

As soon as the announcement of the fall of General Lee's army was known in March 1865, the monetary crash came with a terrific effect. The liabilities of the largest shipper, H. B. Cama, were estimated at three crores of rupees. Hundreds of merchants failed, and the Bank of Bombay shares, quoted at Rs. 2,900 before, could not be sold for Rs. 500. The Bank lost all its capital, except a few lakhs which returned to the share-holders,

about a hundred rupees for every five-hundred rupees, but which were once quoted at nearly Rs. 3,000. A pamphlet, entitled, " Bank of Bombay. Is Government Responsible for its Failure ? " put pertinent some questions to the Government. The writer asserted that " the Government has been the cause of the losses, and is bound to give redress ; " while a " Proposed Memorial of the Share-holders to the Secretary of State for India " prayed that the India Office should cause an account to be taken of all such monies as may have been lent by the Directors of the Bank of Bombay in contravention of the terms of their Act, as well as, of their duty as trustees for the share-holders. Out of its capital stock of Rs. 2,00,90,000, it lost almost £2,000,000. This shows clearly enough the extent of the loss which the bank suffered. The Government was partly responsible for this failure, and the seeming indifference with which the memorial was treated, throws a searching light on the methods of bank administration.

(1) *The Presidency Banks.*—The Presidency Bank of Bengal was opened in 1806, and received its Charter of Incorporation from the East India Company in 1809. The first Bank of Bombay was founded in 1840 ; it went into liquidation in 1868, and a new Bank was founded in the same year. The Bank of Madras was established in 1843. Previous to the establishment of the Madras Bank, there existed a bank known as the Government Bank; it conducted business on a very small scale. The original capital of the bank was Rs. 13,00,000, of which Rs. 3,00,000, were to be the property of the Governor, on behalf of the East India

Company. The Bank of Bengal was allowed to issue notes up to two crores of rupees or four times the Bank's capital. The limit of the cash reserve to outstanding liabilities was reduced to one crore. The failure of several agency houses in Calcutta during the years 1829 and 1832 involved serious losses to the Bank of Bengal; and its assistance to Alexander and Co. to the extent of Rs. 23,00,000, and its management of the indigo factories were palpable violation of the terms of its charter. Up to 1862, the Banks had the right to note-issue, but this was restricted in various ways. In 1862, the State took over the management of the note-issue, and the three Presidency Banks were deprived of that coveted distinction. The business of the Presidency Banks was defined by the Bank Acts No. XI of 1876, No. V of 1879, No. XX of 1899, No. I of 1907, No. VIII of 1916. They were prohibited from dealing in exchange and from raising loan in London; while restrictions were imposed on lending. The Banks were authorised to:—(1) grant loans, advances, and credits on the security of stocks, and such other securities as the Secretary of State for India and the Government of India specified from time to time, on bullion or other goods deposited with the bank, on bills of exchange, etc.; (2) realise security; (3) draw, discount, buy, sell, bills of exchange and other negotiable securities payable in India or Ceylon; (4) invest such stocks as the Government of India may recommend; (5) receive money and deposit on current account; (6) buy and sell gold and silver; (7) borrow money in India for the purpose of the Bank's business; and, (8) lastly, arrange with the Secretary of State for

India to act as Banker for, and to pay, receive, collect, and remit money, on behalf of the Government and transact any other business which the Government may from time to time entrust to the Bank. Various restrictions were imposed upon the Presidency Banks. They were not allowed to make advancements for more than six months; the advances are not to be made on the security of stock or shares of the Bank or on the security of landed property, except in the case of loans to Courts of Ward; they were not allowed to discount, buy or take a security for an advance, etc., negotiable instrument of any individual or firm unless it is backed by two independent persons. As a compensation for these restrictions the Presidency Banks have been allowed to hold a portion of Government balances without payment of interest. They secured this privilege in 1862 as a compensation for their being deprived of the right of note-issue. Up to 1876, the Presidency Banks held, subject to certain conditions, the hold of the Government balances, which would have been paid in ordinary course into Government treasuries at the places where the Head offices and branch offices of the Banks are established. On more than one occasion the Banks found it difficult to pay a large sum to the Government when demanded. The correspondence of the Bombay Chamber of Commerce with the Government of India is instructive, as it shows a difference of policy with regard to the withdrawal of Government funds from the Bank of Bombay. The Chamber protested against the action of the Government in withdrawing the sum of 1½ crores of rupees, and asserted that their policy had resulted in

" an unexpected pressure in the money-market and an advance in rates of discount of about 2% per annum." They were of opinion that steps should be taken to avoid unexpected demands which might, under other circumstances, lead to serious results in business, and, possibly during the busy season, to financial complications. In 1887 the Government balances aggregated from 10½ to 13¾ crores of rupees. The Chamber thought it " worthy of the most careful consideration of the Finance Minister whether this enormous amount of money could not be made available for the purpose of trade, and, thereby indirectly, for the benefit of the country at large." The Government of India referred the Chamber to paragraphs 7, 8, and 9 of a despatch from the Government of India to the Secretary of State for India, dated June 30th, 1874, and to paragraph 13 of the Government of India despatch, dated May 6th, 1875, wherein they doubted whether trade would derive any real advantage through the large Government balances in the hands of the Presidency Banks. A certain withdrawal, they thought, might precipitate a crisis, and complicate matters. Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments. It gives ease for a time and produces a prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resources, and the commerce which relies upon it finds itself pledged beyond what its own resources can make good. The Government could not make the use of its own balances upon the policy of the Directors of

the Presidency Banks, based as it necessarily was upon commercial necessities, and not upon anticipations of State demands. Even from the point of view of the commercial public it was not advisable that the state of the money-market should be subject to violent fluctuations and entire dependence upon Government operations. It is no doubt true that the treasury balances in England are made available for trade purposes through the Bank of England. But the analogy was not perfect, for, the Government balances in England are not liable to the great fluctuations which arise in this country from the fact that the revenue is most unequally distributed over the year and in the general amount of available resources, while in India they amount to considerably more than half of the available cash of the Presidency Banks. When the Government in England obtains assistance from the money-market, the transaction is a mere ripple on the surface of the commercial world; when the Government of India makes a similar appeal, the transaction is one which dominates the whole condition of the money-market, notwithstanding the fact that six weeks' notice of the demand has been given. Sir James Westland's memorandum on the regulation of cash balances is instructive. He showed that: (1) the months of August, September, October and November produce far less than their proper share of revenue, and that the current expenditure during them has to be met to a considerable extent by a repletion of balances; (2) the minimum balance with which the Government treasury business can be worked, that is to say, with which we can

undertake to have money ready, at every treasury, to meet the demands upon us, is at least eight crores of rupees; (3) "the main factor in the determination of this figure of eight crores was[1] actual experience. We find, as a matter of fact, that as our balances approach a minimum of eight crores, we have to multiply very greatly the amount and rapidity of the cash remittances by which we transfer money from the treasuries at which it is received to the treasuries at which it is wanted to meet actual payments. There is a point at which it becomes more costly to make such remittances than to increase the available cash. For example, I do not say it would be actually impossible to meet the demands on our treasuries with a minimum balance of seven crores; but it is certainly the case that any attempt to work the treasuries with that balance would be accompanied with an outlay in cost of remittances that would not fall far short of the four lakhs of interest which we would have to pay if we raised another crore, in order to raise from seven to eight crores the amount at our disposal. And, besides this, there would be very great risk of our having to declare ourselves—at some of our treasuries—unable, pending the arrival of remittances, to meet our current obligations. What this would mean, apart from the discredit of it, may for a moment be glanced at. We might be unable to pay the soldiers and create serious discontent in the army; we might be unable to meet the current expenditure of working or of constructing railways; we might be obliged to stop

[1] As it must always in such cases be.

important public works—an extremely costly proceeding even if they are immediately resumed." The Government of India argued that it was difficult to confine the privilege of obtaining Government money to the Presidency Banks, as the banks might be tempted to speculative operations with state resources, allowing their own resources to fall below the limit of safety. The conclusion of Government, therefore, was that they should confine any assistance from the treasury to loans through Presidency Banks at the published rate of interest in relief of temporary stringency. In 1878 the Bengal Chamber of Commerce renewed the proposal, pointing out that the question was not one of wholesale surrender of treasury funds to the Presidency Banks, but the discretionary proposal of them in periods of stringency. On this occasion the proposal had better success with the Government of India, for after some hesitation they proposed to the Secretary of State that it should be recognised as part of the ordinary business of management of the Treasury balances to lend money to the Presidency banks at 1 per cent. less than the declared minimum rate of interest, during the months of January to May of each year. The Secretary of State, however, was unable to accept the recommendation of the Government of India. The effect, he thought, would be to interfere with the remittance to England at a favourable rate of exchange of the amount necessary for the discharge of the sterling obligations of Government—a point on which we have already touched and to which we shall return. Any general understanding of the kind proposed, he added, would induce trade to lean

even more than it had done in the past on the assistance of Government instead of taking steps to enlarge the amount of loanable capital in the country. The grant of loans in India accordingly was made subject to the retention by Government of an amount sufficient to meet not only their disbursements in India but the probable amount of remittances to England. On this condition loans were permitted, but the Secretary of State thought that they should not as a rule be made below bank rate, and this rule in fact has been followed ever since by the Government of India. Our opinion on the various points in this correspondence will appear from what follows. According to the Chamberlain Commission the most obvious solution of the problem would be the Reserve Treasuries, and the placing of the whole of the Government balances in the banks. The banks would naturally be called upon to make a suitable payment to Government for such additional privileges. Such a change would involve a reversal of the action taken in opening the Reserve Treasuries in 1876 and the following years. It does not, however, necessarily follow that the action then taken was injudicious. The Presidency Banks have enormously expanded their business in the interval, and the proportion of Government deposits to private deposits would be very much smaller now than in 1876. The alternative to the closing of the Reserve Treasuries is that Government should make loans from their balances. This was the course recommended on the understanding that the amount of the loans is within the absolute discretion of Government, and that they are made only on good security and for short

periods. At the end of a discussion which has lasted for more than 30 years, the Government are not in the possession of any effective system of making such loans and the question is clearly one that deserves the most careful consideration. Lord Charles Hamilton's other methods of dealing with Government balances in India were suggested. It was proposed that the Government should deposit their balances with, or give loans to banks, as well. The Exchange Banks, which play a chief part in financing India's foreign trade might be allowed to receive deposits from the Government of India. There were, however, very strong arguments against the proposal. As the Head Offices of all the banks were out of India; the cash that was held in India did not amount to £42,000,000, and it represented only a small fraction of the liabilities to private depositors in India; nor were the Exchange Banks desirous of extending the practice of placing Government money with banks. With regard to joint-stock banks the position was much weaker; and there was no possibility of depositing Government money in those banks. With regard to loans to firms and institutions other than banks, both Lord Salisbury and Lord George Hamilton authorised the Government of India to grant short loans at interest and on security, otherwise than to Banks. Such loans were, however, rarely granted before the war. The objections to the grant of loans to private firms were forcibly stated: The loans would probably be secured in most cases on rupee paper; and if, through the default of borrowers, large quantities had to be sold in any year, the annual Government loan in

India, which is effected by the issue of rupee paper, might be injured. In the comparatively small and sensitive Indian money markets, the rapid calling in of large loans to meet an emergency might be difficult and dangerous. The first difficulty would be lessened if loans were granted against Bills drawn and accepted by firms of high standing. Indian balances are kept in treasuries and sub-treasuries, at the head offices and branches of the Presidency Banks, and in the Reserve Treasuries. On March 31, 1919, 28 per cent. of the closing balances were in treasuries and sub-treasuries, 45 per cent. in the head offices of the Presidency Banks, and 13 per cent. at their branches; the remainder, 14 per cent., was held in the three Reserve Treasuries.

INDIAN CASH BALANCES.

(In lakhs of rupees).

Last day in March.	Treasuries.	Head Offices of the Presidency Banks	Branches of the Presidency Banks	Reserve Treasuries.	Total.
Pre-war average (1910-14)	9,42	2,08	2,81	7,60	21,91
1915 ...	10,17	2,62	3,33	6,05	22,17
1916 ...	8,52	2,15	3,76	3,59	18,02
1917 ...	8,26	5,95	4,17	4,56	22,94
1918 ...	7,57	9,55	3,40	2,47	22,99
1919 ...	7,25	11,81	3,33	3,58	22,97
War five years' average ...	8,35	6,42	3,60	4,05	22,42

The number and percentage share of each on March 31, 1919, and previous years were as follows :—

—	Number on March 31, 1919.	Pre-war average 1910—14.	War average 1915—19.	March 31, 1919.
District treasuries ...	272	43	37	28
Presidency Banks—Head Offices...	3	9	29	45
Do. Branches ...	42	13	16	13
Reserve treasuries ...	3	35	18	14
Total ...	320	100	100	100

(2) The Exchange Banks may be divided into two classes: (1) Those carrying on their business mainly in India, (2) and those which have merely agencies of large Banking trusts, having ramifications all over Asia. The second class includes the *Comptoir National d' Escompte de Paris*; the Yokohama Specie Bank, the Deutsche-Asiatische Bank before the War, the International Banking Corporation, and the Russia-Asiatic Bank. In the first class, there are 6 Banks—the Delhi and London Bank (1844), the Chartered Bank of India, Australia, and China (1853), the National Bank of India (1863), the Hong-Kong and Shanghai Banking Corporation (1864), and the Mercantile Bank of India (1893). The business of financing English trade is carried on mainly by these enterprising banks. The Exchange Bank does the ordinary business of banking, besides the work in which it has specialised. It receives a larger amount of deposit than the ordinary bank, as the terms it offers are much better than the

average rate of interest which English Banks grant to the depositors. The greater part of its capital is employed in the purchase of discount and of Bills of Exchange. Some of these Bills are negotiated in London and drawn on India, but the majority of them are negotiated in India and drawn on London. The demand for Bills on London is so great that there is generally no difficulty in securing a large supply; and an influential Exchange Bank finds no difficulty in discounting as many of these Trade Bills as it wants; nor is there any difficulty in re-discounting them in London. This necessarily increases their funds in London, and they have to send a large part to India, to purchase more bills. They even up accounts as between India and London by buying, in London, Council Bills or sovereigns, or silver, for remittance to India. The intensity of demand for bills consequently depends upon the amount of their business in India. They are guided in their purchase of these bills by the advices of their London agent, while the Indian branches obtain sufficient fund to enable them to take the Trade bills, if the offer of the exporters is satisfactory enough to make the transaction as a whole worth while. The bills reach England, and are re-discounted, if the bank requires additional free funds to buy more Council Bills. If he withdraws the conveniences of telegraphic transfers or forces the banks to put themselves in funds in India by sending sovereigns, it causes delay and additional expenses in the discounting of bills in India; hence Indian traders cannot turn the goods they are exporting into money. If the trade is slack, and the exports fall off, the offer of bills for discount is reduced and the Exchange

Banks buy a much smaller quantity of Bills. So long as the amount which the Secretary of State requires to draw from India by means of his Council drafts is well within the amount owing to India in settlement of the balance of trade in her favour, and so long as the Secretary of State sells his drafts at rates at which they are not a more expensive mode of remittance than shipments of sovereigns to India, he can have no difficulty in drawing the funds he requires and maintaining exchange at the rate of 1*s.* 4*d.* to the rupee. These conditions have been fulfilled from 1899 down to the present time, with the exception of the period covered by the closing months of 1907 and a part of 1908. The crisis was made unusually severe by the effects of a very deficient monsoon in 1907, followed by an extraordinarily acute depression of trade over the whole world, towards the end of the same year. The Government of India, in preparing their Budget for a coming year, frame their estimate of the amount which, after meeting the various other anticipated demands upon their treasury balances and providing for the retention of sufficient balances at the close of the year, they anticipate that they will be able to remit to the Secretary of State during the year through the medium of his sales of Council Bills, towards defraying the expenditure of the India Office on revenue and capital account. In this estimate account is necessarily taken of the amount which can advantageously be raised by borrowing in India towards providing for capital expenditure. Whereas until recently the sterling loans of the Secretary of State could be issued in London more cheaply than the rupee loans of the Government of India in that

country, of late years the tendency has been in the opposite direction. Thus, in 1912 the 3½ per cent. loan of the Government of India for 3 crores of rupees was issued at an average price of 96⅛, whereas the India sterling loan for £3,000,000 underwritten, was issued at 93. Ordinarily there is a steady demand for Council Bills, due mainly to the fact that India's exports being in most years more valuable than her imports, outward remittances are ordinarily more in request than homeward, and the drafts offered by the Secretary of State were the chief means by which the Banks could obtain the Indian currency needed for meeting the outward demand in full. But occasionally, owing to temporary variations in the currents of trade, there was a greater demand for homeward than for outward remittances. This might have caused the rate of exchange to fall for the time considerably below the minimum rate of 1*s.* 3 1/32*d.* On the few occasions on which such a demand arose, the Secretary of State met it by selling homeward remittances[1] at a fixed rate slightly below the minimum just mentioned. The bullion value of the rupee is 1*s.* 4*d.* when the price of silver is 43*d.* per standard ounce. So long as the price was below 43*d.*, which was the case from 1893 to 1916, the system was immune from disturbance due to variations in the price of silver, because the Secretary of State was able without loss, and indeed at a profit, to coin enough rupees to enable him to meet his obligation to sell them without limit of amount at a price approximating to

[1] Commonly known as Reserve Drafts.

1*s.* 4*d.* Thus a rise in silver, within the limit stated, could not cause a rise in the exchange value of the rupee; and it is obvious that a fall in silver could not cause a fall in the rupee. Owing to various causes the price of silver rose, and the Secretary of State for India was compelled to modify the arrangements that had worked satisfactorily from 1892 to July 1917. Various measures were taken to modify the system, and the Secretary of State for India limited the sale of Council drafts to a fixed weekly amount:—80 lakhs on 20th December 1916; 120 lakhs a week from 27th December 1916 to 25th July 1917; 90 lakhs a week from 1st August 1917 to 5th December 1917; 60 lakhs a week from 21st November 1917 to 5th December 1917; 40 lakhs a week from 12th December 1917 to 9th January 1918; 60 lakhs a week from 16th January 1918 to 27th August 1918; 40 lakhs a week from 3rd September 1918 to 10th September 1918; 30 lakhs a week from 17th September 1918 to 15th October 1918; when the demand ceased and the sales were temporarily suspended. On 6th May 1919 sales were resumed with a weekly allotment of 60 lakhs which was increased to 100 lakhs on 2nd June. From 3rd January 1917 the Secretary of India restricted the sale of Council drafts to the chief Exchange Banks, and to a few firms of special eminence who had long been large purchasers; and these banks and firms were required, as a condition of remaining on what was known as the Approved List, to do business with other institutions and firms only at rates prescribed by the Secretary of State, and calculated to yield an ordinary banking profit. That the method was

liable to abuses, that charges of nepotism would be brought against the originators of the scheme, and that distrust and suspicion would be generated by the pursuit of a policy that was liable to affect a variety of interests, there can be no doubt. The supplementary measures of the Secretary of State were not calculated to inspire confidence. It was, no doubt, necessary that the Indian currency coming into the possession of the Exchange Banks, whether through the purchase of Council drafts, the purchase in London and elsewhere of commercial drafts drawn against imports and payable in India, or the sale in India of drafts on London and elsewhere, should be used as far as possible for financing the export from India of articles of importance for carrying on the war. But the restrictions imposed by the Secretary of State, and the obligation of the banks to apply their resources in India primarily to the financing of articles on the list, were disliked by various sections of traders. They regarded them as a hindrance to the freedom of trade; and viewed with distrust all the devices which the necessities of the war forced themselves upon the Secretary of State. That the measures were necessary, is clear; nor can it be doubted that the Approved List was impartially, and efficiently managed. The criticisms levelled at the policy of the India Office were neither just, nor reasonable. It is the practice of the Exchange Banks to equate their homeward and outward transactions so that their English and Indian resources respectively, arising mainly from deposits, may remain practically intact in the countries in which they were obtained. In 1917 the national interest made it desirable that exports from India should be

financed as freely as possible; an object which, it was obvious, would be assisted if the Banks departed from the policy of the "even keel," and bought export bills in excess of their purchases in the other direction. It is obvious that this would involve the transfer to England of some of the Banks' Indian resources, which would thereafter, if the rupee rose, have to be retransferred to India at a rate involving loss to the Bank on the double transaction. The Banks could not reasonably be asked to take this risk. The Secretary of State insured them against it by undertaking that, up to the amount of the Banks' Indian resources temporarily transferred to England, he would within a year after the war sell to the Banks Indian exchange at the rate at which the temporary transfer had been effected.

Some of the difficulties of traders could be avoided, and a comparative stability of exchange could be attained, by the adoption of the policy which Sir Lionel Abrahams advocated, before the Babington Smith Commission. It is nothing else but the adaptation of the methods to which the Banks had resorted before 1893. Fluctuations were as frequent then, as now; but the devices which the Banks used at that time were successful in keeping the risks of the traders within limits. The evidence of Mr. Ralli[1] showed clearly that the policy was popular. Sir Lionel Abrahams thought that the Exchange Banks could evolve a method whereby the policy to which Ralli referred could be applied to the present situation. Sir Lionel was not an optimist; as his severe financial

[1] See the chapter on the Evolution of the Indian currency.

training, and unravelled experience of Indian finance, had developed an amount of caution, an infinite capacity for taking pains, and a meticulous accuracy, that extorted the admiration of all who had the privilege of hearing him before the Chamberlain and the Babington Smith Commissions. His enthusiasm for the policy was damped by the coldness of the Exchange Banks. He admitted that the Exchange Banks were not "ready and willing to make exchange contracts forward," but he argued that the difficulty could be removed by the Secretary of State for India. He could do more than he now does to enable this difficulty to be overcome. At present he does little, because the only form of outward remittance which he sells are immediate transfers, deferred transfers payable after 16 days, and demand bills, none of which are of much use to a Bank wishing to buy forward exchange on India as cover against a forward contract for the purpose in India of exchange on London. But there seems no reason why the Secretary of State should not improve on his present practice by being prepared either to make with Banks and other remitters contracts for forward exchange on India or (which would come to much the same thing) to sell usance drafts on India. His rates would be adjusted so as to include what would in effect be an insurance premium against a possibility of a rise in exchange. If at any time he was receiving too many applications for forward exchange under this scheme, he could, if he thought fit, stiffen the rate. The proposed new feature in the Secretary of State's arrangements would remove the chief danger of hindrances to business arising from uncertainty as to the future exchange.

Sir Lionel thought that if exchange remained unsettled, it would be practicable in the next few years for the Banks and the mercantile community to make arrangements such as were common certainly before 1893, and probably in more recent years as well, to mitigate the disturbing effect of instability on the course of foreign trade. Banks would follow as far as possible the policy of the "even keel," *i.e.*, of equating their homeward with their outward transactions. So far as they were able to do this, they would at no stage incur any risk of loss by exchange. The possibility of loss [1] would occur if at the time of an alteration in the rate of exchange they had heavier commitments in one direction than in the other. They could provide an insurance fund against this risk, if necessary, by widening the margins between their buying and selling rates; and, if the Secretary of State and the Government of India sold Council drafts and reverse drafts freely, the risk would be non-existent so far as immediate business was concerned, because the Banks would be able to maintain an "even keel" automatically. But it is necessary to consider the possibility that Banks will be unwilling to enter into forward exchange contracts with merchants if they had to rely on an insurance fund built up from specially adjusted rates as their only security against loss due to a rise in exchange occurring between the date of a forward contract and the date when the actual purchase of the instrument of exchange had to be made.

If this scheme were adopted, there would still of course be a possibility that, when a rise in exchange was

[1] And, of course, of profit also.

thought to be imminent, merchants might hold back, in the hope of a better rate, remittances required to pay for imports. But the inconvenience arising from such action would in any case be transient, because the exigencies of trade set a natural limit to the extent of the holding back by merchants of their homeward remittances; and the Secretary of State could do much to avoid giving inducements to merchants to practise it, *e.g.*, by allowing considerable intervals to elapse between successive increases[1] in the price of Council drafts. Some of the difficulties of exchange fluctuations could be removed, if the exchange banks took the matter seriously in hand, and arrived at some sort of arrangement. Their difficulty centres around export business, for if the banks anticipate that exchange is going to rise, they would lose if they did forward export business and their exchange did rise, whereas if they did forward import business and the exchange rose they would gain. If the policy of following silver and of adapting the Secretary of State's procedure to that state were adopted, the practice of obtaining one's exchange at the same time at which one makes buying and selling contracts could be followed. I am inclined to think that it would be difficult for the Government of India to maintain the exchange value of the rupee at two shillings. The gap is too wide, and the difference is too great. We cannot maintain, and it is impossible to establish the stability of exchange at the present time; and it would have been better if the cautious policy of Sir Lionel Abraham's had been

[1] If such should become necessary.

adopted. He advised the Government to wait and see; and he was very diffident of the success of the scheme which the Government of India formulated. He advised them not to make any hypotheses, and declared that "All through this currency discussion the weakness of the Government of India has been that it has made hypotheses; it has assumed this, that, or the other about the future which no one has any justification for assuming." He went further and asserted that "Persons who spoke of the stability of exchange as though it were the bed-rock on which the prosperity of India rests were victims of an illusion." This palpable hit at the Government of India reveals the existence of an acute divergence of opinion. Sir Lionel relied for the success of the scheme mainly upon the exchange banks; though the dangers which surround the forward contracts, and the losses which some of the banks sustained during the years 1870 to 1892, may prove a serious hindrance to the re-establishment of that system. Sir Lionel was not perfect in his knowledge of history; and it will be easy to show that some of his conclusions are based upon false premises. But it cannot be denied that a greater amount of co-operation on the part of the exchange banks, will lead to a modus vivenda, whereby the necessity of fixation of the exchange value of the rupee could be avoided.

(3) *Indian Joint Stock Banks.*—There are in existence 88 of these banks with 199 branches, many of which, however, are very small concerns, only 18 having a capital of 5 lakhs or over; many of the remainder are very small concerns of doubtful soundness, and every

year sees the disappearance of several and the starting of a number of new ones. In the few years previous to 1913, there had been a remarkable expansion of joint-stock banking in Northern India, particularly in the Punjab, where, owing to the opening of the Canal, Colonies, and the growth of the export trade in wheat, there was a good deal of accumulated wealth. The most important of these banks was the Peoples' Bank of India, with its headquarters at Lahore, and with a number of branches throughout the Punjab and the Western Districts of the United Provinces. This Bank, with a paid-up capital of 12½ lakhs, and deposits of 1¼ crores, went into liquidation in November 1913, and was followed by the collapse of a number of Indian managed banks in that province and in Bombay. Altogether, during 1913-14, 54 banks went into liquidation with a total paid-up capital of 144 lakhs. Since then, the annual liquidations[1] have been of small mushroom banks, and the larger Indian banks now in existence are probably sound and well managed. The failures of 1913-14 undoubtedly gave a considerable setback to the spread of banking, especially in Northern India, where, previous to those failures, the banking habit appeared to have taken root. Since then, however, there has been a steady increase in the total deposits, as will be seen from the following figures:—

	LAKHS.
31st December 1880	63
,, 1890	2,71

[1] 11 in 1915, 13 in 1916, and 9 in 1917.

		LAKHS.
31st December	1900	8,07
,,	1912	27,26
,,	1913	24,10
,,	1914	18,37
,,	1915	18,88
,,	1916	25,72
,,	1917	32,16

Not all of these joint stock banks are Indian managed. The largest of them, namely the Alliance Bank of Simla,[1] and the Allahabad Bank, are under European management, but the greater part of their operations are upcountry and, subject to the qualifications mentioned earlier, it may be said that the growth in the deposits of Indian joint stock banks affords some measure of the development of the banking habit.

(4) Since 1900, the number of depositors has increased from 786,000 to 1,638,000, at the end of 1917-18; while the net deposits outstanding at the end of each year have increased from about 9½ crores at the end of 1899-1900 to over 18¾ crores at the end of 1918-19. In April, 1914, the outstanding deposits amounted to over 23 crores; the unsettlement due to the war resulted in fairly large withdrawals during 1914-15 and part of 1915-16, since when, however, there has been a steady recovery. The growth of investing habit, is not without relevance to the present enquiry, for, as soon as a man begins to invest his savings, the time must eventually come when he will use a bank,

[1] Which has absorbed several other banks.

provided of course[1] there is near to his door a bank which he will trust. The growth in the investment habit has been strikingly exemplified by the operations of the two Indian War Loans. In the First War Loan, the number of applications amounted to 159,932, although the greatest number in any previous loan had not exceeded 3,000. In the Second War Loan, the number of investors was 231,302, although no doubt, many of these had already invested in the previous year. Added to this, no fewer than 4,648,425 cash certificates were sold during the year 1917-18. It would, of course, be unsafe to make too large a deduction from these figures, as much of the investment in the War Loans was undoubtedly the result of an energetic propaganda and an appeal to the patriotism of investors. Nevertheless, it is probably not too much to hope that some, at any rate, of the new investors will be retained, and will acquire the habit of placing the savings in Government securities.

(5) The co-operative movement is another important item. Membership of a co-operative bank or similar society is not quite the same thing as having an individual banking account, but there is no doubt that this movement contains the germ of what may have a considerable effect upon the mental attitude of the people at large, in the matter of keeping their savings elsewhere than in hoards. It will be seen from the statement that the growth in deposits in these co-operative societies has not kept pace with the growth in the number of members,

[1] Which is unfortunately very far from being the case in many parts of India.

the reason being that the movement as a whole has not yet recovered from the setback which it experienced at the beginning of the war.

GROWTH OF CO-OPERATIVE BANKS, ETC.

(*Rupees in Thousands*).

—	Average for four years from 1906-10.	Average for four years from 1910-14.	1914-15.	1915-16.	1916-17.	1917-18.
Number of societies of all kinds.	1,926	10,400	17,327	19,675	23,036	26,465
Number of members ...	161,910	488,401	787,661	865,053	960,960	1,055,241
Deposits from members. Rs.	14,12	79,98	121,46	67,37	79,01	89,41

(6) *Indigenous banking.*—No data exist for the construction of scientific history of Indian banking. The Indian shroffs finance nearly the whole of the internal trade of India, and rarely if ever discount it. European papers are purchased in sterling bills. The appendix to the Fowler Committee Report contains a most interesting letter from Mr. J. H. Sleigh, Secretary and Treasurer of the Bank of Bombay.

It throws vivid light on the methods of shroffs, and brings out clearly the relation between the bank rate and

the hundee. Charles Cook [1] was probably the first who showed the significance of indigenous banking to Indian trade. But his discussion of the subject is discursive; he held very vague ideas on the relation of Presidency Banks to indigenous banking. The task of the future historian of indigenous will centre round this problem; for upon the harmonious working of these two agencies, and the due co-operation of these essential factors, will depend the economic development of India. The operations of the Marwaris are hard to define. They are a suspicious race, and their business transactions are hermetically sealed to the public gaze. We can understand then the causes of this distrust, and sympathise with them in their efforts to keep themselves from the benumbing influence of official rules and regulations. Modern banking is, however, tightening its grip, the habit of investment is spreading, and deposits in Joint Stock Banks and other Banks, testify alike to the increase in the volume and velocity of money. Indian shroffs must fall into line with the other institutions, and the greatest need at the present time is a bank that will exhibit the best features of both the systems. Some of the methods which Mr. Sleigh described are still prevalent, and though minor changes have occurred in the organization of indigenous Bankers and the experience of the war has taken its toll of change, indigenous banking is in substantially the same condition as it was during the period which Sleigh described:—During the last export season, shroffs' 60 days' sight bills were not obtainable over 8 per cent. discount. This was the rate

[1] See the passage quoted above.

then ruling in the bazaar, both in Bombay and Calcutta, and that too, while the Exchange Banks were ready to receive fixed deposits for short periods at 9, 10, and even 11 per cent. per annum, and while the Presidency Banks were straining to meet the demands for loans at 12 and 13 per cent. per annum. But there is no singularity in these facts. The same peculiarity has shown itself over and over again during periods of financial pressure; and even in 1898 while money was not by any means tight, there existed a difference of about 2 per cent. between the bazaar and the Presidency Bank rates. Sleigh found that when the official rate rose abnormally high, the rate in the native market did not respond to the full extent, but generally stopped at 7 or 8 per cent., though the Presidency Banks' rate might rise to 10 or 12 per cent. The explanation is simple. The shroffs, who finance nearly the whole of the internal trade of India, rarely, if ever, discount European paper, and never purchase foreign or sterling bills. Neither do they lend money on Government paper or similar securities, but confine their advances to the discount of *hoondees*, to loans to cultivators, and against gold and silver bullion. The *hoondees* they purchase are for the most part those of traders, small and large, at rates of discount ranging from 9 to 25 per cent. per annum; but the *hoondees* they buy and sell to each other, which are chiefly the traders' *hoondees* bearing the shroffs' own endorsements, rule the rates in the bazaar, and are generally negotiated, during the busy season, at from 5 to 8 per cent. discount. They also discount their endorsements pretty largely with the Presidency Banks when rates are low, and discontinue doing so when they rise

above 6 per cent. They also speculate largely at times in Government paper, especially during the off season, but rarely or ever hold it or lend on it.

It is instructive to compare variations in Bank Rate and Hoondee Rate.

BANK OF BENGAL.

1917	Bank Rate.	Hundi Rate.	Amount of Bills discounted when Bank Rate was changed. Rs. in lakhs.
11th January ...	...	8	.....
18th February ...	...	7½	.....
19th February ...	...	7	.....
22nd February ...	7	6½	2,63·16
15th March ...	6	5½	2,68·01
10th April ...	...	6	.....
17th April ...	...	7	.....
26th April ...	...	7½	.....
10th May ...	...	8	.....
19th July ...	...	7	.....
2nd August ...	...	6	.....
16th August ...	...	5	.....
23rd August ...	...	4½	.....
30th August ...	...	4	.....
6th September ...	5	...	1,26·47
22nd November ...	...	4½	.....
27th November ...	...	5	.....
5th December ...	...	5½	.....
1918			
3rd January ...	6	6	4,89·51
22nd January ...	...	6½	.....
5th February ...	...	7	.....
11th April ...	...	7½	.....
14th May ...	...	6	.....
23rd May ...	5	5	4,45·36
1st August ...	...	6	.....
26th September ...	...	6½	.....
7th November ...	6	...	2,21·74

BANK OF BOMBAY.

1917	Bank Rate.	Hundi Rate.	Amount of Bills discounted when Bank Rate was changed. Rs. in lakhs.
6th January ...	...	9	99·37
9th January ...	...	8	99·37
15th February ...	...	7½	1,70·56
16th February ...	...	7	1,70·56
19th March ...	6	6½	1,87·73
5th April ...	...	7	2,28·11
10th April ...	...	7½	2,28·68
16th April ...	...	8	2,02·38
29th May ...	...	7	1,68·92
5th June ...	6	6	1,58·60
9th June ...	...	7	1,70 92
17th July ...	...	6	1,17·26
30th July ...	...	5	98·84
15th August ...	...	4½	66·50
20th August ...	...	4	60·37
23rd August ...	5	5	1,43·96
19th November ...	...	6	1,70·29
29th November ...	...	6½	1,68·08
3rd December ...	...	...	.....
1918			
28th January ...	6	7	1,29·91
4th February ...	...	7½	1,35·41
9th April ...	...	8	1,18·81
25th April ...	...	7½	1,26·66
30th April ...	...	7	1,23·26
9th May ...	...	6½	1,08·59
15th May ...	...	6	1,10·84
24th May ...	5	5½	96·77
30th May ...	...	5	82·00
21st September ...	...	5½	73·23
26th September ...	...	6	73·23
30th October ...	...	6½	66·98
7th November ...	6	7	60·99
28th December ...	...	7½	30 16

The statistics show clearly the part played by the Presidency Banks in financing the internal trade of India

through their purchase of hoondees. But the business of the banks is not limited by the extent of their hundee business; for a substantial portion of the cash credits given by the Presidency Bank represent advances made directly against produce, hypothecated to the Bank by Indian traders. Moreover the Banks lend frequently to Indian concerns against Government and other approved securities. Comparison of the operations of the Bank of Bengal with those of Bombay shows clearly that its Bank and the Hoondee Rates, do not differ materially. The Hoondee Rate of the Bank of Madras is governed to a large extent by those of Bengal and Bombay. The people with whom the Bank deals directly are for the most part large shroffs of good standing in the principal cities. These men operate with their own capital and, generally speaking, it is only when they have laid out all their available capital in purchasing the *hundis* of other[1] shroffs that they come to the Presidency Bank. The Shroffs whose *hundis* the larger shroffs have purchased have probably also similarly financed other and still smaller shroffs or mahajans and so on, until we get down to the smallest flea of all, namely the village bania, or grain dealer or goldsmith. For instance, shroff A at Amritsar may purchase a bill drawn by a grain dealer upon a Bombay merchant. A may endorse the bill and sell it to B, a large shroff at Lahore, who sells it to the Presidency Bank which sends it to their Bombay Agency for collection. Or the bill may be a pure finance bill.[2] The

[1] And usually smaller.

[2] Generally known as a "hand" bill, as opposed to a "trade" bill drawn against produce.

Bank's real security in the matter of purchasing or rediscounting bills is the personal standing of the drawee or endorser or acceptor, and it has an elaborate and very efficient system of limits, whereby the amount of bills discounted for each shroff is watched. Put very briefly, the system is as follows. Shroff A is given in the Bank's register a limit of, say, 20 lakhs, and at the same time the names of the drawees of the bills purchased from him by the Bank are watched. The Bank may have purchased from A, say 15 lakhs of bills, the drawees of which are B, C, D, E, etc. If it is observed that shroff A has been purchasing rather too many bills from shroff D, who is of comparatively small standing, or about whom not much is known, A will be liable to be turned down, or, if the fact has been noticed by the Head Office, the Branch will at once be told to go slow. Hundis are of two kinds—pure finance bills, known as hand bills, and trade bills. The Banks are much more particular as to the amount of the former that they discount for a shroff than about the latter. This is not because they receive any documents on account of trade bills,[1] but because they know that, somewhere or other, produce or goods exist against the credit so created, that such goods must have been hypothecated to one or other of the shroffs whose names are on the bill, and that, if anything goes wrong, such shroff will be able to realise on the goods and so to reimburse the subsequent holders of the bill, to whom he is liable. In the case of hand bills on the other hand, it is impossible to say definitely how far these represent a genuine trade demand or not.

[1] Their direct security is just as personal as in the case of hand bills.

It may be said broadly that the 'hundi' rate rises and falls with the bank rate proper, though somewhat in advance of it, and naturally so, for one is a discount rate and the other a rate for day-to-day loans. Thus, at the beginning of the busy season, the hundi rate would usually be higher than the bank rate; the reverse being the case when the slack season is about to begin, so that hundi rate may be said to be a sort of long-distance signal. When the Bank finds that it is not getting enough hundis and its money is lying unemployed, it puts down the hundi rate; when on the other hand, it feels that it has already got too much money in the bazaar, or, for some reason or other, wishes to consolidate and conserve its resources, it puts up the hundi rate, and may even go to the length of refusing to buy new hundis. No cases have come to official notice of a Presidency Bank making a wholesale refusal to renew hundis, although it may charge a rate considerably higher than that at which the original hundi was discounted. On special occasions, when the bank is very hardpressed for money, it may impose a prohibitive rate on the bazaar, so as to force shroffs to endeavour to raise money elsewhere rather than to renew their hundis with the Bank. The attached statements show on one occasion on which this was done, *viz.*, in December 1916, when the Bank of Bengal imposed a hundi rate of 10 per cent. although the bank rate was only 8 per cent. This was at a time when a very large number of special Councils were being sold, and when there was very great pressure to finance the export trade, while the Government itself was hard-pressed for funds.

DEVELOPMENT OF INDIGENOUS BANKING

BY

RAO SAHIB M. C. T. MUTHIAH CHETTY, M.L.C.,
Chairman of Stock Exchange and Sheriff of Madras.

The origin and development of Indigenous Banking in South India require a separate volume for itself and it is possible to present only a bare outline here. The evolution of Banking system in India has followed the same lines as in other countries and it has the same origin, has followed the same course of development, and has produced precisely the same results.

The earliest records available show that in India, as in England, the bankers started by receiving deposits from those who could not for the time use their money, for which the bankers issued receipts. In course of time, the customers expected some interest for the sums left with their bankers, who in their turn began to lend these deposits to others at a higher rate of interest than they charged their depositors. In case of specie, valuable jewellery, etc., the bankers charged small sums for taking care of others' wealth. Thus the two important elements of modern Banking, receiving deposits and lending moneys, were common, as early as one can trace. While in the West, the history of Banking is the history of 300 years ; in India one finds it mentioned in Manu and other Smriti writers. While in the West, the private Banking system was arrested in its growth by the granting of a charter to the Bank of England on July 27th, 1694 ; in India, the indigenous

system has grown vigorously by absorbing the best elements of the Western Banking systems. While in the West, the Banking system has grown in the wrecks of frauds and failures, the Indian system has grown on the honesty and probity of the bankers and the confidence reposed by the customers. While in the West a series of elaborate, technical and complicated formalities have been evolved to prevent failures and frauds; in India, the very simplicity and absence of all technicalities have protected the indigenous system from failure. It is not too much to claim, that there have been very few failures of banks or bankers in the indigenous system. This remarkable development of indigenous Banking and its assimilation of every modern invention to further its growth, are due entirely to one class or community called the Nattucottai Chetties or Nagarathars. The history of that community is yet to be written. When it is written, it will be found that the history of the community is the history of indigenous Banking in India. The members of this community in the two centuries immediately before and after the birth of Christ were the largest maritime traders carrying on export and import business with distant countries. When owing to reasons too many to detail here, they stopped their maritime trade, they settled inland, and employed their vast wealth in lending to kings, petty chieftains, and others. Money attracts money, and those who had deposits to invest left them with these people, and we have the germs of banking as early as we can trace. While the Kings of England were torturing the Jews for getting large sums, the Indian Banking system at that period was a

well-organised one; and was respected by the rich and poor. The early law-giver, Manu, forbade money-lending by the superior castes, Brahmins and Kshatriyas.[1] So the Nagarathars who belong to the Vysya community were left free from competition. The Koran prohibits true Mussulmans from lending money at interest, and such religious scruples had a large influence in confining early banking to one set of people. In course of time, large religious and charitable endowments, and secular endowments to benefit successive generations, were left in the hands of the Nagarathar Bankers, to be utilised for purposes mentioned in the trust. The banker with the greatest strictness applied it to such purposes, by paying interest, or supplying articles or paying the principal whenever it was necessary. Generations succeeded each other, and the investment was there regularly utilized for such purposes. This has an important bearing on the development of indigenous banking, as these endowments gave the bankers control over large sums.

Even as early as the days of Manu, two important divisions of money lending were recognised. Different rates of interest have been fixed by Manu: (1) money lent on security where no risk was incurred, (2) money lent without security where there was risk in recovering the money. The rates are high enough to startle those who consider high interest to be synonymous with usury.

[1] Code X, 117.

MANU'S CODE.

Rates of Interest.	PER CENT.
For sums lent on good security where there was absolutely no risk ...	1¼
For sums lent where the security was insufficient and where there was much risk ...	1½

Manu gives a further classification according to the nature of personal security :—

	PER CENT.
Brahmin (priest) ...	2
Kshatriya (soldier) ...	3
Vysya (merchant) ...	4
Sudra (working man) ...	5

The reason for this distinction is apparent ; the first two classes being superior castes will not evade the repayment of money, as the punishments fixed for these two classes in the next world are higher than those of the other two.

It may be mentioned in passing that while the modern English system of Banking considers loans to speculative traders, as strictly against ethics of Banking, the continental system has gained much by largely lending to speculative business and in many cases getting a return of a share in the profits. The Indian system has from the very beginning followed the advanced continental system.

We have traced the origin and history of the two elements of modern Banking, receiving deposits

and lending money. Another important element of Banking, *viz.*, issuing bills, discounting them, etc., though it developed very late in the Western Banking system, was well-known to the indigenous Bankers from time immemorial. In England it was about the beginning of the 17th century that the Bills were made payable to bearer, and the practice of making them payable by indorsement began to be adopted by the English foreign merchants. A Bill of Exchange is defined by section 3 of the Bill of Exchange Act: "An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer."

This definition, word by word, applies to Hundis used, negotiated, and issued by indigenous bankers. They are also like the Bills of Exchange payable either at sight or at some future date. The process of discounting them is the same as that employed by a Western Banker. The term "Hundial" occurs in very early temple inscriptions. While a good deal of Banking literature has grown on the nature of the Bills of Exchange, Inland Bills, and Foreign Bills, the indigenous banker follows the same set of simple rules in negotiating both. These Hundis are issued on a scale proportionate to the needs of the community, and are promptly honoured. The professional man, the merchant, the contractor, all carry with them Hundis for the sake of safety and convenience, and cash them quickly. The whole system was developed long before courts were established, and

the legislature had begun to be busy framing laws to prevent crime.

The Banker trusted his customer absolutely, and never scrutinized his signature, or compared it with specimens many times; while the customer looked to the unimpeachable honesty and high character of the Banking firm.

Bills under the Western system are drawn under various credits: (1) Travelling letter of credit, (2) Confirmed Bankers' credit, (3) Unconfirmed Bankers' credit, (4) Irrevocable credit, (5) Clean credit, (6) Documentary credit, (7) London acceptance credit, (8) Revolving credit, and (9) Omnibus credit. The indigenous system has got rid of all these complications, as Hundis are used for all these purposes.

The above account has disclosed the indigenous Banker in his varying capacities as (1) receiver of deposits, (2) money lender, (3) collecting and paying medium, (4) bill broker, (5) bailee of goods, and (6) trustee or agent. While the indigenous system has progressed thus far, performing all the functions of Western Banking, there is one more function in which the Western system lags behind. The indigenous bankers are the largest endowers for religious and charitable purposes. The banker collects a very infinitesimal fraction of the interest or profits received from his customers, and reserves it for religious or charitable purposes. The fund accumulates to a huge sum, and the many choultries, temples, patasalas, that offer a refuge to thousands are monuments of this function of the indigenous banker.

Under modern conditions these funds are diverted to more secular purposes, such as schools, colleges, hospitals, etc. Opinions may differ on this aspect of a banker's function, but a cursory review of this question will make one decide this as the most necessary function. Most of the modern leaders of political science have recognised that a Government of Law and Order, national integrity, honest labour, honesty in keeping contracts and domestic sanctity—all these are impossible without the sanction of some form of religion. If the bankers who control large wealth are not the vehicle for carrying financial aid to these charitable and religious purposes, individual help and initiative will always fail.

Constitution.—The indigenous banks have their own particular names for carrying on their business and they call it "Vilasams." These "vilasams" are composed of the names of the bankers constituting the firms. In the business world the vilasams carry with them the standing of the firm, the character and probity of the partners and the amount of capital which the firm could employ. In the same way as the names of Banks such as "Union of London and Smiths Bank," or "Lloyds Bank," signify high banking reputation, the name of S. Rm. M.C.T. carries with it the highest reputation for banking honesty, and the investor, the customer, the bill-brokers, etc., will readily transact any business without the least suspicion or distrust.

Rate of interest.—The rate of interest is settled amongst these bankers and they charge by agreement their market rate. The Western Bank-rate has a certain

influence over these market rates, as these banks have large dealings with large Western Banks some of whom may be called " Bankers' banks." [1]

These banks dispense with the use of forms, technicalities, various systems of book-keeping, etc., and in turn simplify the work of the banker as well as reduce the establishment expenditure. They are of unlimited liability and the financial resources, or the capital is identical with the wealth of the partners composing the firm. Legislation was attempted on various occasions with reference to Banks with unlimited liability but it has been abandoned. But the high character, stern, and unimpeachable probity of the partners, the fear of God, and the inflexible rules and customs of the community have endeared these banks to their customers ; and so long as money is invested, and honoured, the indigenous banks will flourish ; standing as a monument of Indian business-capacity and Indian honesty and integrity in business-dealing.

Central Bank.—The organisation of banking in India has developed along original lines. The existence of the three Presidency Banks, the maintenance of numerous treasuries and sub-treasuries, and the limited influence which the Indian joint-stock banks have exercised upon the operations of the Government of India produced a confused medley of laws and regulations. The working of the system exposed the Government of India to severe criticism ; and the lack of trained and experienced men

[1] See p. 359—366 above ; and compare Memorandum on Discount Rates in India, by Ross and Anderson, Fowler Committee Report, App.

was a source of constant anxiety to them. This was one of the reasons adduced by Sir William Meyer for the establishment of the Central Bank. He thought that "It would relieve the officers of Government, who very often have neither the training nor experience necessary for this sort of work, of obligations and responsibilities for which they themselves must recognise that they are not fully equipped." Again, a State bank would place the whole, or a part of the money that is kept in reserve treasuries and possibly a part of what is now kept in District Treasuries at the disposal of trade. Its effect on the discount rate and ultimately on the development of industry and trade can hardly be exaggerated. The most important business of the Reichsbank is the discount of bills. Through its dealings with these securities, the bank not only finds the means for the employment of capital, but also for meeting demands which may be made on it. As Sir Inglis Palgrave points out in his "The Bank Rate and the Money Market," "The large amount of bills held on England shews the importance which the Reichsbank ascribes to possessing the means of checking any movement of the exchange in favour of England, and which may draw gold from Germany." Whenever the rates of exchange are favourable, the Bank increases as much as possible its holdings of foreign bills. When, on the contrary, the balance of international payments is unfavourable, as shewn by higher exchange rates, the Reichsbank offers to sell foreign bills. It thus prevents or delays a further increase in the rate of exchange and actual gold exports. This policy forms an effective supplement to a rational

discount policy, and has been pursued most successfully by the Austro-Hungarian Bank and the National Bank of Belgium. The business carried on by the Bank of France, corresponds, as mentioned before, more closely with that carried on by the Bank of Germany than with that of the Bank of England. The charges for advances and discounts made at the head office correspond with those made at all the branches. Both the Banks of France and Germany have many branches, many more than the Bank of England; both of them do a large business in remitting sums of money from one part of the country to another, and the bills which both of them deal with in the way of their business are comparatively small in amount. The average amount of the inland bills dealt in by the Bank of Germany in 1900 was £85 4*s.* for each bill. The average amount of trade bills discounted at Paris by the Bank of France in 1900 was £29 3*s.* 3*d.* The average amount of bills dealt in by the Bank of England is believed to be much larger than either of these sums. The development of German commerce and industry has been facilitated by the Imperial Bank of Germany; and all the European countries have adopted the system of which Holland may justly claim to be the originator. The arguments for the establishment of a Central Bank in India are much stronger, as Indian industries are in an incipient stage; banking facilities are few and far between; efficient management is lacking; and there is no separate organisation that could sell council bills and telegraphic transfers. A Central Bank would be able to borrow in London and thus give a larger supply of loan capital to

India. There were many obstacles to the realisation of this idea. Inter-provincial jealousies and banking rivalries are notoriously acute; while the difficulty of maintaining the dividends of the existing shareholders of the three banks was great. There was moreover the danger of a sharp conflict of views between India and London, and the fear that this may drag in the Secretary of State and the Government of India. Nor was it easy to obtain a competent body of directors possessing wide enough experience and sufficient leisure to undertake the management of such an institution. The history of proposals for the establishment of a state bank need not be detailed here, as a mass of material exists in the Appendices to the Interim report of the Chamberlain Commission. The first proposal came from Mr. G. Dickson, in March 1867, when the old Bank of Bombay was known to have lost a large part of its capital. Dickson suggested the amalgamation of the three Presidency Banks into a Central Bank for all India, with a paid-up capital of 5 crores of rupees, and an unpaid capital of the same amount. Dickson thought that the proposed bank would be equal at all times and under all circumstances not only to meet the legitimate requirements of commerce, but by unity of action and under the eye of the Government of India to control those recurring monetary crises which although hitherto more felt in the Bombay Presidency, yet very closely and intimately affect the interests and position of all. Government would have an absolute guarantee for the unvarying management of their treasuries under one controlling power; a certainty of greater economy in

the use and distribution of their balances throughout India; uniform management of the public debt under the same safeguards but with enlarged security, and a powerful agent in aiding them in all their financial measures, not only at the seat of Government but by combined action throughout the whole country. Dickson's scheme was communicated to the Directors of the Bank of Bombay by whom it was unanimously approved. The attitude of the Government of India towards it was encouraging. But it was opposed by the shareholders, and the Banks of Bombay and Bengal withdrew from the negotiations. A more practicable scheme was suggested to the Indian Currency Committee of 1888-89 by Lord Rothschild. He suggested the formation of a Central Bank, with capital of £14,000,000, to be held partly in gold and partly in securities, and the fusion of the Presidency Banks with the Central Bank. It was to hold Government balances; to have the right to import silver for coinage, free of duty, and to share in profits of coinage; to take no part in exchange business, but to confine itself to internal operations and to lending to Government on deficiency bills; to take such precautions for protecting its gold as are taken by Banks of France and Germany. In the event of the Central Bank's supply of gold running short, the Government was to come to rescue to the extent of £10,000,000 sterling. A more practicable proposal was made by Sir Everard Hambro to the same commission. He did not outline details, nor did he formulate clearly the principles underlying the maintenance of a State Bank; but his diagnosis was sound, and it was probably this feature of the

scheme which appealed most to the Government of India. He declared that the recommendations of the Committee, if adopted, will depend on the banking wants of the country being assisted in times of pressure and curtailed in times of slackness; and this could only be done by the establishment of some institution having ample facilities at its disposal, and framed on somewhat similar lines to those of either the Bank of England or the Bank of France. He thought that a strong bank, properly constituted, would be a powerful assistant in giving effect to any regulation having the convertibility of the rupee in view, and that, working under proper currency regulations, such a bank would be likely to carry them out in a more effective way, and in a manner more in harmony with the trade wants of the country, than any Government Department, however well administered, could possibly do. The Government of India were in favour of the proposal and adduced weighty arguments in its support. Both the Secretary of State for India and the Government of India began the discussion with a favourable disposition towards the scheme, but insuperable difficulties arose.[1] It was feared that the voice of the shareholders of the Central Bank would always make itself heard and this, it was thought, would seriously affect the operations of Government. The difficulty of providing extra capital was more serious still. Sir Edward Law discussed the problem in an elaborate minute, and came to the conclusion that "It was unnecessary to

[1] The Despatch 199, dated 13th June, 1901, from the Government of India, Finance and Commerce Department, to the Secretary of State for India, summarises the reasons for the dropping of the project.

establish a Central Bank for the assistance of trade, and unprofitable; as regards provision of assistance in connection with possible exchange difficulties." The Government of India were regretfully compelled "to advise that the scheme should be held in abeyance, although we desire at the same time to record our deliberate opinion that it would be distinctly advisable, if practicable, to establish a Central Bank in India, so as to relieve Government of its present heavy responsibilities, and to secure the advantages arising from the control of the banking system of a country by a solid and powerful Central Institution." The above extract shows clearly that the Government of India contemplated the revival of the scheme. The economists were unanimous on the necessity of a Central Bank for India ; and Sir Edward Holden summarised the advantages of such an institution in 1913. He thought that gold could be made to flow out from India by the establishment of a Bank with numerous branches in different parts of the country. An outflow can never be brought about on economic lines unless money be made cheaper in India. While money rules for a certain period of the year up to 8 per cent. in India, the Bank rate in London cannot attract gold from India as from other countries. Lord Meston, the representative of the Government of India, thought that "the problem for the time being was outside practical politics." He confessed that during the whole of the six years that he worked with the Government of India, this question never came under their consideration at all, and ruefully told the commission that they had no "warning of the importance which

this commission attached to the subject." This engaging frankness disarmed all criticism, and the Commissioners ought to have spared him the trouble of cross-examination. His views on the educative use of gold were no less peculiar. He thought that the possibility of popularising the notes rather than gold was "Perfectly true in theory, but in practice the great bulk of the people of India will be very long time before they come to an absolute familiarity and intimacy with notes." It is interesting to examine this theory in the light of the experiences of the war. Note circulation has enormously increased; the Imperial Bank has at last been established, and a way prepared for the co-ordination of financial with economic policy. The history of the gold standard reserve up to 1907 is the strongest justification for the caution of Government; and their policy with regard to the composition of the Reserve was on the whole based upon substantial grounds. It is clear, however, that the problems of note circulation and the financing of industry and trade through a State Bank, did not receive adequate attention. Mr. J. M. Keynes formulated proposals for a State Bank in India. He was of opinion that the higher executive officers responsible for the policy and administration of the Bank must be appointed by Government and be under its ultimate authority. In all State Banks of importance the influence of the shareholders is chiefly consultative and advisory. The Central Bank must have the management of the Government balance and of the note issue.

Mr. Keynes' conception of the Central Bank is by no means clear; while his perfunctory remarks on the

State Banks of Japan and other banks ignore the essential differences between the functions which banks perform in highly-developed countries, and those which the State Bank will perform in India. The proposed Bank was to discount Indian trade bills, rediscount sterling trade bills, make interest-bearing loans, buy and sell gold bullion in India, provide trade remittances for customers to all parts of India, and open branches. The Chamberlain Commission expressed no opinion on these proposals. But they thought that "the proposed schemes presented *prima facie* several attractive features." They advised the Government of India and Secretary of State for India "to hold an enquiry into it without delay, and to appoint a small expert Committee for this purpose." The plan could not be carried into effect till 1920. The theories which many an economist had enunciated in the 17th century, the pious hopes the Viceroy entertained in 1876, and the plans which bulked so largely in the Despatches of the Finance Department of the Government of India, have been realised this year. The Imperial Bank, established by Act No. XLVII of 1920, will perform many of the duties of a typical State Bank. It is interesting to compare the nature of the business which the Imperial Bank of India will transact with the policy underlying the methods of the Reichsbank, the Bank of France, and the Bank of England. This is, however, impossible at the present. No sound conception of the place of the Bank in Indian economic life is possible without the vitalising experience, the significant details, and a sufficiency of data, which Time alone can supply.

PART I.

The Business of the Imperial Bank.—(*a*) The advancing and lending of money, and opening cash-credits upon the security of—(1) stocks, funds and securities,[1] in which a trustee is authorised to invest trust money by any Act of Parliament, or by any Act of the Governor-General in Council, and any securities of a Local Government or the Government of Ceylon; (2) such securities issued by State-aided railways as have been notified by the Governor-General in Council under section 36 of the Presidency Bank Act, 1876, or may be notified by him under this Act in that behalf; (3) debenture or other securities for money issued under the authority of any Act of a legislature established in British India by, or on behalf of, a district board; (4) goods which, or the documents of title to which, are deposited with, or assigned to, the Bank as security for such advances, loans or credits; (5) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms unconnected with each other in general partnership; and (6) fully paid shares and debentures of companies with limited liability, or immoveable property or documents of title relating thereto as collateral security only where the original security is one of those specified in sub-clauses (1) and (5), and if so authorised by any general or special directions of the Central Board, where the original security is of the kind specified in sub-clause (5):

[1] Other than immoveable property.

Provided that such advances and loans may be made if the Central Board think fit, to the Secretary of State for India in Council, without any specific security;

(*b*) the selling and realisation of the proceeds of sale of any such promissory notes, debentures, stock-receipts, bonds, annuities, stock, shares, securities or goods which or the documents of title to which have been deposited with, or assigned to, the Bank as security for such advances, loans or credits, or which are held by the Bank, or over which the Bank is entitled to any lien or charge in respect of any such loan or advance or credit or any debt or claim of the Bank, and which have not been redeemed in due time in accordance with the terms and conditions, if any, of such deposit or assignment;

(*c*) the advancing and lending money to Court of Wards upon the security of estates in their charges or under their superintendence, and the realization of such advances or loans and any interest due thereon, provided that no such advance or loan shall be made without the previous sanction of the Local Government concerned, and that the period for which any such advance or loan is made shall not exceed six months;

(*d*) the drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities payable in India or in Ceylon; and subject to the general or special directions of the Governor-General in Council, the discounting, buying and selling of bills of exchange, payable outside India, for and from or to such Banks as the Governor-General in Council may approve in that behalf;

(*e*) the investing of the funds of the Bank upon any of the securities specified in sub-clauses (1) to (3) of clause (*a*), and converting the same into money when required, and altering, converting and transposing such investments for or into others of the investments above specified;

(*f*) the making, issuing and circulating of bank post-bills and letters of credit made payable in India, or in Ceylon, to order, or otherwise than to the bearer on demand;

(*g*) the buying and selling of gold and silver whether coined or uncoined;

(*h*) the receiving of deposits and keeping cash accounts on such terms as may be agreed on;

(*i*) the acceptance of the charge of plate, jewels, title-deeds or other valuable goods on such terms as may be agreed on;

(*j*) the selling and realizing of all property whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction or part satisfaction of any of its claims;

(*k*) the transacting of pecuniary agency business on commission;

(*l*) the acting administrator, executor or trustee for the purpose of winding up estates, and the acting as agent on commission in the transaction of the following kinds of business, namely:—(1) the buying, selling, transferring and taking charge of any securities or any shares in any public company; (2) the receiving of the proceeds whether

principal, interest or dividends, of any securities or shares; (3) the remittance of such proceeds at the risk of the principal by public or private bills of exchange, payable either in India or elsewhere;

(*m*) the drawing of bills of exchange and the granting of letters of credit payable out of India, for the use of principals for the purpose of the remittance mentioned in clause (*l*) and also private constituents for *bona fide* personal needs;

(*n*) the buying, for the purpose of meeting such bills or letters of credit, of bills of exchange payable out of India, at any usance not exceeding six months;

(*o*) the borrowing of money in England for the purposes of Bank's business upon the security of assets of the Bank, but not otherwise; and

(*p*) generally, the doing of all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business hereinbefore specified.

PART II.

Business which the Bank is not authorised to carry out or transact.—The Bank shall not transact any kind of banking business other than those specified in Part I and in particular—

(1) It shall not make any loan or advance—

(*a*) for a longer period than six months, or

(*b*) upon the security of stock or shares of the Bank, or

(*c*) save in the case of estates specified in clause (*c*) of Part I, upon mortgage or in any other manner upon the security of any immoveable property or the documents of title relating thereto.

(2) The Bank shall not[1] discount bills for any individual or partnership firm for an amount exceeding in the whole at any one time such sum as may be prescribed, or lend or advance in any way to any individual or partnership firm, an amount exceeding in the whole at any one time such sum as may be prescribed.

(3) The Bank shall not discount or buy, or advance and lend, or open cash-credits on the security of any negotiable instrument of any individual or partnership firm payable in the town or at the place where it is presented for discount, which does not carry on it the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

(4) The Bank shall not discount or buy, or advance and lend, or open cash-credits on the security of any negotiable security having at the date of the proposed transaction a longer period to run than six months or, if drawn after sight, drawn for a longer period than six months: Provided that nothing in this Part shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank to overdraw such

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[1] Except upon a security of the kind specified in sub-clauses (1) to (4) of clause (*a*) of Part I.

account, without or with security, to such extent as may be prescribed.

PART III.

The Management of the Bank: Offices of the Bank.—The Bank shall have local head offices in Calcutta, Madras, Bombay and London, and at such other places in British India as the Bank with the previous sanction of the Governor-General in Council, may determine. The Bank may also, subject to the provisions of this Act as to the business to be transacted there, establish an office in London. *Central Board.*—The general superintendence of the affairs and business of the Bank shall be entrusted to a Central Board of Governors,[1] who may exercise all powers and do all such acts and things as may be expressed or done by the Bank, and are not by this Act expressly directed or required to be done by the Bank in general meeting. *Local Boards.*—Shall be established at Calcutta, Madras and Bombay, and may be established at such other places in British India as the Central Board, with the previous sanction of the Governor-General in Council, may determine. *Powers of Local Boards.*—Without prejudice to the powers conferred by section 24, the Local Boards, established at Calcutta, Madras and Bombay shall have power generally to transact all the usual business of the Bank, and shall have power as regards entries in the branch registers, respectively kept at those places, to examine and pass or refuse to pass transfers and transmissions and to approve or refuse to

[1] Hereinafter in this Act referred to as the "Central Board."

approve transferees of shares and to give certificates of shares.

Local Boards at Calcutta, Madras and Bombay, constitution of the first Local Boards.—The several persons who were, immediately before the appointed day, respectively the directors of the Presidency Banks shall constitute the first Local Boards of the Bank at Calcutta, Madras and Bombay respectively, and the persons who were then president, vice-president and secretary, respectively, of the said banks shall fill the same offices in the respective Local Boards until they vacate office in accordance with the provisions of this Act.

Central Board.—Constitution and meeting of Central Board: (1) The Central Board shall consist of the following Governors, namely—(i) The presidents and vice-presidents of the Local Boards established by this Act; (ii) the Controller of the Currency for the time being, or such other officer of Government as may be nominated by the Governor-General in Council to be a Governor; (iii) such number of persons not exceeding four and not being officers of Government as may be nominated by the Governor-General in Council. Such persons shall hold office for one year but may be re-nominated; (iv) the Secretaries of the Local Boards established by this Act; (v) such number of managing Governors not exceeding two as may be appointed by the Governor-General in Council after consideration of the recommendations of the Central Board. Such Governors shall hold office for such period as the Governor-General in Council may direct; and

(vi) if any Local Board is hereafter established under this Act, such number of persons to represent it as the Central Board may prescribe.

(2) The Governors specified in clauses (ii) and (iv) and any Governors appointed under clause (vi) of sub-section (1) shall be at liberty to attend all meetings of the Central Board and to take part in its deliberations, but shall not be entitled to vote on any question arising at any meeting.

Constitution of other Local Boards: (1) Where the Central Board establishes any additional local head office of the Bank in British India, a Local Board shall be constituted to manage the local business of the Bank. (2) The number of the members of any such Local Board shall be such number not less than three, as may be prescribed, and shall be appointed in such manner as may be prescribed. Power to remove difficulties:—(1) If any difficulty arises with respect to the establishment of the Central Board or of a Local Board, or with respect to the appointment of the first Governors or members or to the first meeting of the Central Board or of a Local Board, the Governor-General in Council may by order make any appointment or do anything which appears to him necessary or expedient for the proper establishment of the Board and for the appointment of the first Governors and members and for the first meeting thereof. (2) Any such order may modify the provisions of this Act, so far as may appear to the Governor-General in Council to be necessary or expedient for carrying the order into effect.

SECTION II.—INDIAN PAPER CURRENCY.

A bank bill or note is a non-interest-bearing obligation payable to bearer on demand, in lawful money, title to which passes by delivery. The value of such note depends upon the financial credit of the bank issuing the same, the special provision of law for its redemption, the security set apart for such purpose, the fidelity with which such laws are enforced, as to redemption, as character of supervision, and the degree of conservative banking thereby ensured. The functions of the bank note are similar to those of metallic money. The bank by means of its note issues, is able to accumulate the small capitals of individuals, guaranteed by its endorsements, and thus distribute through the whole community a form of credit which becomes a convenient medium of exchange. The advantages of notes consist in the greater convenience of handling and transporting paper as the representative of coin. The handling of a large amount of gold is a laborious process, and the ideal system of currency is the combination of notes with token coin, for internal purposes, and the keeping of gold in a central reserve for the discharge of external obligations. Even when the equivalent of notes in coin and bullion is in the custody of the banks, notes are more popular than gold. Every bank note possesses the following qualities: (1) it is payable to bearer on demand in standard money, (2) it does not bear interest, (3) it is issued in uniform style, and (4) it is transferable to bearer without formality. The real function of a bank is to assist a man of business with property, and whose credit

is good where known, to secure an advance of current funds which he can use in his business. Every producer who surrenders goods to another for a bank note has given up real capital for a promise by the bank in delivered capital. He is consequently a lender to the bank. The bank's promises are convenient and useful to the community, since they are currency, while an individual's promises are not usually sufficiently well known or guarded; and the one is more acceptable and valuable than the other. For this reason the merchant is willing to pay the bank for giving him immediate means of payment for his note, even though what he receives may be only the bank's promise instead of his own. So long as the bank's promises are convertible into money and are accepted by the public as equally good as money and even more convenient, they are currency and means of payment, which his own promises are not. The benefits of paper currency are not limited to the mere convenience of paper in comparison with coin, but include a share in the lower discount rates and greater facilities extended to commerce by economy of metals. Increase or decrease of economy in the use of bullion or specie is one of the chief causes of change in the balance of payments. The operations of a bank of issue, and the economies which it effects in the use of gold are thus explained by Pierson. "If the issue be effected at a time when there is no change in the demand for money, the balance of payments[1] must become unfavourable, and a very salutary outflow of bullion must ensue. We call this outflow very salutary because it tends to increase the

[1] With foreign countries.

income of the nation. For, what takes place? Money becomes redundant, the prices of a number of things go up, exports decline and imports increase; the place of exported bullion is supplied by machinery, cattle, articles of consumption, and interest-bearing securities, an exchange which cannot fail to be beneficial to the country. The fixed capital of its manufacturers and agriculturists becomes somewhat larger, so also the stocks of its shop-keepers. The population does not become wealthier, and yet its condition becomes the same as if it had. But it has learned to make better use of its wealth. Its gold and silver have, to a certain extent, been replaced by more useful things."

The economy of currency plays the same part in facilitating competition as economy in any part of the machinery of production. Jevons estimated the cost of maintaining £95,000,000 in gold, silver, and copper money in circulation in England in 1876 at about £3,000,000 annually, of which £2,850,000 was for interest upon the principal at the rate of 3 per cent.

Another benefit of a banking currency is its service in the accumulation and distribution of capital. The issue of bills, when they have been made under regular conditions, has rendered a banking system popular and has spread banking operations among the public. We may go further and apply Ricordo's Law of Rent to the rate for the rental of money. Competition among suppliers of capital attracts borrowers, to those offering money at the lowest rate, in exactly the same way as competition among dealers in wheat attracts purchasers to those offering wheat at the lowest price. Competition

among the bankers leads to a reduction in the rate in the rental price of money. Moreover, paper money keeps the volume of currency constantly adjusted to the requirements of production and trade. A bank note currency performs this function admirably; a bank note, when issued in pursuance of legitimate banking business, is the product of a credit operation. If the number of business transactions is very large, many bills of exchange are brought to the bank, and many notes are issued. If business transactions become less numerous, the paper presented to the bank for discount becomes less in amount, fewer notes are issued, and retirement of the outstanding notes takes place, as traders having commercial bills to meet from day to day pay notes for them into the bank. The adaptation of bank notes to the needs of business, and the constant adjustment to increase or diminution of demand are the main features of a sound system of paper currency. It implies elasticity, and elasticity is nothing else than the operation of counter-forces, in a currency as well as in a steel-spring. In most countries the bank note circulation expands automatically to meet the demands for a larger means of conducting exchanges. Gilbart has described the manner in which note issues of the Scotch Bank respond to the necessity for a larger medium of exchange.[1] The Canadian bank note system is no less responsive to the demands of production and exchange than the Scotch system. While the Canadian banks are permitted to issue circulation to the amount of their capital, their note issues rise during the period of special demand for a circulating

[1] Gilbart on Banking, 1916, Vol. II, pp. 171—213.

medium, and are promptly reduced again under the operation of the redemption system when this demand declines.

The benefits of the paper currency are obvious; and all the chief European nations attach the greatest importance to the extension of the principle. This is necessary owing to the fact that the over issue of notes may ultimately involve the whole country in a financial crisis. The havoc wrought by the French assignates during the first ten years of the French Revolution need not be described here in detail. The first issue of the assignates was ordered in December 1789; an enormous quantity of paper money was issued; by 1796, assignates to the value of forty-five billion francs had been issued; in February of that year the gold louis, of twenty-five francs, was worth 7,200 francs in assignates; and the assignates were worth $\frac{1}{288}$ of par. A new kind of paper money, the mandats, was next issued, but soon fell to 5 per cent. of its nominal value. In the end the 25,00 million mandats and the 36 billion assignates were repudiated and became entirely worthless. The history of Austrian Finance tells the same tale of over-issue and depreciation. The redemption notes issued in 1811 fell to $\frac{1}{218}$ of their face value in May 1812, and $\frac{1}{368}$ of their face value in June 1812, while the bank notes were at 1,690 to 100. Many of the American States suffered even worse hardships from this disease, and barter frequently took the place of money.

These figures show the necessity of control over note issue on the part of the State. Upon the proper regulation of banks, proper distribution of responsibility, and the prudent execution of commercial laws, depends

ultimately the soundness of a country's finances. The State cannot abdicate its primary right, nor can it ignore its essential duties, in a matter which concerns the entire economic life of the community. The unification of modern commercial life, extending business transactions on a large scale beyond the city to the nation and beyond the nation to other peoples, with the inconveniences and occasional losses resulting from purely private banking, gradually evolved the modern system of State regulation of banking. This led to (1) limitation of note issues, (2) official supervision, and (3) reports. Limitation of note issue is by far the most important of all the methods of State regulation, as upon the issue of the note will depend the credit of the country. The problem of note issue resolved itself ultimately into the question of the State regulation of banks versus unlimited liberty to issue notes. The existence of a number of small banks, the grave abuses which were discovered in their management, their frequent failures, and the over-issue of their notes, produced a series of financial crises, and the problem of covered versus uncovered note issue formed the subject of heated discussions amongst the bankers and economists of the day. The question has been ably discussed by Andreades, Sir Inglis Palgrave, and N. G. Pierson ; and the pamphlets issued by the two schools of economists are innumerable. It is noticeable that Sir Charles Wood, who became Secretary of State for India, and James Wilson, who was Financial Secretary to the Government of India, took different sides in this controversy. On one side stood the school of the Currency Theory; on the other that of the Banking

Principle. The champions of the Currency Theory relied mainly upon the quantity theory of money which David Ricordo had just developed into a consistent whole. They argued that when money is scarce, its value rises, and prices fall. And when prices fall, exports increase and imports diminish, until there is sufficient money and bullion in the country once more. A nation which does not use bank notes can never, in the long run, have too little metallic money in relation to other things. It may be a poor nation, certainly, but its capital will always include such a proportion of coined money as shall be needful. It is different with a country which uses bank notes as well as coined money; for, in such a country, exportation of the latter does not necessarily cause scarcity of money. The balance of payments becomes unfavourable; considerable exports of gold take place; but at the same time by granting credit, the banks greatly increase their uncovered circulation. If there is no deficiency in the monetary circulation there will be no permanent change, but in the case of mixed circulation, *i.e.*, with the circulation partly of paper and partly of metal, the whole of the metal may disappear without causing any reduction in prices. Lord Overstone declared that the only means whereby the entire stock of gold could be prevented from being exported was the maintenance of a metallic reserve against the note issue. The law, he urged, should prevent the banks from substituting paper for the exported metal. The defects of the theory consisted mainly in its failure to grasp the advantages of a well-regulated banking system. It is essential in times of

crisis that a large amount of notes should be issued to ease the situation. The frequency with which the Act of 1844 has been suspended, the failure of the Bank to adapt itself to the situation created by the outbreak of the war, and the suspension of the Act in 1914 brought out the glaring defects of the inelastic system which Sir Robert Peel perpetuated. The supporters of the currency theory did not understand the real nature of bank deposits. The bank deposit credits its depositor's accounts, and the balances produced in this way also constitute a medium of payment. There is no essential difference between bank notes and bank deposits, so far as substitutes for metallic money are concerned. Both perform the same functions. The adherents of the banking principle went however to the other extreme. They asserted that a Bank can only put a definite quantity of notes into circulation ; any notes which it issues in excess of that quantity are automatically returned to it. Herein lay the fallacy from which their whole argument suffers. Redundant notes are offered in exchange for a specie, or are used in purchasing bullion from the bank, the specie of bullion being then exported. In this way the amount of the circulation continues the same, but "uncovered" circulation takes the place of "covered" circulation, the ratio between metallic reserve and note circulation is radically altered, until bullion or specie totally disappears, and paper money reigns supreme. The rise in prices, the disorganization of industry, and the dislocation of trade, which result directly from this evil need not be described here.[1] The currency principle triumphed, and the

[1] See above.

Act of 1844 which was applied to India in a slightly different form in 1861, held her paper currency in its grip. The controversy over the Act of 1844 is important, for the subsequent development of paper money in India was seriously affected by the rigid system which Charles Wood, a strong supporter of the Currency principle, imposed upon India.[1]

No country is in greater need of a paper currency than India. It may even be said that the growth of note using habit amongst the people will determine, to a certain extent, the industrial development of India. Before the passing of the Act XIX of 1861, there were no Government issue of currency notes. The three Presidency Banks, together with a number of private banks, issued their notes, and the Government accepted the notes of some of them. In 1809 the Bank of Bengal was granted the privilege of issuing notes of not less than rupees ten and not more than rupees ten thousand, provided the total liabilities of the Bank did not exceed its capital, and the actual cash in hand did not fall below one-third of the outstanding claims payable on demand. Subsequent Acts extended its power, and it was allowed to issue notes up to a maximum of four times the Bank's capital. The notes of the Bank of Bengal were not legal tender, and the Government did not accept them in the United Provinces. The note circulation of the Bank of Bombay was limited to two crores of rupees, while the Bank of Madras was allowed to issue notes up to a maximum of one crore of rupees. It is interesting to note that

[1] There is a voluminous literature on the subject. See especially Pierson, op. cit., Macleod, & Conant.

the circulation of the notes of all the Presidency Banks did not reach the maximum limit assigned by the Government. Only once did the Presidency Bank issue a greater amount of notes than was allowed by the Government. In 1860 the note issue of the Bank of Bengal rose to 275 lakhs of rupees; the limit had been placed by the Charter of 1839 at two crores of rupees, and the Bank consequently agreed to pay 5 per cent. per annum on the over issue. That the notes did not take the place of coins in India to an appreciable extent, is clear from the testimony of a number of writers of the period. The inconveniences of a cumbrous monetary system were felt by every class. A lady, in order to pay her household servants, was obliged to provide herself with a quantity of silver coin, which was often difficult to carry. A planter, to pay the monthly wages of his labourers, had to provide regularly for heavy remittances of silver to his plantation. According to Sir Charles Napier, thirty thousand Indian soldiers used to be employed in escorting and protecting treasure. Mr. James Wilson, the Finance Minister of the period, mentioned one incident which graphically illustrates the inconvenience of the circulating medium. "In one of the large trading towns in the North-West, I found a remarkable example of this inconvenience. I found that recourse had been had for a circulating medium, in order to save the labour and time of counting large sums in rupees, to the use of mysterious sealed bags, said to contain a thousand rupees each. These bags circulate freely, in wholesale transactions, upon the faith the merchants have in each other, with a

'chit' or letter of endorsement, without always any precise knowledge of what the real contents are. Sir, when recourse is had to expedients of this kind, we have ample proof that some reform in our existing system is loudly called for." Both the public and the Government were subjected to loss by the bulky and inconvenient silver coinage. "Can any one form a just estimate," demanded Mr. Wilson, "of the whole cost to which the public are put in transmitting this bulky coin from place to place? Can any one even judge of the expense which the Government alone has incurred on this account?"[1] James Wilson was one of the most prominent opponents of the banking principle; and his daring theories, intellectual acumen, and trained intellect had extorted the admiration even of his opponents. His was a constructive mind, leaping with agility over the precipitous rocks of finance, framing comprehensive proposals, and devising measures for the systematic application of his theories. Wilson proposed (*a*) that notes should be legal tender; (*b*) the holding of not less than one-third of the Reserve to secure the immediate convertibility of any probable proportion of notes "likely to be presented." The remainder was to be invested in Government securities; (*c*) the division of India into a large number of circles, and the creation of a department in connection with the mint; (*d*) the lowest denomination of the notes was five rupees. Mr. Wilson estimated the total number of rupees current in India at one hundred

[1] Letter on a Gold Currency for India by Walter R. Cassels, 1864; The Indian Currency, 1864; The Indian Paper Currency, 1864; Cooke, op. cit., pp. 34—40.

crores. He thought that a very considerable proportion of that sum could be transferred from unproductive to productive uses, through the gradual substitution of Government Promissory Notes, payable on demand. The weakest point in his scheme was the division of India into circles. The notes of each circle were to be legal tender within its own boundaries, and were to be exchangeable for coin either at the centre of the circle, or at the Presidency capital of that circle. But the notes of each circle when outside of their own boundaries were like stray sheep, and had a constant tendency to return to their natural fold. In their own circle, their efficiency was at a maximum; outside of it, they only circulated, as it were, on sufferance, and at a considerable discount. Laing, who succeeded Wilson, percieved the weak point of Wilson's measure when he compared the various currency circles suggested by the latter to the German states, where the traveller passing from one to the other has to change his paper money at a considerable loss and often at great inconvenience. A very ingenious proposal for the modification of Wilson's scheme was suggested by a writer in 1864. He proposed that each district should be constituted a "currency circle," whose notes would also be convertible and legal tender in the *adjoining* districts, but not beyond them. Thus there would be a series of groups of "circles," whose notes would enjoy a mutual circulation; and it would be possible for a traveller to pass through every circle in India, exchanging the notes of the one for those of the other during his sojourn, without the necessity of using a single coin for that purpose. The notes of each group would never travel

far beyond their own boundaries; and, as the efficiency of the notes as a circulating medium would be largely assimilated to the silver coin they represent, the necessity of demanding coin in exchange for them would be greatly reduced. Their security and convenience would recommend them to the public, and the reserve of coin at the centres of the "circles," would not be subject to the fluctuations by which grave harm was undoubtedly wrought.

There was, however, some justification for the creation of circles. India is an enormously large country, and the expense and responsibility of transporting rupees from the Presidency towns to Burma for the rice crop, to Bengal for jute, and to the Punjab for wheat, would have been enormous. The Government could hardly be expected to provide facilities for encashment of notes over such a large area. The history of Scotch and Irish Banks is instructive on the point. It is clear, however, that the compartment system hindered the flow of capital, and retarded the growth of note-using habits among the people.

The other measures proposed by Wilson were ably conceived, and skillfully planned. Wilson proposed to retain in hand at least one-third of the coin obtained in exchange for the notes, to ensure their ready payment in cash on presentation; the balance was to be invested in Government securities, which, it was expected, there would never be any occasion to sell; and as only a small proportion of the notes would be offered for liquidation at once, their superior convenience would always retain them in general circulation. The west denomination of notes fixed by Mr. Wilson, was five rupees.

Sir Charles Wood approved highly of a paper currency for India, but, as might have been anticipated, objected to the fluctuating reserve of securities, which Mr. Wilson proposed to establish for the protection of the notes. The two statesmen belonged each to a rival financial school. Sir Charles Wood was one of the chief supporters of the Bank Charter Act of 1844, of which Mr. Wilson was a vigorous opponent. Sir Charles' criticisms of this bill were not unexpected; nor did his rejection of that measure surprise those who had witnessed the fight of 1844. How far Mr. Wilson might have modified his bill in accordance with the wishes of the Secretary of State for India is unknown, for the death of that lamented statesman before his project was matured, placed the Office of Finance Minister for India in the hands of his successor Mr. Laing. The principle of issuing notes against a reserve of coin and securities, according to the ratio suggested by Wilson, was thrown overboard, and the cardinal doctrine of the "orthodox" section embodied in the clumsy law of 1861. Laing was in hearty sympathy with the views of Sir Charles Wood, and expressed his entire concurrence in the monetary policy of the Secretary of State for India. Wood's despatch to the Government of India, dated March 26th, 1860, dogmatically stated that the "sound principle for regulating the issue of a paper circulation is that which was enforced on the Bank of England by the Act of 1844, *i.e.*, that the amount of notes issued on Government securities should be maintained at a fixed sum, within the limit of the smallest amount which experience has proved to be necessary for the monetary transactions

of the country; and that any further amount of notes should be issued on coin or bullion, and should vary with the amount of reserve of specie in the bank, according to the wants and demands of the public." Wilson's conception of the utility of the bank notes found expression in his proposal to issue notes of low denominations. He asserted "that the principle which makes notes of large denominations, safe and secure, must equally extend to those of a lower denomination. It is the imperative duty, it is the interest of a Government to furnish a circulated medium for exchanges, determined in amount by the wants of the community. Well, the great characteristic of Indian transactions is their number and their multiplicity. And, then, if we bear in mind that the highest denomination of coin in circulation, is one of only a single rupee or two shillings, while in England the common coin is one of 20 shillings, it would appear, that we should be justified in adopting the old practice in Ceylon, and the present practice in many countries, and adopt notes of a denomination as low as two and a half rupees. But, Sir, we do not propose to go so low, we propose to begin with five rupees, or ten shillings, adopting the limit at this time actually in practice in Ceylon and Mauritius; and beginning with that denomination, to have others of ten, twenty, fifty, one hundred, five hundred, and one thousand rupees, which latter I hope will take the place of the mysterious sealed bags which are circulated at Mirzapore."

These views were not acceptable to his successor; and in the modified measure introduced by Mr. Laing, a limit of twenty rupees was substituted. Sir Charles

Wood took a sounder view of the function of notes in India, on this occasion. "Unless notes are issued for sums small enough to be used in making payments in the ordinary transactions, the silver coin will not be displaced, except for the small number of payments of higher amounts, and the benefit of the introduction of a paper currency will be rendered comparatively trifling. I am of opinion, therefore, that the lowest denomination of notes should be, as proposed by Mr. Wilson, of five rupees. It is my desire that the bill should in this respect be restored to its original form."

The Government, however, declined to adopt Sir Charles Wood's wise recommendation. Sir Bartle Frere, who had charge of the bill, proposed to amend it by substituting five rupees, as the lowest denomination of notes, for ten rupees; but the amendment was negatived, and, in spite of the remonstrances of Sir Charles, the limit of ten rupees was retained. The Act of 1861 provided for

(1) the issue of a paper currency through a Government Department by means of notes payable to bearer on demand;

(2) the lowest denomination was to be rupees ten, not five;

(3) the number of circles into which India was divided was three or more, each containing one city to be the place of issue of the notes of the circle. The Presidency towns were to be the places of issue of three of the circles;

(4) a reserve of bullion or coin not exceeding four crores of rupees was to be invested in Government securities.

The Act, in its main features, remained unaltered for nearly fifty years. Thus a rigid monopoly of note issue was established in India. That the Government notes were unpopular is evident from the history of the paper currency during the fifty years of its inglorious existence. The notes were confined to the Presidency towns, and very little use was made of the excellent opportunities which various stages of Indian economic development offered. The limitation of the areas of legal tender and of the offices where the notes were encashable on demand, seriously affected the popularity of the Government notes. The system could not really expand without a radical modification of the fundamental principles upon which the Act of 1861 was based.

In England the inelasticity imposed by the Bank Charter Act of 1844 upon the currency of notes was tolerated because of the discovery in the cheque system of an alternative means of obtaining an elastic paper currency, which could not be obtained through the note issue under the terms of the Act. The main paper currency of the United Kingdom now consists of cheques, and the gold reserve of the Bank of England, though nominally supporting a comparatively small note issue, is really the ultimate support of a gigantic currency of cheques and other credit instruments of which the notes of the Bank of England form only a small portion.

In India, at all events outside the Presidency towns, conditions did not favour any great extension of the cheque system or of credit instruments generally, and metallic currency and notes of small denominations remained the favourite and the only suitable currency

medium with the vast majority of the public. But since the closing of the mints to silver in 1893, the expansion of trade and commerce made the need for a more elastic currency increasingly felt, and the restrictions imposed upon the note issue system by the requirement of a metallic backing for all notes issued above a fixed maximum, which can only be altered by a specific Act of the legislature, became increasingly inconvenient. Some elasticity was introduced, rather incidentally than intentionally, by the Gold Note Act of 1898 and the development of the system of sales of Council drafts, under which it became possible for notes to be issued in India against money tendered to the Secretary of State in London. But so far as the paper currency system itself is concerned, this elasticity was secured only by the ear-marking of gold in London, which is equivalent to the export of gold from London to India; the expansion of the currency of India was thus at the expense of the gold reserves of London, and in some circumstances the resulting stringency in London was so disadvantageous to India as to make an expansion of the currency by this means actually undesirable.

It became clear to the Government that the Indian paper currency could not become popular unless the circles were abolished, and notes "universalized." Gradually notes of various denominations were universalized. In 1903, five-rupee notes were made legal tender, except in Burma, and six years later the Burmese limitation was removed. A great step forward was taken in 1910, when a comprehensive Act was passed. A note of the value of five, ten, or fifty rupees, as well as any other denomination

which may be notified in the Gazette of India, may be a "universal currency note." The next year the hundred rupees currency note was universalized. The Act made the circle system inoperative.

It is clear, however, that the maintenance of the system would have been rendered impossible without the necessary modifications which the Government of India were obliged to introduce from time to time. The doctrine of metallic reserve would, if realised, have made the entire system unworkable. The Government of India passed a series of Acts, providing for the increase in the invested portion paper currency of the reserve. In 1863 the invested portion of the reserve amounted to about $\frac{2}{5}$ of the whole. Acts of 1871, 1890, 1896, 1905, and 1911, brought the limit of the invested portion of the reserve to Rs. 14,00,00,000, and in 1911 the amount of securities other than those of the Government of India did not exceed Rs. 4,00,00,000.

Composition and Location of the Reserve.

By the Act of 1861, provision was made for the issue under notification of the Government of India of notes against gold coin or bullion; but the Government do not seem to have exercised this power for some time. Gold appeared for the first time in the Paper Currency Reserve in 1865, when 20·15 lakhs were held in that form; but the quantity fell to Rs. 72,520 in 1871, and gold disappeared from the reserve after 1875. No further change was made in the composition of the reserve until 1893, when, in pursuance of the recommendations of Lord Herschell's Committee, an Act was passed,

providing for the closing of the Indian Mints to the free coinage of silver. The balances of the Government of India at this time were at a low level; they found it difficult to meet the drafts of the Secretary of State for India, for which there was a strong demand, money being exceptionally dear in India. In order to meet this crisis the Government of India passed the Gold Note Act. Under it the proceeds of the Secretary of State's sales of Council Bills could be set aside at the Bank of England in gold as part of the Indian Paper Currency Reserve. The Government of India could issue notes against the gold so set aside, and with them could meet *pro tanto* the Secretary of State's drafts, without reducing their Treasury balances.

The Act was regarded as a temporary measure, but the Secretary of State for India found it so useful that its main provisions were made permanent in 1902. Various other Acts empowered the Secretary of State to expend the gold held by him on the purchase of silver bullion, and to hold it as security for notes until rupees were coined from it. Thus the Secretary of State for India might either (1) hold gold in England as part of the reserve against the note issue in India, or (2) he might transmit the gold to India to serve the same purpose there, or (3) he might expend it on the purchase of silver, also to form part of the reserve when the stock of gold available for issue to the public in India was not sufficiently maintained by imports of sovereigns from abroad. The gold held in London could be utilised for the support of exchange if kept there than if shipped to India. It could in such a crisis be transferred from the Paper Currency

Reserve to Treasury balances, against an equivalent transfer in the reverse direction in India. This obviated the necessity for making a remittance by means of the sale of Council drafts. The question of the amount of gold that could be conveniently held in the Paper Currency Reserve in India had been discussed by the Government of India in 1899 and 1900. It was again considered by the Government in 1904, in connection with their proposal to increase the amount invested on behalf of the Paper Currency Reserve. They thought that a stock of gold of the value of 9¼ crores would be ample, and that a larger proportion was not required in India. The amount of gold in the reserve did not fall below 9 million pounds during the years 1903, 1904, and exceeded £10,000,000 in 1905. The composition of the reserve on March 9, 1905, was as follows :—

	Crores.
Securities	10
Silver coin	9·07
Silver bullion	1·88
Gold	16·47
Total ...	37·42

The position of the Government of India had been greatly strengthened by the large increase that had taken place in the note circulations, and by the formation of a special "Ingot-Reserve" of 3 crores of Tolas of silver. They did not consider it necessary that the whole of the gold should be held in India, and thought that a stock of 9¼ crores in the reserve furnished an

ample maximum for Indian purposes. They therefore proposed to send £5,000,000 in gold to London to be held as a part of the Currency reserve. The holding of a portion of the Currency reserve in London was intended to serve a double purpose. (1) It could be used in payment for purchases of silver, and (2) it would serve as a support to exchange at times when the balance of trade was unfavourable to India. Additions to the stock of gold held in the Paper Currency Reserve in London were made (1) by ear-marking gold from the money at the Secretary of State's credit at the Bank of England, or (2) by purchasing sovereigns in transit to India, and diverting them to London against Telegraphic transfers in India.

Another problem that demanded the attention of the Government was the ratio of gold to silver in the Paper Currency Reserve. In normal times there is a large efflux of silver coin from the reserve during the winter months; this is counteracted, to a certain extent, by a return of rupees from circulation during the summer months or dull season. There is consequently a steady contraction of the silver portion of the reserve. This process is reversed during periods of bad seasons and trade depressions. The financial crisis of 1908-1909 levied its toll, and the amount of coin silver in the Paper Currency and the Gold Standard Reserve increased. After the closing of the Indian Mints to the free coinage of silver in 1893, the course adopted was to allow the stock of rupees in Currency Reserve to run down by this automatic process of depletion until it should reach as low a point as was consistent with safety. From 1898 onwards sovereigns flowed into the country in adjustment

of the balance of trade in favour of India and passed in considerable quantities into the Currency Reserve, so that at 31st March 1900, the composition of the Reserve as compared with 31st March 1894, was as follows :—

	1894		1900	
	Amount.	Percentage of Total.	Amount.	Percentage of Total.
	Lakhs.		Lakhs.	
Gold ...	...	...	1,350[1]	47
Silver ...	2,241	73·7	523	18·1
Securities ...	800	26·3	1,000	34·9
Total ...	3,041	100	2,873	100

Before this date, however, it had become apparent that the rupee reserve was approaching a dangerously low level, and the coinage of new rupees was begun about the end of January 1900. The silver in the Currency Reserve fell below 5 crores in February. About 1½ crores of rupees were added to the coinage in the last months of 1899-1900, and some addition to it was made in each year down to 1907-08, the amounts coined in the years 1905-06, 1906-07 and 1907-08 being very large indeed. The Silver Reserve was never again allowed to fall to so low a figure as that reached in February 1900; but in January 1904, under pressure of very heavy demands due to the activity of trade, it fell to 750¾ lakhs of rupees, or about 28 per cent. of the total reserve.

[1] Of this 1,125 lakhs (7,500,000*l.*) were held in India and 225 lakhs (1,500,000*l.*) in England.

A portion of the Paper Currency Reserve had been held by the Government of India in the shape of silver in blocks to facilitate the issue of new rupees. Credit for these rupees was taken in the Paper Currency Reserve at their bullion value, and the limit was placed at 300 lakhs of rupees. This was due probably to the alarm of the banking and commercial public at the rapid withdrawal of rupees from the Currency Reserves at seasons of exceptionally active trade. The Government of India increased the Ingot-Reserve to 600 lakhs, in 1906. But before this proposal could be carried into effect, the original Reserve had been exhausted under the pressure of a great demand for new rupees, and the Government of India proposed to hold the increased Reserve not as part of the Currency Reserve, but as a branch of the Gold Standard Reserve. It is difficult to justify the institution of a silver branch of the Gold Standard Reserve, and the pleadings of Newmarch and Abrahams are hardly relevant to the point at issue. It may be admitted that by this means the stock of rupees was increased by six crores, without increasing at all the volume of the notes liable to be presented for encashment. The same result could have been obtained by taking from the gold in the Paper Currency Reserve an amount sufficient to buy silver to produce six crores of rupees; but the Government of India do not seem to have paid sufficient attention to the possibility of adopting this method.

The Government of India act on the assumption that the amount held in Paper Currency and Gold Standard Reserve combined should be at least 24 crores

of rupees at the commencement of the "busy" season,[1] and not less than 17½ crores towards the end of that season, during which there is normally a large withdrawal of rupees from the Reserve. During the October-December quarter, the accepted policy is to keep the stock in Paper Currency Reserve up to 18 crores in Gold Standard Reserve, if necessary, so as to maintain a minimum of 15 crores in the Paper Currency Reserve, provided that the total stock of rupees in the two Reserves does not fall below 17½ crores at 31st March. Rupees thus transferred from Gold Standard Reserve to Currency Reserve are to be replaced by gold transferred from the latter to the former Reserve. After the busy season closes and when the return of rupees from circulation into Currency Reserve has set in, gold is to be transferred back from Gold Standard to Currency Reserve, in exchange for silver transferred from the latter to the former. This arrangement gives a degree of elasticity to the system and enables the Paper Currency to be worked safely with perhaps a minimum stock of silver. The composition of the Reserve on the 31st March 1913 was as follows :—

Total circulation.	Silver in India.	Gold in India.	Gold in London.	Securities.	
				Sterling.	Rupee.
crores 68.97	crores 16.45	crores 29.37	crores 9.15	crores 4.00	crores 10.00

The Chamberlain Commission recommended that the six crores of rupees in the Indian Branch of

[1] 1st October.

the Gold Standard Reserve should be handed over to the Paper Currency Reserve, and 4,000,000 sovereigns should concurrently be transferred from the Paper Currency Reserve in India to the Gold Standard Reserve. They rejected the rigid system which Sir Charles Wood's devotion to the Bank Charter Act had established in India. The fundamental principle upon which the management of the Paper Currency Reserve had hitherto been based was considerably modified. The Chamberlain Commission suggested that the fiduciary portion of the Paper Currency Reserve should be increased at once to 20 crores; but instead of merely fixing this figure as the maximum, they proposed that the maximum of the fiduciary portion should be fixed at the amount of the notes held by the Government in the Reserve Treasuries *plus* one-third of the net circulation for the time being. Under this proposal the invested portion of the Reserve will be at once increased by six crores. The gold remaining in the Paper Currency Reserve in India would be used for meeting demands in India. The Government would not undertake to supply gold in all circumstances, but they should be ready in normal times to supply gold for internal purposes up to the full extent of the resources of the metallic portion of the Reserve. Moreover, the amount of gold held at any time on behalf of the Paper Currency Reserve in London would be regulated according to the conditions of the metallic Reserve in India. The amount should be treated, not as the first line of defence for the exchange, as it has sometimes been called, but as standing behind the Gold Standard Reserve, so far as the exchange is concerned, while serving also

the important function of acting, together with and in support of the sterling securities in the Paper Currency Reserve, as a final resource for securing the convertibility of the notes in an internal crisis in India.

The recommendations of the Chamberlain Commission with regard to the use of notes in India are worth reproduction here:—

"We think it eminently desirable that the use of notes in India should be encouraged by all legitimate means. With this object in view, we recommend that the Government should increase, whenever and wherever possible, the number of places at which the notes are encashable as of right as well as the extra-legal facilities for encashment. We think it would be desirable to universalize at once the notes of 500 rupees. With the experience so gained it may be found possible to carry universalisation still higher. We do not think that the extra cost of remitting specie from place to place to provide for the encashment of notes would, except at the outset, be appreciable, and we think that, in any case, it would be more than counterbalanced by the advantage of an increased circulation of the notes as a medium of currency."

Paper Currency in War time.—The difficulties of obtaining sufficient quantities of precious metals for coinage purposes and as backing for the issue of additional notes, led to an enormous increase in the fiduciary portion of the note issue. Prior to the war the invested portion of the Paper Currency Reserve was limited by law to 14 crores of rupees. Since the beginning of November 1915, the legal limit of the invested portion of the

Reserve has been modified nine times and now stands at 120 crores, of which 20 crores may be invested in securities of the Government of India. During this period the gross circulation of notes has increased nearly threefold, while the percentage of metallic backing has decreased by nearly one-half. The following table shows the growth of the circulation and the changes in the composition of the Reserve.

Date.	Lakhs of Rupees.					Percentage of total Metallic Reserve to gross Note circulation.
	Gross note circulation.	Composition of the Reserve.				
		Silver.	Gold.	Securities.	Total.	
31st March 1914 ...	66,12	20,53	31,59	14,00	66,12	98·9
,, 1915 ...	61,63	32,34	15,29	14,00	61,63	77·3
,, 1916 ...	67,73	23,57	24,16	20,00	67,73	70·5
,, 1917 ...	86,38	19,22	18,67	48,49	86,38	43·9
,, 1918 ...	99,79	10,79	27,52	61,48	99,79	38·4
,, 1919 ...	153,46	37,39	17,49	98,58	153,46	35·8
30th November 1919.	179,67	47,44	32,70	99,53	179,67	44·6

The use of Paper currency was further stimulated by the issue in December 1917 and January 1918 of notes for Rs. 2½ and one rupee respectively, to supplement the notes of Rs. 5 and higher denominations already in circulation. At first these notes of small denomination did not circulate to any appreciable extent, but later, when the supply of rupees was curtailed, their circulation increased rapidly, and on 31st March 1919 the gross circulation exceeded Rs. 1,84 lakhs in the case of Rs. 2½ denomination and Rs. 10,50 lakhs in the case of one-rupee denomination. The circulation of notes expanded in a manner which exceeded all expectations. From 1916

the absorption of rupees was abnormally large; 38,81 lakhs was absorbed in 1916-17, and on April 1st, 1918, the silver balances fell below 10½ crores, or about 8 crores less than what was considered the safe minimum in the period before the war. Unfavourable war news in the beginning of 1918 caused a run on the currency offices in Bombay, Lahore and other places.

The Government of India seriously considered the possibility of declaring the inconvertibility of notes. They recommended, on April 14th, 1919, that the Secretary of State for India should cease buying silver on receipt of the last instalment of the 200,000,000 ounces due from America; that a maximum should be fixed, and if silver be made above the fixed maximum, the cessation of purchases would presumably necessitate declaration of the inconvertibility of the currency note. The Government of India would "make it as widely known as possible that inconvertibility was purely temporary, and that coining would start again as soon as silver returned to a reasonable price." Meanwhile, additional notes would be issued against Indian Government Treasury Bills, or gold, or securities held by the Secretary of State. The effects of such a policy were forcibly pointed out by Sir William Meyer, Sir Lionel Abrahams, Mr. Webb, the Governor of the Bank of England, and a host of other witnesses. Inconvertibility would have meant a considerable change in the note-using habit of the Indian people. As Mr. Gabbay pointed out in his forcible Memorandum,[1] the suspension of specie payment and the

[1] Dated January 23rd, 1918.

declaration of inconvertibility of note, would give rise to an immediate demand for the *en bloc* encashment of the War Loan certificates, thereby effecting a further deterioration of the general position. The value of Government securities would also immediately depreciate, particularly the value of War Loan securities, as the latter are held to quite a large extent by individuals who have previously never held any Government security, and who for the first time have ventured into an investment of this kind, under the stimulus of appeal to their loyalty and patriotism, and on receipt of the completest assurances of security of sums so entrusted to Government. All the operations connected with the movement of the crop, both for internal purposes as well as for the purpose of export, would have come to a stand-still; for such operations are conditioned by adequate stock of metallic rupees, as it is the chief form of currency that the cultivator is tempted to part with his produce. This would have reacted on the purchase of wheat, other food-stuffs, and agricultural produce required by the Home Government for its own use and that of the Allies. It would have effected also other purchases for War purposes; while in the industrial centres, particularly among the mills of Calcutta, Bombay and Cawnpore, the inability of employers to pay in silver would have resulted in a cessation of work, and the situation would have been aggravated by the enormous rise in prices from which the poorer classes are still suffering. Nor would the plan of the Government of India have secured fixity of exchange; silver rupees would have gone to a premium,

and would, in accordance with Gresham's Law, have disappeared from circulation. Five years of inconvertibility would have drained India of rupees. The brakes on inconvertibility upon which the Government of India relied, in their telegram of 14th April, would have aggravated the situation. The announcement that the Secretary of State was going to abstain from purchases of silver might, for the time being, keep the price of silver down a little, but owing to the demands from other countries, it would not permanently frighten the silver market. Moreover, inconvertibility having once been declared, could not be departed from, at any rate, for many years. The export trade would have been seriously restricted, for the cultivator would have refused to sell to the middle men except for silver or gold currency. Prices would have risen, and the discontent of the poorer classes, the professional men, and men with fixed income would have been intensified. The danger of the exploitation of people by profiteers is much greater in a country like India than it is in European countries. Sir Brian Cokayne, Governor of the Bank of England, summed up the effects of this policy in one of his replies to the Currency Commissioners. "It would be such a calamity in India for her to have a definitely inconvertible note. I assume that it would be such a leap into the dark that none of us could tell what it might lead to."

Practically all the witnesses before the Babington Smith Committee were unanimous against the proposals of the Government of India, and the evidence of Sir Lionel Abrahams revealed the existence of a serious divergence of opinion between the India Office and the

Simla authorities. Abrahams' determined opposition to the proposal, his bouts with Gubbay, and the happy retorts which introduced a certain amount of excitement into the prosaic proceedings of the Commission, throw a searching light on the relations between the India Office and the Government of India. It must, however, be admitted that some of his criticisms did not take into account the peculiar difficulties which the ebb and flow of war produced in abundance. The stoppage of silver supply, and the demand for extra currency to meet heavy Council sales forced the hands of the Government of India, and brought the question of the inconvertibility of notes to the front. That they did not wish to rush into inconvertibility is clear from their telegram of July 7th, 1917, to the Secretary of State, and the able memorandum of January 23rd, 1918. These documents show clearly enough that the Government were not unconscious of the effects of inconvertibility upon India. They stated that inconvertibility would not be declared until they reached a stage at which it became inevitable. "Absolute inconvertibility might conceivably be deferred for a few days if we refused in the first instance to cash notes elsewhere than at the currency offices, but the result of this would merely be that the demand would be immediately transferred to the Currency offices, and brief postponement of the final stage would thus be open to great objection." If inconvertibility became inevitable, "the main action which we should have to take would be temporarily to amend those provisions of the Paper Currency Act which prescribe the amount of the reserve which must be held against note issues and those which

declare that no currency notes are deemed by the Government of India to be legal tender at the office where they are issued, and the currency notes are payable at certain offices of issue, and we should, of course, have to provide alternative forms of small currency such as one-rupee notes."

The Government of India believed that, having proceeded with the sale of unlimited councils and watching their silver balances very carefully, a stage might be reached at which they might feel that the unlimited issue of rupees might definitely leave them with nothing at all in a very short time. They would then take power to restrict the issue of rupees at Currency Offices, leaving them still with quite a substantial amount of silver, which could be added to if the price of silver enabled further purchases to be made. This inconvertibility is entirely different from the inconvertibility with which the Government were faced during the war, and the mistake of the critics of this policy was due mainly to their confusion of partial with absolute inconvertibility. The Government did not contemplate a complete cessation of the exchange of note for rupees, but a restriction of the facilities for such conversion to whatever degree may be necessary. It is unnecessary to point out the consequences of this policy. It would naturally have led to favouritism. There would be favoured persons who would get rupees and unfavoured persons who would not get them. With extraordinary skill and judgment rupees might be given to all the persons from whom it would be, for various reasons, undesirable to withhold them, and they might be withheld from

persons who are comparatively indifferent. If it were worked with that extraordinary skill and judgment, the scheme would naturally be much less objectionable than a scheme for total inconvertibility, but, though it is put forward as a possibility, it is really not a possibility that can be seriously contemplated. "We work through imperfect instruments everywhere, and if the Government of India had to rely on the judgment of its scores or hundreds of officers scattered throughout India to choose which persons should be regarded as fit recipients for rupees and which persons should not be so regarded, they would get into difficulties of one sort and another. Sometimes they would make a wrong choice, and even if, *per impossible*, they always made what theoretically is the right choice, they would be regarded with suspicion by all sorts of people who are treated as goats rather than as sheep." [1] Partial inconvertibility would have produced greater confusion than complete inconvertibility. The political effects of a measure of this kind need hardly be mentioned here. There was a lack of a consistent policy, with a definite, and well-defined aim. Frequent changes in the currency policy are as noticeable, as constant fluctuations in exchange. The two were not disconnected, and the seemingly irreconcilable proposals of the Government of India are attributable to the uncertain factors of international exchange. Even so, we notice a singular lack of a clear principle, synthesising their numerous proposals.

[1] Abrahams Minutes of Evidence. Babington Smith Committee, Questions 1007–10; 1196–210.

There is a constant shifting of scenes; changes are frequent; and no consistent policy emerges out of the mass of measures, proposals, and counter-proposals. Their telegram, dated July 7th, 1917, and Mr. Gubbay's memorandum, dated January 23rd, 1918, depicted in the gloomiest colours the probable economic, financial, and political results. About a year later the scene changed, and their telegram, dated April 14th, 1919, declared, "a year ago inconvertibility would have been unthinkable. To-day India is more prepared for it." Within a few weeks after their telegram of April 14th, they reverted to the gloomy view of the probable consequences of inconvertibility. In a telegram, dated May 7th, 1919, they say "change in political situation here, since our last telegram, has made further talk about inconvertibility for the present impossible." The problem was simplified by the (*a*) relaxation of control over gold and silver by United States, (*b*) and the prospects of India's obtaining gold in substantial quantities.[1] The Babington Smith Currency Commissions declared that "the maintenance of the convertibility of the note issue is a vital part of the Indian currency system." They referred to the difficulties in the administration of a system of partial inconvertibility; and thought that "in its effect on the credit of the Government and on popular confidence in the note issue, it would not differ greatly from complete inconvertibility."

[1] The final views of the Government of India on the subject of currency policy are to be found on pp, 177—181, Appendices to the Babington Smith Committee Report.

The other important question connected with the problem of convertibility was the possibility of importing a greater amount of elasticity into the Paper Currency Reserve. As Mr. Howard pointed out in his memorandum, the war has compelled us to review our ideas as to the legitimacy and extent of our Paper Currency investment. It showed the impossibility of realizing long dated securities, whether rupee securities or consols. This applies specially to the rupee portion of the investment, for India is likely to require all the capital which can be raised for railways and other productive expenditure, and it would therefore be difficult to turn into cash the additional securities created for issue to the Paper Currency Reserve. In so far as the investment has been built up by issuing securities direct to the Paper Currency Reserve, the Government of India will hold assets against them in the nature of productive works constructed out of the proceeds. In other words, the portion of the Paper Currency investment, held in rupee securities, would represent investments in permanent and remunerative assets. With regard to temporary investment, realisability is essential. Mr. Howard regarded the British Treasury bills, and discounts of commercial bills drawn against goods, as ideal types of this investment. Mr. Howard's proposals with regard to the discount of commercial bills were framed with special reference to its operation in the United States of America. The Currency Commission recommended that it should be tried experimentally in India on a small scale, as a basis for the special power of expansion which they found to

be advisable. They thought that the requirements of the case would be met by authorising in the first instance the issue of notes up to 5 crores on the security of commercial bills of exchange in addition to the normal issue. The issue would take the form of loans to the Presidency Banks on the collateral security of bills endorsed by the Presidency Banks, and having a maturity not exceeding 90 days. The interest charged to the banks for such advances should be not less than 8 per cent. per annum. The advances should be outside any loans made from Government Treasury Balances. The bills tendered as collateral should be *bona fide* commercial bills against goods under export, not only because such bills would lead to the automatic retirement of the emergency note issue on their maturity, but also because such bills are more easily identifiable as representing a definite commercial transaction than internal bills which may be created for purposes of finance or against goods held for speculative transactions. If the difficulty of connecting internal bills with definite transactions in commodities can be overcome, there should be no objection hereafter to authorising the tender of such bills as collateral in addition to export bills, though at the inception of a scheme which is admittedly experimental it would be wiser to authorise the tender of export bills only.

Mr. Howard pointed out that circulation due to discounts of this kind is automatically regulated by the demand for currency, and entirely eliminates any danger of permanent inflation. "The security is absolutely good, and the arrangement is based on the fact that a

self-liquidating bill has a self-retiring note as its concomitant." Mr. Howard suggested that the investments should be limited to a total of 50 per cent, based on the average of the gross circulation on the closing days of the three preceding financial years. In times when the circulation is going rapidly the figure so ascertained is greatly reduced. He has proposed that the investments should be split up into four classes mentioned below: Of these, the individual maxima would ordinarily be the percentage of the total circulation specified against each, though the limit of certain classes could be temporarily increased at the expense of the other, provided that the total limit of 50 per cent. is not exceeded. The investments will be distributed as follows:—

	Per cent.
A.—Maximum Permanent rupee investment ...	20
B.—Maximum Temporary rupee investment ...	10
C.—Maximum discount of Commercial Bills of Exchange against goods...	10
D.—Maximum amount of holding in British Treasury Bills ...	10
Total permissible investment ...	50

The Babington Smith Currency Commission did not suggest such a radical alteration in Mr. Howard's proposals as has been generally suggested. The difference between the two proposals is insignificant. They emphasised the necessity of introducing elasticity, but they

did not go farther. It is no doubt true that there is a special need for caution in dealing with the note issue in India, as a large part of the population is illiterate; but India has not lacked an efficient system of indigenous banking; nor are her people ignorant of the essential features of a bank-note.[1] The Indian people were familiar with Bills of Exchange long before the dawn of civilisation in Europe, and they would have been educated into using them, if the fraudulent banks which wrought such havoc in the first half of nineteenth century had been replaced by efficient institutions, commanding the confidence of the public. The hoarding habit was a serious evil; much more serious was the distrust of notes that flowed directly from the deceptions perpetrated by the "bankers" of the day. Nor was this all. The first two Commissions on Indian Currency were supinely indifferent to the fate of paper money. The Herschell Committee contained two meagre paragraphs.[2] While the Fowler Committee referred in vague terms to the Indian Currency notes. It was not till 1913, that the matter was seriously taken in hand, and constructive proposals formulated. The Chamberlain Commission's recommendations with regard to the fiduciary portion of the Reserve have already been described; but they could not be worked successfully, as a

[1] See above, Section on Indigenous Banking.

[2] 30 and 71. It can hardly be said that the subject of paper currency did not come within the terms of reference, for every aspect of the problem of Indian currency is affected by the paper currency, and the Commissioners could not logically separate this element.

sudden encashment of notes might bring down the metallic reserve below the minimum ; and if the prescribed proportion had been reached, notes could not have been cashed without a flagrant breach of the law. The inelasticity which they had condemned would have reappeared in the administration of their measures. It would be best to adopt a different basis of calculation and to lay down, as the Babington Smith Committee suggest, that the invested portion shall not exceed a maximum percentage of the total issue; or, that the metallic portion shall not fall below a minimum percentage of the total issue. With regard to the fiduciary issue, the experiences of the war show clearly enough that expansion of notes was probable, and that the apprehensions of Lord Meston, and other men of "practical experience," were not justified. The recent Commission suggested that the statutory minimum for the metallic portion of the reserve should be 40 per cent. of the gross circulation. As regards the composition of the reserve, the Babington Smith Committee recommended that the amount to be held in securities issued by the Government of India should be limited to 20 crores, and the balance should be held in securities of other Governments comprised within the British Empire. Of the amount so held not more than 10 crores should be invested in securities with more than one year's maturity, while the balance of the invested portion of the reserve over and above the 30 crores already provided for should be held in short-dated securities with not more than one year's maturity.

With regard to the location and composition of the Paper Currency Reserve, the Commission suggested

that the silver reserve should be formerly held in India, as in the past; the gold also in the Paper Currency Reserve should be held in India.

These suggestions have been carried into effect, by Act No. XLV of 1920. The Government of India have introduced some modifications, and though voice is the voice of Hailey, the hand is the hand of Howard. It represents a compromise between the two views, and tries to steer the vessel clear of the rocks on which many a ship has foundered before.

The metallic reserve shall consist of the total amount represented by the gold and silver coins, held on account either in London or India.

The securities shall consist of the securities which are for the time held on that account by the Secretary of State for India, and on behalf of the Governor-General in Council.

With regard to the composition of the reserve, sub-section 4, of section 12, lays down that "no securities held by the Secretary of State for India in Council other than the securities of the United Kingdom the date of maturity of which is not more than one year from the date of their purchase, shall be included in the securities reserve." The securities in India shall not exceed in amount 200 millions of rupees, of which not more than 120 millions of rupees may be securities created by the Government of India.

The expression "Currency notes in circulation," means the whole amount of currency notes at any time

in circulation. This does away with the cumbrous restrictions proposed by the Chamberlain Commission.

Perhaps the most interesting provision in the Act is that relating to the discounting of commercial bills. It embodies the suggestions of Mr. Howard, and the proposals of the Smith Commission. Section 14 authorises the issue of notes to an amount in all not exceeding fifty millions of rupees against bills of exchange which will mature within ninety days from the date of such issue and satisfy such other conditions as the Government may prescribe, and currency notes so issued shall be in addition to those against which the reserve is held.

One of the most important causes of the slow progress of banking in India is the lack of co-operation among different types of Indian banks. Progress is impossible without change, and there is a pressing need of thorough organisation; only in this way would it be possible to reckon on general co-operation on the part of the banks. The small local banks will have to go; so will the crude devices which have been the refuge of lovers of red tape. And in this process the Imperial Bank of India will play an important part. Our policy ought to aim at the concentration of all the available gold at the centre. Germany had largely effected this before the war by the issue of notes of low denomination. Since the outbreak of the war the chief belligerent powers increased their central holding of gold by various devices. With few exceptions, neutral as well as belligerent countries suspended the gold basis of their currency. As Lord Goschen used to say, one pound in the central

reserve is worth five pounds in the pockets of the people. The history of the Reichsbank is relevant to Indian conditions. This institution, with a creative and organizing spirit, laid the foundations of the system of payments by means of transfers to, and deductions from, accounts current that obtains in Germany, the so-called "Giro" system. It was in every way preordained for this creative work, for at the time of its foundation it was the only financial institution whose activities extended over the whole Empire, while in the territorially restricted and immature banking system of those days the conditions were lacking for the development either of a Giro business or a system of payments by means of cheques. The private banks had not yet grown to the status of great organizations, with many branches, affiliated banks, etc. Berlin was not yet by any means the great centre of financial operations. In the Giro system, with its splendid organisation, the Reichsbank has created an institution that has given the German system of payments its characteristic stamp, just as the apparatus of cheques and clearing houses has imparted a typical character to the system of payments in other countries, like England and the United States. The Giro business in Germany is far from having attained the dimensions that the use of cheques has in England and America.

The system of Giro transfers has considerable advantages over other means of effecting payments without the use of cash. It involves merely the transfer of a particular sum from one account to another on the books of the Reichsbank and entails the least expense, trouble, and loss of time, and because, by virtue of this latter

quality, it is especially adapted for effecting settlements involving very small sums for which a payment by cheque would not be so well suited. That the Giro transfers are popular is evident from the statistics supplied to us by the invaluable series published by the National Monetary Commission, and other sources. In 1912, Giro transfers amounted to over 2½ thousand million pounds. Since 1886, the greater part of the Imperial and Federal Government offices keep also a Giro account with the Reichsbank, so that all payments to and by the Government can be effected through the Reichsbank. Such Giro accounts evidently offer great advantages and facilities to commerce and industry in many respects, but in view of the circumstance that each party keeping a Giro account has to leave a minimum credit balance, which is generally fixed in proportion to the transactions, only people in a comparatively large way of business can afford it. It is known, for instance, that the Rothschilds in Frankfurt used always to keep a balance of one million pounds with the Reichsbank; the large banks in Germany have balances of fifty million pounds. The lowest limit for such an account is £50. It therefore proved a very welcome step for the less wealthy classes when, in 1909, the Post Office also commenced to act as agency for the settlement of claims and counter-claims, in the same manner as the Reichsbank, the minimum limit for credit balances being very much lower. An arrangement has even been made between the Reichsbank and the Post Office to the effect that transfers can be made from accounts with the Post Office to accounts with the Reichsbank and *vice versa*, whilst in 1910, the Post Office

Savings Banks in Austria-Hungary, and the Swiss Postal Cheque Office, as well as the National Bank of Belgium, and in 1912 the National Bank of Luxemburg came to an agreement with the German Post Office on the same lines, and further progress has been made in this direction.

Within the Imperial postal territory—that is to say, the Empire exclusive of Bavaria and Württemberg—nine post-check offices (central post-check bureaus) have been installed. Bavaria and Württemberg, which still maintain their own postal administration, have joined voluntarily with three offices and a single office, respectively. Any one is permitted to open a post-check account. The Post Office can refuse no one. The only condition is the maintenance of a minimum balance of 100 marks, which, as has been said, draws no interest. The accounting is not done at the individual post-offices, but at the post-check offices or bureaus.

The Giro network and that of the post-check system are connected with each other—although till now not as closely as they should be—by certain channels that render it possible for payments to travel unhindered from the one system over to the other without the intervention of cash. Every establishment of the Reichsbank located where there is a post-check office has a post-check account. In Berlin the imperial treasury and the bureau of securities have a post-check account. This connection is supplemented by the relation that has existed for years between the imperial post and the Reichsbank in the system of postal orders. The public is enabled to avail

itself of the post-check accounts of the Reichsbank in such a way that any one desiring to have a sum placed to an account current [1] in the Reichsbank, whether he have a post-check account or not, can either pay in the money at a post-office [2] or have the amount charged to his postal account and thus have a transfer effected to the postal account of the Reichsbank. The Giro account in the Reichsbank, which is to be credited with the amount, is indicated on the required postal blank.[3] In this way a person who has a post-check account and is also a depositor in the Reichsbank can have such sums as are placed to his post-check account transferred to his Giro account.

The post-check system supplements in a most effective manner the Giro system of the Reichsbank in that it brings in connection with the five hundred establishments (more or less) of the Reichsbank about 39,000 post-offices and post agencies. As all the post stations are included in the post-check system, the Reichsbank's network of branches is spread out uniformly in a compact manner over the whole Empire. Thus not merely are an immense number of places embraced within the range of this peculiar imperial clearing service for small payments, but those classes of the people who handle only small sums of money are enabled to participate in the operation of monetary settlements without the use of cash.

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[1] Giro account.

[2] Using a Zahlkarte or paying-in slip.

[3] Paying-in slip, red transfer blank, or Giro post slip.

The development of Indian banking will depend mainly upon organisation, co-operation, and adaptation. The Imperial Bank will essentially determine the centre of monetary thought in India. Indian banks must look ahead and profit by the experiences of European countries. Germany offers a splendid example of the way in which the different elements of credit are skillfully combined. Some of the methods employed by the German banks are well worthy of imitation here; and we ought to try to introduce some of the features of the Giro system here. Our post-offices must be linked closer with our financial and economic institutions. There is a great need of expansion along these lines. The adoption of the cheque system with some modifications, the application of the principle of the Giro transfers, a greater use of cheques, and closer contact of the banks with new enterprises are highly desirable. The credit facilities granted by the banks to trade and industry should be extended and some form of what the German banks term "reimbursement credit" should be adopted. It is opened on behalf of clients to foreign shippers who draw on the banks for the customer's account against the delivery of the shipping documents. These documents are, unless otherwise arranged, retained by the banks until arrival of the merchandise, when they are usually taken up against payment. In many cases, however, the banks hand over the documents to clients in trust without payment, giving them thereby a blank reimbursement credit, which is of course, a great help. Such credits, which are or ought to be liquidated the moment the merchandise is paid for by the purchaser, according to

contract, must be recognised as perfectly legitimate. Some of the more important private firms also cultivate this sort of credit business, and it is a well-known fact that many commercial firms could only develop their business successfully with the liberal assistance of their bankers.

Industrial organisation in India is in an incipient stage; the movement for trusts, kartels, and corporations, has not started yet; and though there are differences of opinion with regard to the advantages it combines, there is no doubt that the development of the tendency towards concentration is fraught with momentous consequences to India, and the Indian banks will play a prominent part in determining the force, and direction of the future organisation of Indian industries.

CHAPTER II.

SECTION I.—THE EVOLUTION OF INDIAN CURRENCY.

The evolution of metallic money was due mainly to the necessity of international trade. The earliest communities apparently lived upon the communistic basis, obtaining and using food in common. It is probable that accumulation of private property first began in the form of articles of personal adornments. The first objects of this sort like shells, pieces of metal, had currency chiefly within the tribe. It was only as objects came into use which were acceptable to other tribes in mutual exchanges, that an international money became possible. Barter was the earliest form of money, and the various standards of

value, which many primitive societies adopted, are distinguished by the naive simplicity of which such a characteristic expression is afforded by the science of comparative mythology. The Greeks of the Homeric period chose cattle as their standard of value. Other nations too seem to have conceived cattle as money. The ox or cow was the unit of value in primitive pastoral tribes. Other media of exchange were employed among people who had no pastoral wealth and who were compelled to live by hunting and fishing. In Russia skins were used for money; in Ireland and Egypt, was established a schedule of prices in dried fish; furs and skins served as money at Hudson's Bay; tobacco was a standard of value in Virginia, in the early days of the colony, while tea fulfilled the mission of money in parts of China; salt is still a favourite currency in Central Africa, while slaves are employed as money in parts of Africa. The various stages through which the conception of money passed need not be detailed here. Simple barter was too crude a device and the adoption of a common denominator in the form of a single article like an ox or a sheep facilitated the evolution of metallic money. The employment of metal in the form of bars or utensils either by actual weight or the use of certain pieces of metal by tale, or number, was a step in advance; while the imprint of the private mark of some merchant or coiner, distinguished for his honesty, contributed to the growth of international trade. The last stage in the evolution of money is reached when the state certifies the value of the money by undertaking coinage for the community. The international trade was the most

important factor in this process. Official coinage is of comparatively recent origin, as no progress was possible in a society whose members lacked political organisation.

The middle ages witnessed the growth of private coinage on a large scale. Twelve hundred monetary types of Merovingian Gaul have been preserved, struck in more than eight hundred different localities, and among them royal and ecclesiastical types are the exceptions. The churches and the monasteries struck money with the products of the revenues and put upon it the names of their religious establishments. Cities and villages followed the example of the clerics and coined their own money. State coinage was regarded as the essential feature of sovereignty, and the attempts of Charlemagne, St. Louis, Henry, and Henry VII of England to prohibit private coinage, illustrated the difficulty by which the medieval king was surrounded. The theory of sovereignty was still in an incipient stage; the age of Enlightened Despots had not begun yet; trade was confined to narrow limits; and there was absence of an efficient state-coinage. The growth of centralised monarchies, the rise of the middle class, the discovery of America, and the progress of the Reformation in Europe revolutionised the structure of monetary systems. The conception of money underwent a radical change in consequence, and the development of foreign trade and industries came to be regarded as the most important means whereby treasure could be obtained. Money acquired a new significance. Every nation tried to get as much money as it could, and the Mercantilism of the

period saw no objection to the destruction of the commercial rival for the purpose of appropriating all the gold and silver that it possessed. The logical development of this theory would have led to an internecine struggle, beside which the Thirty Years' War would pale into insignificance; and the actual effects which Mercantilism produced are writ large upon the Medusa-like figure of the seventeenth century. The discovery of America forms a land-mark in the history of precious metals.[1]

The problem of Indian currency cannot be solved without a thorough knowledge of the principles which have governed the relation between gold and silver. The question of monometallism, the problem of bimetallism, the riddle of gold exchange standard, the principles of inconvertible paper money, and the theory of Foreign Exchange,—all of them depend for solution upon a conceptual grasp of the constituents of which the problem of the relativity of gold to silver is composed.

The researches of Jacob show that the production of precious metals prior to 1492 was exceedingly small,

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[1] The investigations into the distribution of money which a succession of enquirers have carried out, are of importance, as they enable us to determine the relative positions of gold and silver with a preciseness that is hardly possible in any other social science. Our data however do not enable us to formulate definite statements with regard to the production of precious metals in the world. The works of Jacob, Lenornant, Ridgeway and others are useful; but on scientific accuracy is possible in a subject that covers the period from the dawn of civilization to the present day.

owing to the comparatively crude methods of mining, the lack of communications, and the absence of facilities for the growth of trade. Jacob's researches into the production of precious metals in ancient times are not reliable; as the material at our disposal does not enable us to give an authoritative opinion. We are on firmer ground when we reach the end of the fifteenth century. The quest for gold which began in the beginning of the fifteenth century was amply rewarded after the conquest of Mexico and Peru. The discovery of the rich silver deposits of the Mountain of Potosi in Peru revealed the New World as an important producer of precious metals. Up to this date, (1493 to 1545), the production of gold preponderated in the proportion of 55:36. From this date began what Leroy Beaulieu[1] called the "Age of Silver," which lasted for nearly three centuries, terminating about 1850. It brought into the commercial world nearly twelve hundred million pounds worth of silver. During the years 1840 to 1900, the production of silver was almost equal to the entire product of the three and a half centuries which had gone before. But the increase in the production of gold was in still greater proportion, and the entire product of these sixty years was nearly three times as great as that of the preceding three and a half centuries. The discovery of gold mines in California and Australia displaced silver from the position it had occupied for more than three hundred years. Coghlan[2] estimates the amount of gold produced by the Australian mines from

[1] Traite d' Economic Politique.

[2] The Seven Colonies of Australasia

the first discovery to the close of 1897 at £399,381,186; during the next five years another sum of about seventy-six million pounds was added. It is curious to note that the total volume of gold production in the United States during the period approximated to the same amount. Roughly speaking the Australian and Californian gold mines produced one thousand million pounds worth of yellow metal during the years 1840 to 1902. These achievements have been totally eclipsed by the South African mines. A comparison of the products of the three mines is instructive, as it brings vividly before us the growth in the production of gold in modern times:

Year.	United States.	Australasia.	Africa.	The world.
	Dollars.	Dollars.	Dollars.	Dollars.
1890	32,845,000	29,808,000	10,256,100	118,848,700
1893	35,955,000	35,688,600	28,943,500	157,287,600
1896	53,088,000	43,776,200	44,581,100	202,251,600
1899	71,053,400	79,321,600	73,023,100	307,168,800

Dr. Soetbeer has compiled a table of the average production of precious metals from 1492 to 1885. There are numerous gaps in the list, and no reliance can be placed on the data for certain periods.

Production of gold and silver in the world since the discovery of America.

GOLD.

Period.	Annual Average for Period.		Total for Period.	
	Fine ounces.	Value.	Fine ounces.	Value.
		Dollars.		Dollars.
1493—1600	224,693	4,645,000	24,266,820	501,640,000
1601—1700	293,304	6,063,000	29,330,445	606,315,000
1701—1800	610,882	12,628,000	61,088,215	1,262,805,000
1801—1840	512,217	10,589,000	20,488,552	433,535,000
1841—1870	4,772,876	98,664,000	143,186,294	2,959,924,000
1871—1890	5,347,540	110,544,000	106,950,802	2,210,870,000
1891—1902	10,721,606	221,635,000	128,659,270	2,659,624,000
Total ...	.....	.....	513,970,398	10,624 713 000

SILVER.

Period.	Annual Average for Period.		Total for Period.	
	Fine ounces.	Coining value.	Fine ounces.	Coining value.
		Dollars.		Dollars.
1493—1600	6,797,463	8,789,000	734,125,960	949,173,000
1601—1700	11,970,731	15,477,000	1,197,073,100	1.547.731,000
1701—1800	18,336,720	23,708,000	1,833,672,035	2,370,809,000
1801—1840	20,028,887	25,896,000	801,155,495	1,035,836,000
1841—1870	31,036,378	40,128,000	931,091,326	1,203,835,000
1871—1890	85,751,998	110,872,000	1,715,039,955	2,217,425,000
1891—1902	163,028,342	210,784,000	1,956,340,100	2,529,410,000
Total ...	.....	.....	9,168,497,971	11,854,219,000

From the discovery of America to the close of the sixteenth century the average volume of gold production was considerably less than five million dollars. During the seventeenth century the average amounted to about six million dollars; while in the eighteenth century the average had increased to about 12½ million dollars. The great outburst of mining activity which followed the opening of the Californian and Australian mines led to an enormous production of gold, and the average annual product was multiplied by more than ten. The discovery of the mines of South Africa and the Klondike doubled the annual product, and the generation beginning with 1871 witnessed a production of gold nearly equal to the entire product of the preceding three hundred and eighty years. The production of silver since the discovery of America was not marked by violent fluctuations. There seems to have been an even distribution of the white metal during the period.

In the year 1860 the world's production of silver is reported to have been about 30,000,000 ounces. With some small fluctuations it steadily increased from that date until 1912. In 1870 it had grown to approximately 43,000,000 ounces, in 1880 to 75,000,000, in 1890 to 126,000,000, in 1900 to 173,000,000, in 1910 to 219,000,000 and in 1912 to 233,000,000—an increase of nearly 800 per cent. in half a century. From 1912, a decline set in, the production being 232,000,000 in 1913, to 176,000,000 in 1914, to 186,000,000 in 1915, 175,000,000 in 1916 and 1917, and for 1918 it has been variously estimated at from 160,000,000 to 180,000,000 ounces.

The decline after 1912, at first slight but later more serious, caused the average production of 229,000,000 ounces for the years 1910-13 to drop to an average of about 178,000,000 for 1914-17—a fall of 51,000,000 ounces. As between these two periods, there was a decline in the average Canadian production of 7,000,000 ounces; in that of Mexico of no less than 44,000,000; in that of Australia of 7,000,000; and in that of Europe of 3,000,000;—a total decline of 61,000,000 ounces. On the other hand there was an increase in the United States production of 9,000,000 ounces and in that of Asia 1,000,000—a total increase of 10,000,000 ounces, leaving the adverse balance already referred to of 51,000,000 ounces.

According to the figures submitted in this report the total output of silver from 1912 to 1918 has been 275,000,000 ounces less than it would have been if production had continued at the 1912 level. This shortage has created a strong demand for silver, a demand which has been accentuated by the withdrawal of gold from circulation, the issue of large amounts of paper currency, and the increased consumption of silver in the arts. The demand thus created has caused the price of the metal to advance, until to-day it stands higher than ever before, and is nearly 270 per cent. above the average price for 1915.

As has already been pointed out, during the last 50 years the production of metallic silver has increased enormously, this increase being rendered possible not only by the development of the existing ore fields, but by

the discovery and working of new ones. The upward trend in the production has been accompanied by a downward trend in price which can best be illustrated by the following figures :—

Years,	Average price per ounce of standard silver in the London Market.
	d.
1870	60½
1880	52¼
1890	47⅜
1900	28¼
1910	24 11/16
1915	23 11/16

During this period the most rapid fall occurred in the decade 1890—1900. Between 1897 and 1915 the average price per standard ounce in the London market varied between 23 11/16*d.* and 30 7/8*d.* It will be seen, therefore, that during this period a very marked increase in production was accompanied by only slight variations in market price. Since 1915, the augmented demand for silver, coupled with increasing shortage, has resulted in an appreciation of the price which during the last few months has become phenomenally high, until to-day the figure stands at about 50*d.* per standard ounce, and silver coins have almost ceased to be token coins.

The Canadian decline was due to the progressive exhaustion of the ores of the Cobalt field ; but that of Mexico was attributable to the disturbing effects of the

Mexican Revolution, while the Australian and European declines were a consequence of industrial dislocation by the European War. The increase in the production of the United States and Asia, though in some measure referable to war stimulation, was due in part at least to normal ore development, and may be regarded as compensating for the ore depletion in Canada. It appears, therefore, that the sudden fall in production from the 229,000,000 level of 1910—13 to the 178,000,000 of 1914—17 must be ascribed to political causes, *viz.*, to the Mexican Revolution in the main and to the European War in a minor degree and not to failure in the world's reserves of silver—bearing ores—any exhaustion of these in one region having been counterbalanced by the discovery and development of new suppliers elsewhere. Moreover, there can be no doubt that when normal industrial conditions are restored in the regions of curtailed production, a silver output at least as great as any yet attained may be reasonably anticipated. On the other hand, if conditions affecting industry in general and the mining and metallurgical industries in particular do not become favourable in these regions, a long period must elapse before the world's output can return to the previous high-water level, and still longer before the advance beyond that level, interrupted since 1912, can be resumed.

It is probable the output from Europe and Australia will shortly become normal; but so long as conditions remain unsettled in Mexico, supplies from that country will continue to be small. This is particularly serious

because of the large dimensions of the normal Mexican output, and of the magnitude of the present shortage below that output. By 1911, when the existing disorders were initiated, the steadily growing Mexican production had reached a maximum of nearly 80,000,000 ounces—a larger annual output than has ever been recorded by any other country. In 1916, the production, standing at 23,000,000 ounces, was 57,000,000 ounces lower; and for the four-year period 1914—17, as already stated, it averaged 44,000,000 ounces less than for the period 1910—13.

Authorities are of the opinion that a high silver price will prevail for a prolonged period. In 1918 the United States Congress passed the Pittman Bill, which established a maximum price of 1·01½ dollars per ounce of silver. Senator Pittman recently stated that the demand for silver is now double the production and expressed the view that for the next 20 years prices would range between one dollar per ounce, the figure at which the United States Treasury is committed to make purchases to replace the melted Sherman dollars, and 1·29 dollars per ounce, the established parity of the silver dollar. In view of the dominating position in silver production occupied by the United States it seems safe to predict that this Act will be a decisive factor in stabilising the price of the metal for some years to come at not less than one dollar per ounce.

According to a recent article by Mr. S. N. Soupkoff, contributed to the "Salt Lake Herald," quoted in the

"Mining Journal" of July 12th, the yearly demand for silver is as follows:—

	Million ounces.
Subsidiary Coinage ...	60
Arts	75
India	150
China	40
Africa	25
Total ...	350
Production ...	180
Shortage ...	170

This estimate of demand and production agrees with the previously expressed view of Senator Pittman, that the former is about double the latter. If it is anything like correct, it seems almost certain that a high market price for silver will be maintained for a long time. This would have an important effect upon silver mining, and could not fail to stimulate production, for the margin of profit between extraction costs and selling price is considerable even in camps where such costs are high. An Engineer who recently returned from America, stated in July that:—"At Cobalt the cost of production of silver to-day is about 70 cents per ounce (about 2*s.* 11*d.*). At Pachuca, Mexico, it is less than 30 cents (about 1*s.* 3*d.*)." It seems very probable, therefore, that "dollar" silver will have a most stimulating effect on the mining of this metal, particularly in those countries like Mexico, Peru, Bolivia and Chile where extraction costs

are low. We learn from the same source that provided Mexico enters upon a period of political stability there is almost certain to be a steady increase in the output of silver.

The extraordinary variations in the price of silver, the changes in the relative value of the two metals, and the perception of the fact that the fixation of ratio between gold and silver would facilitate the growth of an elastic currency, led to the formulation of important monetary principles. It was believed that silver and gold would be given a fixed relationship to each other if all the nations of the world adopted a definite ratio between gold and silver. The proposal involved the assumption that the ratio between the two metals did not vary from age to age, or county to county. Otherwise silver would be offered at that Mint which gave the highest value, and withheld from those which offered a lower price. It is however impossible to arrive at any compromise, and the controversy that raged over bimetallism illustrated the difficulty of the application of this theory to countries that differed in their institutions, customs and habits. The bimetallists contended[1] that the effects of a bimetallic system so established would be universal, and there could not be any appreciable difference between the relative value of the metals in the open market and their legal ratio. On this hypothesis the demand for gold for purposes of currency from the other countries of the world could not be considerable; and consequently the only purposes for which the gold could be required

[1] The Report of the British Gold and Silver Commission.

in considerable quantities would be for industrial use or for hoarding; and the demand for these purposes when compared with the annual production and the existing stock of metal would not be sufficient to cause it to disappear from circulation. Again, it was contended that the use of both metals would afford a more stable standard of value than the use of a single metal; because, irregularities in the production of and demand for one would be set off by the shifting of demand from one metal to the other. This theory of substitution, aiming at the establishment of equilibrium through the shifting of the volume of demand from the dearer to the cheaper metal has been lucidly expounded by Leonard Darwin.[1] Darwin attempts to show that "the compensatory action of the two metals" would lead to the establishment of substantial equilibrium. Gold coins could be melted down and sold, and this process would reduce the price of gold bullion by throwing more of that metal on the market; this cheapening process would be so rapid that an equilibrium would immediately be re-established. The two metals would continue to circulate in the currency at the legal ratio, and this legal ratio would again govern the bullion market. Darwin thinks that this process would take place so quickly that no depreciation of either metal could in reality be observable in the market.[2]

The history of French currency during the first three quarters of the nineteenth century shows clearly that fixity of ratio between the two metals is impossible.

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[1] Bimetallism.

[2] Bimetallism, p. 30.

The legal ratio between the two metals was fixed in 1785 upon the recommendation of Calonne, Finance Minister, at $15\frac{1}{2}$: 1. In 1803, when Napolean reorganized the financial system of France, bimetallism was officially established. From 1803 until about 1850, the tendency was for silver to displace gold, and white metal achieved supremacy over the yellow metal. From 1795 to 1847, gold formed 22·9 per cent. of the coinage of the two metals, silver 77·1. From 1830 to 1848, gold was only 10·9 per cent. and silver was 89·1. Up till 1837 there was a slight excess in exports of gold over imports, while the net imports of silver amounted to more than a thousand million francs. Dr. William Shaw[1] calculates the net export of gold during the years 1830 to 1847 at 73,000,000 francs. From 1830 to 1851 there was a net importation of silver in every year, amounting to a total for the period of 2,297,000,000 francs, or an average of over 104,000,000 francs a year. The discovery of gold in California and Australia entirely modified the original position of the two metals. Gold fell below silver in value at the French coinage ratio, and began to pour into France in a golden torrent. Silver ceased to reach the mints and was largely exported. The consequence of the new and increased gold production was a reverse movement, an inflow of gold into France and outflow of silver. In 1848 to 1870, the net importation of gold amounted to 5,153,000,000 francs or over 224,000,000 francs a year, while the net exportation of silver from 1852 to 1864 amounted to 1,726,000,000 francs or 133,000,000

[1] The History of the Currency, 3rd Edition, p. 183 *ff.*

francs a year. Gold displaced silver, and it seemed likely that France would be entirely drained of silver.

From 1871 to 1873 the exportation of gold amounted to 375,000,000 francs, or an average of 125,000,000 francs a year; while from 1865 to 1873, the net importation of silver was 860,000,000 francs or over 94,000,000 francs a year. There was thus a reversal of the position which gold had occupied after the discovery of Australian and Californian mines. Silver gradually pushed gold out of circulation and it fell to a bullion value in 1867 at 15·57 : 1. This made it more profitable to present silver to the mints for coinage than gold. The Latin Union comprising France, Switzerland, Belgium, Italy, and Greece were confronted with new difficulties. Every member suffered, and the difficulty which the Union experienced in the fixation of a ratio led to a radical modification of the agreement at which the five powers had arrived at their first meeting in 1865. In Switzerland, French gold coins circulated in enormous quantities, the silver five-franc pieces disappeared, and the subsidiary pieces of one and two francs followed suit. She saved her subsidiary circulation, in 1860, by reducing it from the fineness of $\frac{8}{10}$ths to $\frac{5}{10}$ths. Italy adopted the French system of coinage, but with the subsidiary coins of the fineness of ·835. The conditions which attended the formation of the Latin Union were entirely changed within the next three years. The adoption by Germany in 1871 of the gold standard, followed in 1872 by the monetary treaty between Norway and Sweden, and Denmark establishing gold as their monetary standard, rendered the maintenance of bimetallism impossible. The coinage of silver at

the French Mints, which had been insignificant for a dozen years, rose to 129,445,268 francs in 1868, and to 156,270,160 francs in 1873. Belgium suffered no less than Italy. The Belgian Mint was besieged by the owners of silver bullion and 111,000,000 francs in five-franc pieces were coined in 1873; while Italy, although its currency was on a paper basis, found it profitable to present silver for coinage to the amount of 42,000,000 liras. It became evident to the French financiers that the avalanche of silver would convert the standard into silver standard. Firm action was taken in 1873, the free coinage of five-franc pieces was suspended, and the maximum coinage to be allowed for each country was fixed by agreement. Finally in 1878 the free coinage of silver was absolutely suspended, and the issue of the token coins of silver was strictly limited by the various conventions of the Latin Union. The five-franc pieces already coined remained legal tender without limit; but gold was henceforth the standard.[1]

France and the United States of America made many attempts to arrive at an agreement with regard to the situation of a ratio; but international policies, divergent interests, and mutual suspicion proved serious obstacles to the realization of the project. The proceedings of the International Monetary Conferences bring out clearly the essential causes of the underlying differences amongst the representatives of the leading powers. The Silver Commission, appointed by the United States Congress in 1876, reported in favour of the restoration of

[1] Willis, History of the Latin Monetary Union.

the double standard and the unrestricted coinage of both the metals. The Monetary Conference of 1878 achieved no substantial results. Germany refused to participate in the Conference; England accepted only upon the assurance that the subject of an international coin would be considered, and Goschen, the English representative, declared that no proposition compromising the gold standard could be favourably entertained by them. Belgium and Switzerland adhered to the gold standard; and the majority of the delegates of the European states resolved that the differences of opinion which had developed excluded "the discussion of the adoption of a common ratio between the two metals." A second attempt at the formation of bimetallic union was made in 1881. The French and American delegates pointed out the importance of the project; while the delegates of the European powers voted "that there is ground for believing that an understanding may be established between the states which had taken part in the Conference, but that it is expedient to suspend its meeting." Two more attempts were made in 1892 and 1897 respectively, but the opposition of England and Germany ensured their failure from the outset.

The history of bimetallism in France has been variously interpreted, but both the opponents and the defenders of the system have failed to note the significance of the salient points of the nineteenth century monetary history. It is clear that the system prevented violent fluctuations in the ratio between the two metals. From 1803 to 1850, in spite of the great increase in the quantity of silver, the ratio was changed from $15\frac{1}{2}$: 1 at

most only ·75 points or slightly over 4·8 per cent. in any year, and the average departure was only ·29 points or 1·9 per cent. Moreover, the greater part of the deviation is explainable by the seigniorage charge then in force in France. During the succeeding period from 1851 to 1870, characterized largely by an inflow of gold, the maximum departure[1] was ·31 points or 2 per cent., with an average departure of ·14 points or ·9 per cent., while during the succeeding period of inflowing silver and outflowing gold, from 1871 to 1873, the ratio rose above 15½ to 1 by a maximum of ·42 points or 2·7 per cent. and an average of ·21 points or 1·4 per cent. Contrast these figures with those since 1873. The maximum departure from the ratio of 15½ to 1 since 1873 is 23·65 points or 152·6 per cent., and the average departure 10·4 points or 67·1 per cent.

It is clear that bimetallism prevented violent disturbances in the relative value of the two metals, and that France would have suffered more had not the fixity of ratio filled the gap which the discovery of gold mines constantly widened. It is no doubt true that bimetallism in France would have broken down in 1850, and would have been succeeded by silver monometallism had not the increased production of gold reversed the flow; nor can it be denied that gold had largely driven out silver in 1865; but the disappearance of gold in 1873, and the increase in the importation of silver maintained the balance to a certain extent.

[1] In the opposite direction.

Bimetallism would probably have been maintained longer had not other countries, especially Germany, Holland, Norway, and Sweden, adopted the gold standard. These countries benefited at the expense of the Latin Union, and drained France of a large portion of gold. Herein lies the essential weakness of bimetallism. The fixity of ratio between gold and silver can be obtained only when the system is applied over an extensive area, but once the system is so applied the fixity is ensured. If the double standard was introduced on a uniform basis by all the great commercial countries, there could arise a fixed relation of utility between gold and silver as media of payment. This new theory of bimetallism is regarded by Pierson as one of the most important results achieved by economic investigations during the second half of the nineteenth century. The theory asserts that when applied over an extensive area the double standard operates in a salutary manner. Introduced in a single country, the double standard develops into an alternating standard, either metal in turn fetching a premium over the other. Introduced on a uniform basis by large number of states, the double standard brings about great constancy in the ratio of value between gold and silver. If free coinage of both the metals were conceded, and the Banks of issue of all civilized countries were required to purchase gold and silver in a fixed proportion, Gresham's law would afford us absolute certainty that the very smallest difference in the world market between the real and the uniformly accepted ratio would elicit a very strong demand for the depreciated metal. To the objection that the local supply

and demand would alter the ratio, it may be replied that monetary legislation has proved effective in the past. The adoption of the gold standard by Germany, the repeal of the Sherman Act by the United States, the closing of the Indian Mints to the free coinage of silver in 1893, and the establishment of a gold exchange standard in Mexico, the Phillippines, and other countries,—these are some of the prominent examples of the successful effects of legislation on the monetary policy of a country. They show clearly, that the fixation of a ratio by law is practicable; and that an agreement to introduce the double standard on a uniform basis by the international regulation of the country will result in, at any rate, a comparative stability. The weightiest argument in favour of monometallism was advanced in 1894, by Professor Irving Fisher, who showed that, if the relation of value as fixed between gold and silver specie were also to become that between gold and silver bullion, the production of one metal would be greatly stimulated, while that of the other would cease altogether. The existing stock of the metal would then be gradually used up by the industries, so that ultimately coins of the other metal alone would be found in circulation, and bimetallism would give way to monometallism. The history of the price of silver during the last thirty years of the nineteenth century shows clearly that the fears of Professor Fisher were not imaginary. Supposing that an international convention provided, that from one ounce of gold and 15·5 ounces of silver respectively, there could be minted quantities of coins representing the same face value, and that this really resulted in the relation of value becoming as 1 : 15·5, or in

other words in the market price of silver rising to 60·85*d.* per ounce. This would revive the production of silver; the entire currency of the gold found apart would become redundant; the output of gold would diminish year by year; and at last no gold would be produced. When that time had come, such gold as was required in the industries could only be got by melting coins, and the longer this process continued, the nearer we should be getting to the time when all gold would have disappeared from circulation, and from the vaults of the banks. There is no doubt that the establishment of a ratio during the last thirty years would have resulted in the disappearance of gold coins from circulation, for, as shown above, the average price per ounce of standard silver fell from 60½*d.* in 1870 to 28¼*d.* in 1900. If bimetallism were introduced now at the ratio of 1 : 15·5, a strong impulse would be given to the production of silver, and gold coins would rarely be seen in circulation. If any other ratio were adopted, countries possessing large quantities of silver token money would suffer irretrievable loss. In Holland 10 florins or 4 rix-dollars (94·5 grammes of silver) are worth as much as a ten-florin piece (6·048 grammes of gold), and the ratio between 94·5 grammes of silver and 6·048 grammes of gold is 15⅝. If the ratio of 25 : 1 were to be adopted, then the weight of the florin would have to be brought up to $\frac{25 \times 6{\cdot}048}{10} = 15{\cdot}12$ grammes of silver, which would make it necessary for Holland, quite apart from her colonies, to purchase as many times 5·67 (*i.e.*, 15·12 — 9·45) grammes of silver as there are florins, and as many times 14·175 (*i.e.*, 2½ × 5·67)

grammes of silver as there are rix-dollars in circulation in that country. The five-franc pieces of the Latin Union and American dollars would have to be increased in weight in about the same proportion. Naturally, countries which have large quantities of silver token money are not prepared to make the monetary sacrifice which would be required for this purpose. Consequently, those countries are not much disposed to discuss the question of bimetallism on any other basis than that of a ratio of about 15·5; a basis which the other countries cannot accept and which indeed they would now be right in rejecting. The difficulties experienced by France would be intensified and confusion would reign supreme. With a view to avoiding the mistakes which are inevitable when such a theory is deduced to its logical conclusion, other proposals for the modification of the single standard have been formulated. Polymetallism looks to the contemporaneous circulation of more than two metals. So long as several metals could be maintained in circulation together, the price-level might fluctuate less than if one metal alone were used. This scheme possesses all the defects, and none of the merits of bimetallism. One metal would drive all the others out of the country. Professor Marshall's scheme possesses some very attractive features. Symmetallism, as it is called, involves the joining together of two or more metals physically in the same coin or in "linked bars." Any ratio might be used as neither metal could push the other out of circulation. The value of the composite coins would be the sum of the values of its constituents, and the fluctuations in its value would be the mean of the fluctuations of its

constituents.[1] Another scheme is advocated by Walras the eminent French economist. According to this proposal the gold standard with a "silver regulator" instead of being fixed, would be systematically manipulated by the Government as to keep prices steady. There are many obstacles in the realization of this proposal, and the constant reduction in the amount of silver, with a view to maintaining prices, would involve the whole financial system in confusion. The Committee of the British Association advocated in 1890 the passing of a law whereby contracts could be expressed in terms of an index number; the money of the country would continue to be used as a medium of exchange and as the measure of value, but not as a standard for all deferred payments.

The standard of deferred payment would be the index number of general prices, and contracts could, when desired, be performed in terms of a purchasing power or of an amount of money varying directly with the index number. The plan would not be acceptable to the public and would necessitate the introduction of a complicated system of index numbers on the part of the Government. The manipulation of this device by political parties is fraught with danger; while the rigorous application of the scheme might result in considerable hardship to the parties to the contract.

Professor Irving Fisher has propounded an ingenious plan for the stabilization of the dollar.[2] He shows that

[1] Professor F. Y. Edgeworth has developed this theory interestingly in the Economic Journal for September 1895.

[2] See his book, "Stabilizing the Dollar," published by Macmillan in 1920.

the evil of high prices is not general impoverishment. If all prices and income rose equally no harm would be done to any one. But the rise is not equal. Many lose and some gain. He thinks that "the real culprit being the Dollar, the real remedy is to fix the purchasing power of the Dollar." What is needed is to standardise the dollar, "just as we have already standardised the yard stick, the pound weight, the bushel basket," etc. He thinks that the evils of the unstabilized dollar are as vast as would be the evils experienced if all the other units of commerce should vary to the same extent. The dollar standard should be worked as specified bill of goods, such as one board put of lumber, fifteen pounds of coal, half a pound of sugar, etc. Such an aggregate of goods selected on the basis of their relative importance in trade may be called a goods dollar or a market-basket dollar. Such a medium of exchange would be heavy, bulky, and perishable; Professor Fisher would retain gold as the medium of exchange, but the gold dollar would be corrected, so as to make its value equal to that of the imaginary goods dollar, by changing its value every month or so, according to the index number of prices. Every two months, say, this index number could be calculated representing what the imaginary basket of goods, called the goods dollar, actually costs. If this basket cost one per cent. more than a dollar, one per cent. more gold will be added to the coin; if it costs one per cent less than a dollar the dollar will be lightened one per cent. The crux of the plan is to keep the dollar from shrinking in value by making it grow in weight, or *vice versa*. This plan may

be summarised thus: Abolish gold coin, redeeming certificates in bullion only; establish an index number; adjust the dollar's weight by the deviation of this index number from par; charge a "brassage" fee and never at any one time alter the dollar's weight more than that; keep the gold standard system of unrestricted deposit and redemption and keep a sound banking system.[1]

The objections to the plan need not be detailed here. It would affect every sphere of national life; the confusion that would result and the injury that would be inflicted are incalculable. It would interfere with supply and demand; it could not check rapid changes; it would involve the establishment of a complicated system of index numbers on the part of the Government, and thus intensify the bureaucratic tendencies of the American Executive.

SECTION II.— INDIAN CURRENCY, 1870—1892.

The systems discussed in the preceding section are of importance for a grasp of the fundamental principles underlying the different types of currency systems. Indian currency problems have hitherto been treated from a purely parochial standpoint. The causes of the fluctuations in the value of the Rupee in the latter part of the nineteenth century were regarded as ultimate causes, and no attempt was made to correlate them with the wider sweep of international trade. The

[1] Compare "Stabilising the dollar" by Professor Irving Fisher, pp. 104 to 123.

narrow gaze on the operation of monetary principles and the perfunctory notice which the progress of economic science received at the hands of successive financiers, led to the formation of false judgment on some, if not all, of the constituents of the problem. James Wilson and Sir David Barbour were probably exceptions.

The history of the Indian Currency during the years 1870 to 1892, illustrates the difficulty of solving that complex problem without the aid which organised knowledge alone can give. The silver rupee, according to Abul Fazl, was introduced by Sher Shah, who usurped the throne of Delhi from Humayun in the year 1542. Previous to his time, the Arabic dirham (silver drachma), the gold dinar (denarius auri), and the copper falus (follis) formed the currency of the Moghal dominions. We may assume the original weight of the rupee from Abul Fazl's statement to have been eleven and a quarter mashas. The earliest English rupee was "the Rupee of Bombain" of 1677 weighing 167·8 grs:; but it was not till the firm establishment of British rule in India that British rupees were largely coined. The variety of rupees in circulation caused endless confusion, and no less than 976 different kinds of coin were counted at one time. Silver was the most widely used standard and gold coins were restricted in their circulation. At intervals gold coins in different provinces were made legal tender, though the circulation of these coins was usually based upon the price of bullion. A despatch of the Directors of the East India Company, dated April 25th, 1806, had pointed out the necessity of adopting one uniform system of currency throughout the Asiatic

possessions of the East India Company; but it was not till 1835 that one uniform silver rupee was made the standard throughout British India. The Madras Rupee was the type upon which the Company's coinage was modelled. The Madras Rupee was constituted the standard coin of the Presidency in 1818; it was to contain 165 grs. of pure silver and 15 grs. of alloy. The Directors were by no means desirous of checking the circulation of gold and proposed the coinage of a gold rupee, made of the same standard as the silver rupee, and divided into halves and quarters, so that the coins of gold and silver should be of the same denomination, weight, and fineness. By the Proclamation of 1818, the Government ordered the discontinuance of the pagoda, and the conversion of the star pagoda into the Madras rupee, at the exchange of 350 rupees for 100 pagodas. The coinage of gold rupees was continued, and they were accepted at all public offices at the ratio of 15·1. Eleven years later, the currency of Bombay was assimilated to that of Madras, while six more years saw the institution of a uniform currency throughout British India. From the Act of 1835[1] to the present time, the weight and fineness of the rupee have remained unaltered; although in 1862[2] the name of the coin was changed from "Company's rupee" to "the Government rupee," and the East India Company's Coat of Arms gave place to the Queen's effigy as the emblem on the coin. The Government followed a curiously inconsistent policy with

[1] No. XVII.

[2] Act No. XIII.

regard to the circulation of gold coins in India. By section 9, of Act XVII of 1835, gold coins were not to be legal tender in the Company's territories in India; but a Proclamation of 1841 authorized treasury officers freely to receive gold coins struck in accordance with the Act of 1835, at the rates indicated by the denomination of the prices until these should have exceeded the limits of lightness prescribed in that Proclamation. Gold coins were accepted in payment of public dues, and though a succession of Finance Ministers supported a gold currency, and the discovery of Californian and Australian gold mines caused an influx of gold into the country, the silver rupee remained the chief standard for ordinary use. The attempts of Sir Charles Trevelyan, the memorials of the leading Chambers of Commerce, and the active support of some of the Viceroys, were not attended with success. The Government issued a notification on December 22nd, 1852, that beginning with the new year "no gold coin will be received on account of payments due, or in any way to be made, to the Government in any public treasury within the territories of the East India Company." This was followed by the issue of another notification in 1864, making sovereigns and half-sovereigns receivable at Government treasuries at the rate of ten rupees to the sovereign and authorising the treasuries to pay them off to any person willing to receive them in payment of claims against the Government. The Mansfield Commission appointed in 1866 to report upon the operation of the Paper Currency Act declared that gold coins of 15, 10, and 5 rupees would find more favour than notes of like value. It expressed the hope that the Government of

India would cause a legal tender of gold to be a part of the currency arrangements of India. In accordance to the recommendations of the commission, and in expectation of the introduction of gold as a legal tender in India, the Government issued a notification, in 1868 that "British and Australian sovereigns and half-sovereigns should be received in all the treasuries of British India and its dependencies, in payment of sums due to the Government, at the equivalent of ten rupees, four annas, and five rupees two annas respectively; and that such sovereigns shall, whenever available to any Government treasury, be paid at the same rates to any persons willing to receive them in payment of claims against the Government." The gold mohurs of 1835 in section 7 of Act XXVII were also to be received at the rate of fifteen rupees to the mohur. Shortly after the passing of this Act, France closed its mints to the free coinage of silver. A large amount of silver thus flooded the market, the silver-price of gold began its upward move, and the break-down in the relatively fixed ratio that had so long existed between the values of gold and silver totally altered the exchange value of the rupee, and radically modified the arrangements which had been developed through a process of trial and error. The question of Indian Currency Reform came to the forefront.

The period, 1870 to 1892, was one of experimentation. The fall in the gold value of the silver coincided with a large increase in the production of that metal. In the quinquennium 1876 to 1880, the annual average of silver ranged from 54$\frac{13}{16}$*d.* to 51$\frac{1}{4}$*d.*, the

average for the quinquennium being 52¾*d.* In the next quinquennium, 1880 to 1885, the range was from 51$\frac{11}{16}$*d.* to 48$\frac{5}{8}$*d.* the average for the quinquennium being 50$\frac{5}{8}$*d.*, whilst from 1886 to 1890 the price ranged from 47$\frac{11}{16}$*d.* to 42$\frac{11}{16}$*d.* the average for the quinquennium being 44$\frac{5}{8}$*d.* And yet the annual average production of silver at the last quinquennium was 3,459,201 kilos (111,213,000 ounces), as compared with 2,450,252 kilos (78,776,000 ounces) in the quinquennium 1876 to 1880, being an increase of 41 per cent. And with an average price in 1891 of 45$\frac{1}{16}$*d.* and in 1892 of 39$\frac{13}{16}$*d.*, or an average for the two years of 42$\frac{1}{16}$*d.*, the production of 1891 has been estimated at 4,493,100 kilos (144,453,000 ounces), and that of 1892 at 4,731,000 to 4,900,000 kilos (152,102,000 to 157,535,000 ounces). The phenomena may indeed be partly accounted for by the circumstance pointed out in the report of the gold and silver commission, that investments in the mines of precious metals are largely of a speculative character, and that many such mines may be opened out and worked for a considerable time at a loss in the hope that such rich deposits of the ore will be found, or that altered circumstances may so change the value of the metal that great gains will be reaped in the future.

In the year 1878 what is known as "the Bland Act" was passed by the legislature of the United States, which required the Government of that country to purchase not less than 24,000,000, and not more than 48,000,000 dollars worth of silver per annum, which would be equal to a consumption varying from

20,625,000 to 41, 250,000 ounces (641,000 to 1,283,000 kilos) in the year. Under the authority of that Act the Government purchased yearly the minimum amount required. Notwithstanding these purchases, the price of silver fell from 52$\frac{9}{16}$*d.* per ounce, the average of 1878, to 43$\frac{11}{16}$*d.* in February, 1890.

In that year what is known as "the Sherman Act" was passed by the United States legislature, under which the duty was imposed on the Government of purchasing no less than 54,000,000 ounces (1,680,000 kilos) a year, in lieu of the amount required to be purchased under the Bland Act. The effect of this obligation to purchase silver, combined, probably, with the anticipation that further legislation, and perhaps free coinage of silver, would follow, produced a sudden and considerable rise in its value, which reached the price of 54$\frac{5}{8}$*d.* per ounce in September, 1890. In July, 1892, however it receded to 38$\frac{1}{2}$*d.* per ounce. There were consequently violent fluctuations in the exchange value of the rupee; the average rate of exchange in 1874 was 22·351*d.* per rupee; in 1880 it had fallen to 19·961*d.*; the average rate in 1889 to 1890 was 1*s.* 4·566*d.*; a year later it was 1*s.* 6*d.*; but in 1891 to 1892 it fell to 1*s.* 4·73*d.*; the following year it declined to 1*s.* 2·9*d.*, and it could scarcely be maintained at 1*s.* 2$\frac{5}{8}$*d.* by the refusal of the Secretary of State for India to sell councils. The violent fluctuations in the exchange value of the rupee produced disastrous effects on the finances of the Government of India. The Government have yearly to remit a very large sum to England in discharge of their gold obligations. In 1873—4, before

the fall commenced, the amount remitted was £13,285,678, which at a rate of exchange of 1*s.* 10·351*d.* was represented by Rx. 14,265,700. During 1892 to 1893 the amount remitted was £16,532,215, which at the average rate of exchange in that year, *viz.*, 1*s.* 2·985*d.*, required a payment of Rx. 26,478,415. If this could have been remitted at the exchange of 1873 to 1874, it would have needed only Rx. 17,751,920. The whole of this difference of Rx. 8,726,495 cannot properly be regarded as a loss to the Government of India arising from the difference in exchange. It is certain, however, that India had actually to remit in 1892—1893 upwards of Rx. 8,700,000 more than if the exchange had been at its former point.

At an estimated exchange of 1*s.* 4*d.* per rupee for the past year a surplus revenue over the expenditure was shown of Rx. 146,600; the exchange having fallen to an average of rather less than 1*s.* 3*d.* this surplus was converted into an estimated deficit of Rx. 1,081,900, notwithstanding the improvement of the revenue by Rx. 1,653,300 over the budget estimate. Nor is this all. The Government were compelled to contemplate a further fall, the effect of which could not be calculated. There was an almost continuous fall in exchange from 1870, though it was varied by a sharp rise in the year 1890.

Sir David Barbour, the veteran financier, showed that the finances of the Government of India remained at the mercy of the exchange. The revenue of the Government of India continued to grow in a satisfactory

manner; and made satisfactory progress even under the influence of indifferent seasons and cruel harvest. The following extract from his financial statement for the year 1893 brings out vividly the difficulties with which the Government were confronted: "Our financial position for the coming year is at the mercy of exchange and of those who have it in their power to affect in any way the price of silver. If we budget for the present deficit of Rx. 1,595,100, and exchange rises one penny, we shall have a surplus; if it falls a penny we shall have a deficit of more than three crores; if we impose taxation to the extent of one and a half crores of rupees, a turn of the wheel may require us to impose a further taxation of not less magnitude, another turn, and we may find that no taxation at all was required. It will be obvious from what I have just said, that what we have got to consider in making our arrangements for next year, is not so much the question of increasing the public revenue, or restricting that portion of the public expenditure which is under our control, but the chances of the settlement of the currency question."

The history of the revenue and expenditure of the Government of India is instructive as it helps us to understand the essential causes of the policy which the Herschell Committee initiated in 1893.

REVENUE AND EXPENDITURE OF THE GOVERNMENT OF INDIA.

Year.	Average rate of exchange on bills drawn on India.	In India.			In England.		Final result, surplus or deficit.
		Net revenue.	Net expenditure excluding exchange.	Surplus revenue.	Net sterling expenditure.	Exchange.	
	d.	Rx.	Rx.	Rx.	£	Rx.	Rx.
1883—1884	19·536	43,591,273	23,522,215	20,069,058	14,764,095	3,373,750	1,931,213
1884—1885	19·308	41,585,347	24,763,779	16,821,568	13,844,028	3,363,986	— 386,446
1885—1886	18·254	42,635,953	27,352,132	15,283,821	13,755,659	4,329,888	—2,801,726
1886—1887	17 441	44,804,774	25,124,325	16,680,439	14,172,298	5,329,714	178,427
1887—1888	16·898	45,424,150	25,968,025	19,456,125	15,128,018	6,356,939	—2,028,822
1888—1889	16·379	46,558,354	25,051,147	21,507,207	14,652,590	6,817,509	37,018
1889—1890	16·506	50,005,810	26,367,855	23,637,955	14,513,155	6,512,767	2,612,033
1890—1891	18·090	49,403,819	25,579,727	23,824,092	15,176,866	4,959,055	3,688,171
1891—1892	16·733	50,023,142	27,013,618	23,009,524	15,716,780	6,825,909	467,535
*1892—1893	15·000	51,530,600	26,448,900	25,081,700	16,352,200	9,811,400	—1,081,900
†1893—1894	14·750	50,172,200	26,302,400	23,869,800	15,650,300	9,814,600	—1,595,100

* Revised estimate.

† Budget.

(*a*) An analysis of these figures shows clearly that the calculations of a succession of Finance Ministers were completely upset by the fluctuations in the price of silver. Conversions of surpluses into deficits are by no means rare, and though there was an increase of revenue to the amount of about fourteen and a quarter million rupees, the losses which the Government sustained were considerable.

(*b*) That the exchange fluctuations disorganised the finances of the Government of India, is clear enough; nor is it doubtful that the comparatively large increase in the revenue of the Government did not make up the losses which made all budget estimates unreliable.

The Government of India were not the only sufferers, however; it was upon trade that the baneful influence of these variations were chiefly felt. As the petition of the Indian Currency Association put it "the trading community were harassed by the uncertainty of the fluctuations of exchange to such an extent that legitimate trade is often replaced by speculative and gambling transactions." It was not so much the fall in exchange as the constant fluctuations that disorganised the trade during the period. The Lancashire Mills seem to have suffered even greater than some of the Indian traders.

As Mr. Thorburn, partner in the firm of Forbes and Co., put it "Lancashire's mills are driving on; she cannot wait till rise adjusts itself to the fall in exchange, whereas the natives of India can wait, and will, till Lancashire takes its price. The consequence of that is that the loss in exchange comes out of the Lancashire manufacturer."

There is evidence to show that the effects of fluctuations were greatly exaggerated. Mr. Charles Gairdner, Manager of the Union Bank of Scotland, thought that the effect of these fluctuations upon trade was not so serious as many people supposed. "I think it is very much exaggerated, and I think there are great differences of opinion. Many merchants renounce that idea altogether. There are some who complain very loudly, as we know, but I think that requires to be taken *cum grano.*

Q.—Do you mean merchants trading with India?

A.—I think you will find many merchants who make very light of that; they regard it as an incident—a troublesome incident, no doubt—but it is an incident, such as we have constantly cropping up in much more formidable places. At this moment, with South America, with Russia, the variations in exchange are the most ordinary incidents and at the same time, sufficiently serious to require great attention. We had in America during the great civil war, both in the northern and southern states, very troublesome and difficult questions of the kind, but not questions calling for imperial interference; and I think that is the right view to take of this question of exchange as bearing on the trade of India, that it is not one calling for imperial interference, and that, perhaps, more harm than good would be done by interfering on that ground.

Q.—In your view, is it not a serious objection to a standard that it should not be stable, but perpetually fluctuating in relation to the standard commonly in use

in the countries with which the trade is done ?—Certainly it is a troublesome incident; I do not think it is more than that.

Mr. Courteney.—In the cases to which you have referred—United States, Chili and Russia—this troublesome incident is beyond our power; but, supposing in the case of India it is within our power to deal with, would not it be worth our while to deal with it ?—I doubt how far it is within your power to deal with it. I think that the dealing that has been—that we have seen anything up till now, has done a great deal of harm; I think that the action of the United States in the last two or three years has done immense harm. It is the result of our letting things alone, is it not ?—No; I do not think it is the result of our letting things alone; on the contrary, I think it is a warning against artificial interference from any quarter without the very greatest caution. I think that the same results will arise from any interference on the part of the Home Government or the Indian Government, which is not effective."

The weightiest arguments in favour of the maintenance of the existing system was adduced by Mr. Stephen Ralli, of Ralli Bros. He asserted that the mercantile community experienced no difficulty. His evidence is so important, the methods which he adopted were so useful that Sir Lionel Abrahams, Assistant Under-Secretary of State for India, recommended the adoption of the useful devices to which Ralli had drawn the attention of the Currency Commission in 1893. Abrahams hoped that the adaptation of Ralli's plan

to modern conditions would result in the disappearance of the constant difficulties which exchange fluctuations invariably brought forth. Ralli showed that fluctuation did not interfere with the vigorous prosecution of trade.

"*Q.*—1484. In the carrying on of your business with India, have you experienced difficulty owing to the fluctuations which have taken place in recent years, more particularly in the rates of exchange?—No, my lord.

Q.—1485. Have you taken any special steps to avoid those difficulties?—Yes.

Q.—1486. What is the nature of the steps taken?—When in 1873 the demonetization of silver by the German Government took place, we took immediate steps not to have in India any rupee assets which were not secured by sterling. We took them in 1873.

Q.—1487. And have you continued that practice?—Until now.

Q.—1488. Are the goods that you export to India exported by you for sale there, or on orders from India?—Both. The business is principally done on orders from and to India and Europe, as well as from and to India and America.

Q.—1489. As regards the order from India, do you think that that business is at all affected by the uncertainty as to exchange?—The orders sent from India for Manchester goods, metal, and petroleum from America.

Q.—1490. Yes?—No, we take steps to secure the exchange.

Q.—1491. But do you think that the uncertainty of what the exchange will be at a subsequent date, when the goods arrive in India, affects at all the extent of business or the orders given?—It does not affect the extent of our business at all, because we buy, for instance, now in Manchester, goods to be delivered in Manchester, three or four months hence, to arrive in India, say, six months hence. Well, immediately the business is done, the forward exchange is secured either by purchase forward of produce or from the Banks.

Q.—1492. Our attention has been called to a memorial by certain native traders at Kurrachee, in which they state that their business has been very much paralyzed owing to the great fluctuations in exchanges?—Yes. I know that memorial.

Q.—1493. You are acquainted with it?—Yes, but we attach very little importance to such memorials. You can get them very easily; the reason why this memorial was sent was because the exchange in 1890 rose considerably, consequently the prices of Manchester goods fell in proportion, the natives had not secured the exchange, and in consequence they met with losses.

Q.—1494. Then the losses and difficulties would be inevitable, unless the exchange were secured?—It is the system which we have always followed since 1873; we keep ourselves, as far as practicable, square; that is, at no time were we to a material extent either long or short.

Q.—1495. And do you find it practicable to cover yourselves completely?—Perfectly.

Q.—1496. But, supposing the risk to be avoided by an exchange operation, that is owing to the risk being taken by some one else?—Well, that is not our business.

Q.—1497. But, then, if the risk is taken by somebody else, you must pay them something for taking that risk?—Certainly, and it is a calculation in the cost; we calculate whatever we have to pay in the cost of the goods which we buy and sell.

Q.—1498. Then this expense of avoiding the risk must add to the cost of the goods?—It is a very slight expense, if any; very slight, because we can buy produce forward, and we can buy and sell exchange forward at the banks at about the same price as the present exchange. Sometimes there is a slight loss: sometimes there is a slight profit."

The constant variations in exchange seriously affected the European officials in India, limited the field for the profitable employment of the British capital in India, checked the growth of Railways, hindered the development of education, and gave an illegitimate stimulus to trade between Bombay and China through the depreciation of the standard of value in India in competing with Lancashire. The losses sustained were real, and the extent of the injury can hardly be calculated. This was offset by the gain which certain sections of the community derived from these changes. They received the same prices for their produce in rupees as they had done fifteen years ago, and were saved from the loss which otherwise they would have made by the fall in the gold

prices, which they exported. Sir Frank Forbes Adam, President of the Bombay Chamber of Commerce, thought that with regard to the commodities which India imported, owing to the fall of gold prices which was greater than the foreign exchange, the people got clothing, metals, copper, brass, and other things which are used largely, for the whole of India, cheaper than they did in 1877; and declared that the fall in the gold price was a matter quite separate from the fluctuations in exchange with silver using countries. The mercantile community in general regarded the actual fluctuations as more injurious to trade than a mere fall or a rise in the exchange value of the rupee. It was the psychological effect which these changes produced that rendered steady trade impossible. The uncertainty, the anxiety, and the confusion which exchange fluctuations produced rendered steady trade extremely difficult; and the disorganization that followed intensified the situation. If fixity of exchange had been evolved and a certain ratio permanently fixed, the trade might have been carried on, and no harm would have been done to the basic principle of commerce. Credit is the soul of commerce, and confidence is the foundation upon which the structure of International Trade rests. The evolution of modern banking, the growth of commercial institutions, and the development of modern industry, would have been impossible without the creative energy, and constructive policy, which the extension of credit has brought about in the modern world. The effects of the dislocation of exchange must be sharply separated from the effects of the rise or fall of exchange. The one

shattered the confidence, and destroyed the credit upon which rests the efficacy of all commercial operations. Trade would have found its natural level, and the differences in the exchange value of the rupee would not have been felt so keenly, had not the constant harassments, to which all the traders of the period were subjected, and of which there were frequent complaints, both in India and England, necessitated reorganization of the financial principles and methods. There was need of a new orientation, and a desire for the formulation of a policy that would safeguard the interests of the exporters no less than those of the importers. The years, 1870 to 1892, had been occupied mainly with resolutions; several excellent projects were suggested; and a few schemes were actually brought to the notice of the Secretary of State for India. Bimetallism was in the air, and the busy brain of Barbour had constructed an imposing edifice. The failure of bimetallism in France did not daunt his energy, or damp his ardour; nor did the inglorious achievements of a succession of International Monetary Conferences abate his zeal for his pet scheme.

SECTION III.—EFFECTS OF EXCHANGE FLUCTUATIONS, DURING THE YEARS 1870—1898.

The effect of the rupture of the par of exchange between gold and silver, consequent upon the demonetization of silver by the Latin Union, were set forth by the British Gold and Silver Commission as early as 1888. "There is no common measure of value; the metal composing the standard in one country is little more than merchandise in the other; and many of the advantages

of money as a means of facilitating trade are thus curtailed." The influence of rising exchange upon the import and export trade of the country has been studied by a succession of economists. The question is extremely complex, and the difficulties of separating various elements and assessing the relative importance of each are intensified by the fact that the rise in the price of silver may mean either that silver has become scarce or gold has become redundant. When an alteration occurs in the ratio between gold and silver it is not always clear which of the two metals has gained or lost in its purchasing power. The absence of change in balance of payments of silver standard countries relatively to countries having a gold standard, may lead us to the conclusion that the value of silver has remained undisturbed, and that gold has either risen or fallen in value; and if we find that the balance of payments of silver standard countries has changed relatively to countries with a gold standard, we may regard it as a proof either of a rise or fall in the value of the white metal. This assumption would be false, for, the balance of payment between countries having different monetary standards is not determined exclusively by the ratio of exchange between gold and silver in the world market; it is influenced by other causes as well, and these have to be taken into account. Thus, in a country where the silver standard is in operation, a great decline may take place at a given moment in the demand for money, which consequently becomes redundant; at the same time, however, the ratio of exchange between gold and silver in the world market may alter in favour of the latter metal, and this alteration may originate with gold.

There are two problems which require detailed treatment, as upon their solution will depend ultimately the formulation of a definite monetary policy. They perplexed a number of witnesses before the Currency Commission of 1892-93 ; irritated the next Commission ; and moulded, to a certain extent, the opinions of the recent Committee on Indian Currency. The first problem is concerned mainly with the effect of a declining monetary standard upon the exports of a country. The investigations of the Commission on International Exchange, 1903, enable us to estimate the effects of the fall in price of silver upon the export trade of the silver standard countries, *e.g.*, China, Mexico, the Philipines, and Cuba. In China, the average annual value of the exports rose from 19¼ million pounds of gold upon the average of the ten years ending with 1891, to about 23¼ million pounds upon the average of ten years ending with 1901. Approximately the increase amounted to little more than 2 per cent. a year. The decline in the gold value of silver does not seem to have stimulated the growth of China's exports to gold using countries. In the case of Mexico also, the increase in the exports was small. The gold value of the export from Mexico increased only from 63,328,157 dollars in 1892 to 74,106,200 dollars in 1902, representing an advance in ten years of 18·38 per cent. or less than 2 per cent. a year. The increase in the export trade does not represent the real increase in the quantity of goods exported ; moreover, the silver countries gave up under the silver standard a larger and larger quantity of the products of their labour in exchange for the products of the gold countries. This factor neutralized the benefits of any increase

of trade which the silver countries might have derived from falling exchange, and tended to leave them poorer in the end than if their trade had not expanded. A careful analysis of the quantities in gold values of some of the principal articles exported brought out interestingly the gains and losses which Mexico sustained. Six selected articles exported from Mexico would have been worth about 17 million dollars in gold if the unit of weight had retained in 1902 the same value as in 1892. The statistics of Chinese trade indicated a decline in gold value of goods exported, of about 3,369,800 pounds, while the cost of imports from gold countries indicated an increase in gold value of about two million pounds, or a net loss on both sides of the account of more than 5½ million pounds. This fall in the gold prices of exports was not accompanied by a corresponding fall in the exports of gold countries. Conant quotes an interesting article from the Wall Street Journal for February 16th, 1903. He showed that the export price of products of the United States tended to rise, or, at any rate, not to fall, while the import prices of the articles received from tropical countries tended steadily to fall. The exports of cotton, wheat, and corn for the fiscal year 1902, which were actually valued at $ 409,275,000, would have brought at the prices of 1899 only $ 319,232,000, or $ 90,000,000 less than was actually received. On the other hand, the average import price of coffee dropped from 14·04 cents for the five years ending with 1897 to 6·89 cents for the five years ending with 1902. The corresponding decline in sugar was from 2·47 cents to 2·26 cents, and of tea from 14·10 cents to 12·79 cents. The imports

of these three articles into the United States for 1902 were actually entered at the gold value of $ 134,861,500, while at the prices of 1897 the same quantities would have been entered at $ 191,078,600. The United States, therefore, obtained these three important tropical products at $ 56,000,000 less than it would have obtained them at the prices of five years ago, while at the same time obtaining a considerably enhanced price for its own products. The conclusions of the fourth Sub-Commission of the Mexican Monetary Commission were, however, in variance with the results at which Conant had arrived. They showed that during the period of rising exchange, national agriculture and cattle raising progressed, thus encouraging their production of articles of exportation and of home consumption. Industries of every class were improved and new industries established; while prosperity arose not only for those who laboured with raw materials of home production, but also for those who laboured with raw materials of foreign production and with raw materials of home and foreign production combined. The industry of land transportation, although it received increasing gross and net profits per mile, in terms of silver, suffered a diminution in its net profits per mile in terms of gold. The production of the country's argentiferous mines increased, despite the effects which the advance in exchange would have been expected to have had; and this advance developed in an extraordinary manner the production of minerals containing gold, copper, and lead. There was an enormous increase in the prices of articles produced abroad, since the fall abroad in the gold prices of

these articles was not sufficient to counter-balance the results of the rise in exchange. Rural and urban real estate increased in price, partly by reason of the depreciation of the peso, partly by reason of the building of railroads, and partly by reason of the purchase of lands opened for cultivation. Wages and salaries of the consuming classes were scarcely affected, continuing with very slight exceptions the same as they had been before the decline in silver. The fourth Sub-Commission, in view of the results obtained, concluded that, although it was clear that the rise in exchange had protected and stimulated national production, these benefits had been effected at the expense of the consuming classes. The producing classes of the country, moved by sincere sentiment, applauded each new advance in foreign exchange rates, because under the protection of this advance they obtained greater prosperity. On the other hand, every advance in foreign exchange rates imposed an increasing burden upon the labouring classes and, in general, upon all consumers who received a salary or a daily wage.

Foreign capitalists who had invested in the country, the fourth sub-commission found, had suffered considerable losses, although in terms of silver there were apparent gains. It declared its belief "that any measure that could be taken to change this condition of affairs and offer a guarantee of stability to foreign capitalists, would be extremely beneficial to the national interests, since nothing could contribute so much to the development of national wealth as an increasing investment of capital, and it is only from abroad that capital can come in abundance."

Again, Conant's contention that the gold value of exports represented only a small advance, is not borne out by the data which Professor Kemmerer has compiled. He thought that despite the high co-efficients of correlation the statistical evidence was far from conclusive, and that the deductive argument afforded the strongest ground for believing that a declining price of silver stimulated the Mexican export trade. The reason for this opinion may be stated in a few words. The population of Mexico was growing, and without any artificial stimulation whatever there would have been a normal tendency for exports to increase. According to the table they increased in terms of pesos in fifteen of the seventeen years, including five of the six years in which silver rose. This fact coupled with the doubtful value of Mexico's trade statistics during the earlier years, and the fact that the figures are in values and not in units of quantity, throws us back upon *a priori* reasoning, and upon the testimony of those familiar with the particular export industries. These methods, however, in the main substantiate the testimony of the crude statistics. The *a priori* argument that the declining value of the peso encouraged the production and exportation of agricultural articles was strong; and the export figures for certain products such as heniquen, coffee, and beans were favourable to that conclusion. On the other hand, the argument in favour of a continuance of the silver standard in Mexico because of the encouragement to the export trade resulting from the decline in the gold value of silver was weaker for Mexico than for most countries for two reasons: first, because approximately half of Mexico's

exports consisted of the depreciating silver itself, whose production and exportation obviously was not stimulated by the decline; and second, because Mexico in her recent development was largely dependent upon foreign countries for her supplies of machinery, quicksilver for the silver mining industry, railroad materials, and raw cotton—articles whose peso cost was greatly increased by the decline in silver.

The common argument that a rising exchange, though perhaps beneficial to the export trade, is, *per contra*, harmful to the import trade, since it requires an ever-increasing number of pesos to buy a given amount of foreign goods at fixed gold prices, was used by the advocates of silver as an argument for the silver standard. They argued that the inhibition of imports provided an effective protection to home industries. This reasoning employed nearly all the familiar weapons of the advocates of a high protective tariff, the chief of which was the infant industry argument. It was claimed that the decline in silver encouraged the building of numerous manufacturing establishments in Mexico, including cotton and woollen mills, and alcohol, paper, and cigar factories; and that it induced American capitalists to establish branches in Mexico to supply the Mexican trade. The local traffic on Mexican railroads, moreover, was said to have benefited at the expense of the through traffic from the United States.

Mr. Campbell, Manager of the National Bank of India, thought that falling exchange was advantageous to the Indian producer, but Mr. Macdonold, Director of Macdonold and Co. of Manchester, did

not share the same views. He admitted that the cotton mills in India benefited by the fall in exchange and that in paying salaries, wages, interest on debentures, and ground rents, in a currency which has not materially appreciated, they had a great advantage over the Lancashire manufacturer. A review of the evidence of witnesses before the currency commission leads one to the conclusion that it was not so much fall in exchange, as the fluctuations, that disorganised the trade of the period. The statistics of the export of wheat during the period of the falling exchange point irresistibly to the conclusion that a low rupee did not give larger returns to the cultivators. The wheat exports from India during the years 1881—92 were as follows:

Years.	Tons.	Rate of Exchange.	
		s.	*d.*
1881—82	993,176	1	7·895
1882—83	707,292	1	7·525
1883—84	1,047,824	1	7·536
1884—85	791,538	1	7·308
1885—86	1,053,025	1	6·254
1886—87	1,113,166	1	5·441
1887—88	676,908	1	4·898
1888—89	880,504	1	4·379
1889—90	689,961	1	4·506
1890—91	716,024	1	6·090
1891—92	1,515,349	1	4·700

An analysis of the above shows clearly that the falling exchange did not produce any substantial effect upon the export of wheat. The figures for the year 1891-92 can be explained by the fact that the development of railways, steamers, and the construction of Suez Canal enabled India to increase her export of wheat.

Wheat could not be sent round the Cape in any quantity owing to the damage sustained through the long passage.

When silver falls in relation to gold, the greater number of rupees which is required to meet a given gold payment will not represent a greater quantity of produce than before, if the silver price in India of the produce exported responds to the changed value of silver in relation to gold, *i. e.*, if it has risen or has been prevented from falling. The Currency Commission of 1893 thought that silver prices must ultimately thus respond, but they admitted that an interval may elapse before the correspondence is complete; and during this time, whilst more produce is exported the Indian ryot will get proportionately less in silver. The Currency Commission were of opinion that the effect of a fall in the exchange value of a rupee would be "transitory; and can continue only until circumstances have brought about the inevitable adjustment." They examined the statistics of exported produce, and came to the conclusion that the stimulus of falling exchange had no prevailing effect on the course of trade; on the contrary, the progress of the export trade, during the years 1871-1892, had been less with a rapidly falling than with a steady exchange. From 1871-72 to 1876-77 the gold value of the rupee fell constantly from 23·126*d.* to 20·508*d.*, or about 11¼ per cent.; the exports of merchandise were actually less in the latter year than in the former, although in 1876-77 their rupee value exceeded by about 10 per cent. that of the exports of either 1870-71 or 1872-73. From 1878-79 to 1884-85 exchange was fairly steady, the

average rates varying only between 19·961*d.*, and 19·308*d.* per rupee, or about 3¼ per cent.; and during those six years the exports rose by no less than 36½ per cent. Again, between 1884-85 and 1888-89 the fall of the rupee was very rapid, from 19·308*d.* to 16·379*d.*, or over 15 per cent., and the exports increased during those four years by 16½ per cent.; but in the single year 1889-90, when there was a slight improvement in the exchange, the exports increased by more than 6½ per cent. Nor was there any evidence of a corresponding tendency to check imports. From 1878-79 to 1884-85 when exchange was steady, the imports increased 47 per cent.; between 1884-85 and 1888-89 when the rupee fell about 50 per cent., the imports were augmented by nearly 25 per cent.; while in 1888—90 when exchange slightly rose, the imports were less than in the previous year.

The Currency Commission of 1893 seem to me to have laid undue emphasis upon trade returns; and the effects of the rise and fall of exchange as measured in the rupee price do not seem to have been clearly analysed by them. The history of Indian trade during the period 1871 to 1892 would have revealed the existence of numerous factors that counteracted the tendency of falling exchange to increase exports. The development of railways, the construction of canals, and other improvements in the means of communication, facilitated the importation of foreign goods into the country. We are not therefore justified in attributing the increase in imports, and decrease in exports, to the fall in exchange. The argument of the Commission of 1893 that

"even if a fall in the gold value of the rupee does stimulate exports, the result is not necessarily to the benefit of India as a whole, though it may temporarily benefit the employer at the expense of the wage-earner, because wages rise more slowly than prices," is not conclusive, for the rupee prices of most of the produce were higher in 1893 than what they were when the exchange was at 2*s.*, because the selling gold price had not fallen so much as the price of silver and the rate of exchange. The gold prices of wheat did no doubt fall as much as the exchange, but allowance must be made for the decline in the freight; and the railway rates from the interior to the sea-board declined considerably. Again, there was a decrease in the gold price of imports during the last twenty years, and Manchester goods were bought on a basis of 8*d.* for American middling cotton. The prices of Manchester goods followed the decline in cotton and copper fell from £100 to £46. Consequently the Indian who got a full price in rupees and was decidedly prosperous could afford to buy ingots with the profits which he made by the sale of his produce.

A review of the above has led me to the conclusion that the falling exchange stimulates the export trade; while the rising exchange checks the development of industrial undertakings and the growth of foreign trade, *if there are no disturbing factors.* The Currency Commission seem to have attached undue importance to mere enumeration. They have not succeeded in establishing a causal sequence; while their conception of international trade lacks the clearness and perspicacity which distinguish the Reports of Currency Committees for 1914 and 1919.

SECTION IV.—THE HERSCHELL COMMITTEE REPORT.

The proposals for the reform of Indian coinage which a number of distinguished witnesses laid before the Commission of 1892 are of special importance at the present day, as the Government of India subsequently adopted the best features of some of the schemes. The gold exchange standard is probably the best example of the application of an abstract theory to the complex problem of economic life. Sound principles of money, enunciated by persons who had no practical experience, were carried into effect, and applied over an extensive area.

(A) The earliest proposal for the reform of the coinage was formulated by Walter E. Cassels in a "Letter on a Gold Currency for India," published at Bombay in 1864. Mr. Cassels attempted to show that the Paper Currency Act had proved a complete failure, that the Government notes were viewed with great suspicion. In Mr. Cassel's opinion, the crisis of 1864 was attributable to the fact that an unprecedentedly active and profitable trade, and the numerous hands through which commodities had to pass absorbed a great part of the metallic currency. He thought that "the stream of capital has, to an unusual extent, flowed into the interior for cotton and other produce; much has been distributed by the ryots by whom it has been absorbed, and much has been embarked in speculative investments. This has proceeded with a rapidity commensurate with the activity of commerce, and rather suddenly the country has found itself without sufficient coin for the efficient

circulation of commodities." Mr. Cassels considered that with a gold standard the severity of the crisis would have been mitigated and its duration materially abridged, because, (1) silver was then becoming scarce in Europe, (2) its transport was comparatively difficult, and (3) even when received in Bombay, the working powers of the mint were greatly below the requirements of the country. Mr. Cassels thought that gold was the only efficient basis for a paper currency for India, as it was "only by liberating the previous metals from the duties of circulation, and enabling a country to make them reproductive by exportation as commodities that a paper currency can legitimately benefit any nation." Supposing then that our paper currency was so far successful as to set any quantity of silver free for this purpose, India could not avail herself of the opening because silver was too dear for re-exportation. On the other hand gold received from Australia could be profitably exported, either on a calculation of its actual cost, or its relative outturn in comparison with commodities. Cassels thought that so long as silver is maintained as the standard for India, the paper currency will continue to be delusive and unprofitable and the system of financial administration deprived of all healthy vitality.

These proposals were vigorously opposed by "Indopolite," who contributed a tedious review to the "Madras Daily News." Cassels ignored the fact that the poverty of the country precluded the use of gold coins in India; nor did he have a firm grasp of the function of paper currency.

(B) Much more feasible was the suggestion of Mr. J. D. C. Atkins, some time Financial Under-Secretary to the Government of Bombay. Under this scheme national credit, instead of metal hoards, would be the basis of the paper money, which would consist of Government stocks. The unit note to which he gave the fanciful name of "bon" would be a pound share in India stock gold. There would be notes for a bon, ten bons, a hundred bons, and a thousand bons, and the last three might respectively be termed "dekabons," "hectobons," and "kilobons." "Hectobons" and "kilobons" would bear (gold) interest in exactly the same way as the India gold stock; but for purposes of practical convenience, it would be desirable to pay no interest on "bons" and "dekabons," though these would be freely changed by Government for notes of higher denominations, and *vice versa*. Government taxes in India would be at once converted from rupees into "bons," at the rate of 16 rupees to a "bon," and Government fixed payments in India would be similarly converted, future receipts and payments in both India and England being arranged for in "bons."

Persons in want of "bons" would have to buy with gold or silver India gold stock in the market, and this stock they could convert at Government treasuries into "bons" of any denomination they chose. Silver would be treated, as in England, as merely token currency, there being a fixed limit to its use as legal tender. This restriction would not appreciably affect India's demand for silver.

The Secretary of State, instead of selling silver council bills for gold, would sell India gold stock for gold. Except at the very commencement[1] the stock sold by him would consist of the "bons," etc., received by him from India, and obtained by the Government of India in payment of revenue. The Secretary of State would thus exchange his *role* of exchange-jobber-broker for the *role* of stock-jobber-broker. India gold stock would not be lower, on an average, than it was in 1892, for there would be the same demand on the part of the investors, and, in return for the increased "supply" of stock in the market, there would be an at least equal increase in the demand, the new demand being on the part of persons requiring to make trade remittances to India. The latter would be forced to buy, for they would not have the alternative of remitting silver bullion to India, inasmuch as a "bon" would presumably have as high a gold or silver value in India as in England. If the balance of trade continued, as seems probable, to be in favour of India, there would be a tendency for gold stock to rise in price[2] in the English market, and to find its way to India even faster than the new "bons" were issued by the Secretary of State.

(C) In a speech delivered at the Meeting of the Bombay Branch of the Indian Currency Association on the 10th of August, 1892, Mr. Cox, Accountant-General of Bombay, suggested that refuge might be found in a system based upon the closing of the

[1] When his sales would be virtually equivalent to a new loan.

[2] On account of the increased demand.

Indian mints against silver, and the declaration of a gold standard, that is to say, of a fixed value for the rupee expressed in the money language of those countries which have a gold currency, and with whom India principally deals. The balance of trade has always been in favour of India. In his opinion, India requires less of the products of other countries than other countries require of the products of India, so that when from time to time the balance is struck it is found that something is due to India, and, since India requires no more of foreign commodities than she has received, it has to be paid to her in the precious metals. It has been paid both in gold and silver, but chiefly in silver. During the year ending 31st March 1892, imports of gold into India amounted to 2¼ crores while imports of silver came to 9 crores. The gold has been used for hoarding or for manufacture of jewellery, the silver mostly for the purposes of currency. The English merchant, or the banker to whom he transfers his liability, therefore, generally requires rupees in India, and he has two modes in which he can procure them. He can apply to the Secretary of State and learn at what price he will sell his ready coined rupees in India. If he thinks that the Secretary of State's price is too high, he can turn to the silver market and purchase silver bullion which he can ship to India, and have converted into rupees at the Indian mints, after some little delay. The consequence of this is that the Secretary of State and the silver merchant are constantly bidding against one another. But if the Indian mints are closed to the free coinage of

silver this competition will cease. Mr. Cox thought that it would be necessary to exclude silver bullion from India by imposing a prohibitory import duty, as otherwise there would be a risk of bullion circulating as a medium of exchange and a bullion price existing together with a rupee price. If this were done, the Secretary of State would have command of the rupee market and could demand from the merchant or banker any price within reason which he chose to ask.

(D) Mr. James A. Graham, of Grahams and Co., East India Merchants, proposed a very ingenious scheme.

Silver.

(1) The entire amount of council drafts for the financial year, with dates distributing them over the year, to be offered on or about the 1st of January at a fixed rate. The rate so realized shall be the official rate for that year.

(2) So long as the rate of exchange does not exceed the official rate by less than 5 per cent., the free coinage of silver to be suspended. On sufficient evidence that the current rate of exchange is higher than the official rate by 5 per cent., or more, the Government of India may either throw open the mint for free coinage until the rate has gone down again, or may invite tenders of bar silver for delivery at the mint.[1]

Gold.

(1) Coins of equal value to sovereigns to be coined under such regulations as may be thought desirable.

[1] There would be no difficulty in getting evidence as to the rate of exchange from impartial sources.

(2) The Indian treasuries to accept these coins or sovereigns, if tendered in payment of taxes, at the official rate.

(3) The Indian Government to reserve the option of paying the council drafts in sovereigns, etc., at the official rate.

(E) Mr. L. C. Probyn, formerly Accountant-General in the Punjab and at Madras, formulated another interesting proposal. Both the Herschell Commission, and the Fowler Committee discussed its main features, and the latter, after carefully discussing the merits of the scheme, rejected it on the ground of its impracticability. He proposed to fix the rupee at 15*d.*, to aim at making it a perfect representative of this nominal gold value, and not to encourage the use of gold in India as current money. The closure of the mints to silver would be supplemented by authority to receive gold [1] either (*a*) in exchange for silver rupees to be given from the Paper Currency Reserve, or (*b*) in exchange for special large gold notes. In the case of (*a*), the gold would gradually accumulate, and if the balance of trade remained in favour of India, and the ordinary note and rupee circulation increased, a reserve of gold would gradually be acquired by the currency department, which would enable the Government, at some future date, to give gold in exchange for all its current money presented for the purpose. Mr. Probyn thought that provision must be made for an "equivalence fund," *i.e.*, a fund to represent the difference between the intrinsic and nominal

[1] Not for coinage purposes.

values of any new coined rupees. In the case of (*b*), the gold would be as free for the world's use as the gold in the issue department of the Bank of England. In Mr. Probyn's opinion, it would be a great mistake to close the Indian mints to silver without giving the public the option of using gold at the rate which it may be determined to adopt and without making the most of the gold so used. If the public had this option the currency would expand automatically in accordance with trade requirements[1] and it would probably in time lead to a sufficient gold reserve being built up to admit of complete automatic contraction as well. Under this scheme the demand on the gold stock of the world would be really very small, and as it would be regulated by the mercantile and banking community in accordance with trade requirements, it would cause much less interference with the money markets than purchases of gold by the Government.

(F) Mr. M. Schilizzi suggested a novel plan for steadying the gold value of the rupee for the time being, and of averting, if possible, impending disasters. He thought that if the India Council were to fix every three or six months a minimum rate at which it will sell its drafts on the presidencies, and the Indian Government were to levy a duty on all imports of silver—such duty being equal to the difference between the daily official quotation of bar silver in London and the relative price of silver to the fixed rate of the council bills—the Indian exchange would attain stability, confidence

[1] Instead of being determined by the action of the Government.

would be restored, the exchange would become independent of the fluctuations in the prices of the white metal, and the obvious disadvantages of the closing of the Indian mints to the public or driving India to adopt a gold standard would be avoided.

Illustration.—Fixed price of council bills = 1*s.* $2\frac{5}{8}$*d.* The relative price of bar silver to 1*s.* $2\frac{5}{8}$*d.* the rupee is $38\frac{1}{8}$*d.* Assuming the official quotation on a given day to be 35*d.*, silver bought on that day will be subject to an import duty of $3\frac{1}{8}$*d.* per ounce, and will cost when laid down in India $38\frac{1}{8}$*d.* Such silver, if taken to the mint, will produce as many rupees as a council draft bought at 1*s.* $2\frac{5}{8}$*d.* would produce.

Should such a plan as this be adopted before the abrogation by the United States of the Sherman Act of 1890 a disastrous fall in Indian silver securities would be averted, and trade will not be disorganised. The abrogation of the Sherman Act will, in course of time, bring about a reduction in the world's production of silver, and its price will settle down to the parity of the council drafts. This will minimise the possibility of rupees coined abroad being smuggled into India, and reduce the temporary disorganisation of the trade of India with China and Japan.

(G) As a key to the solution of the question, without disturbing the existing conditions of trade, Mr. J. C. Stalkartt suggested the introduction of "a bimetallic coin to be called the imperial florin or rupee, made of the value of 2*s.*, and containing 4 per cent. weight in gold and the balance silver." The advantages

claimed by Mr. Stalkartt for this bimetallic coin may be summarised as follows:—

(1) If silver depreciated, the gold half would rise, and *vice versa*.

(2) Without the gold, the silver could not be coined.

(3) If silver fell, it would not affect the standard, and the surplus of silver would be available for arts, etc., even at a lower price.

(4) To coin 25 millions into silver would take 25 millions gold; the public would find the precious metals, and the Government would not have to give gold in exchange to maintain the standard.

(5) There would be no expense to the Indian Government; and one million would be enough to form a reserve.

(H) Mr. F. E. Warburg, of Messrs. Jonas, Simonsen & Co., advocated the introduction into India of a gold standard on the Hamburg system. In 1619, Hamburg [1] established a bank, which originally aimed at protecting the mercantile community against the constantly depreciating or debased coins. The Bank of Hamburg was reorganised on the basis of silver bullion only and no coin, and one mark of Cologne weight was declared synonymous with $27\frac{3}{4}$ Hamburg Banco. By degrees, every price was fixed and quoted in "Marks Banco," every merchant of any importance had his account with the bank, and either deposited silver bullion himself or got it transferred by somebody else, and the entire trade of Hamburg, and a not unimportant part of the trade of Germany, was regulated by and through the bank, and by

[1] Following the example of Amsterdam in 1609.

transfers not unlike the cheque system. Meanwhile the retail trade was carried on by coins; those issued by the Hamburg mint were called "current mark," and were of about 25 per cent. lower value than the "ideal and non-existent mark banco;" but, besides, German or other coins circulated at a more or less fixed exchange.[1] All wages, rents, and retail purchases were made in such coins; but the wholesale and foreign trade was carried on by transfer, and, at a time when debasement of coins was nothing unusual, this was a great convenience and security. A similar arrangement is perfectly suitable in India, and in gold; and the merchants in the large centres, like Calcutta, Bombay, and Madras, are perfectly able to inaugurate it themselves. Whether the imaginary divisions of an ounce of gold of a certain fineness be called gold rupees, pounds, or simply fractions of ounces, matters little, as long as all the places agree on the same denominations. Were this started, all wholesale prices, both for import and export, would soon be quoted in this standard and would greatly facilitate business, while a very small amount of bullion would suffice for the transfers, and this quantity, which would have to be procured by the merchants themselves, would probably not offer greater difficulty than does the balance which every man of business keeps at his banker's.

(I) *Proposals of the Government of India.*—In their despatch of 21st June 1892 the Government of India declared that, "if it becomes evident that the International

[1] Compared to banco.

Conference at Brussels is unlikely to arrive at a satisfactory conclusion, and if a direct agreement between India and the United States is found to be unattainable, the Government of India should at once close its mints to the free coinage of silver, and make arrangements for the introduction of a gold standard." The Government forwarded as an enclosure to this despatch an able minute by Sir David Barbour, explaining the method he proposed for the introduction of gold standard into India, if it became necessary. He suggested that (1) the mints should be closed to the free coinage of silver. Government would retain the right of purchasing silver and coining it into rupees. (2) The next measure would be to open the mints to the free coinage of gold. It would be desirable to stop the free coinage of silver some time before opening the mints to the free coinage of gold. The new gold coins might be a ten-rupee piece and a twenty-rupee piece. The weight and fineness of the new gold coins would be such that the par of exchange between them and the sovereign would be the exchange which it was desired to establish between India and England. With regard to the ratio to be fixed, Sir David thought that the average price of silver during a limited period before the introduction of the gold standard would be the safest and the most equitable basis. In a telegram of 22nd of January 1893, the Government made a further statement regarding their proposals. "We propose to take power to declare by notification that English gold coinage shall be legal tender in India, at a rate of not less than 13½ rupees for one sovereign, and we have provided for that in the draft bill. We think that

an interval of time, the length of which cannot be determined beforehand, should elapse between the closure of the mints and any attempt to coin gold here. The power to admit sovereigns as legal tender might be of use as an interim measure, and need not be used except in case of necessity."

Sir David Barbour adduced weighty arguments in support of these proposals. He observed that, although it was proposed to stop the free coinage of silver and to establish a gold standard, it was no part of Government's plan to substitute gold for silver as the ordinary currency of the country. In the vast majority of Indian transactions, silver would be used as a medium of exchange. His references to the currencies of France and other countries were instructive, and he succeeded in proving that it is possible to have a gold standard, though a large percentage of the circulation consists of overvalued silver coins, which are legal tender to any amount. Other nations have adopted different systems which have worked successfully, and enabled them to maintain for their respective currencies a gold standard and a substantial parity of exchange with the gold-using countries of the world, which has, unfortunately, not been the case with India. This has been effected under all the following conditions, *viz.*:—

(*a*) With little or no gold coin, as in Scandinavia, Holland and Canada;

(*b*) Without mint or gold coinage, as in Canada, and the Dutch East Indies;

(*c*) With a circulation consisting partly of gold, partly of overvalued and inconvertible silver, which is

legal tender to unlimited amount, as in France and other countries of the Latin Union, in the United States, and also in Germany, though there the proportion of over-valued silver is more limited, the mints in all these countries being freely open to gold, but not to silver, and in some of them the silver coinage having ceased;

(*d*) With a system under which the banks part with gold freely for export, as in Holland, or refuse it for export, as in France;

(*e*) With mints closed against private coinage of both silver and gold, and with a currency of inconvertible paper, as has been temporarily the case in Austria;

(*f*) With a circulation based on gold, but consisting of token silver, which however is legal tender to an unlimited extent, as in the West Indies.

Sir David conceded that in order that gold standard may be effective, a limit must be placed on the number of such coins, either without payment of premium or on payment of a trifling premium, whenever any person wishes for gold coin in exchange for silver coins. Gold coins would only be required in exchange for silver when they were wanted for hoarding, or for export, or for melting down into ornaments. It was pointed out that one mode in which the scheme might be carried out, would be by adopting measures for accumulating a store of gold, and, when a sufficient amount had been obtained, opening the mints to free coinage of gold coins, that metal being then made legal tender, and the exchangeability of silver for gold coins, according to their face-value, guaranteed by means of the accumulated stock of gold. This plan was rejected, as it was thought that an enormous expense

would be incurred, and there would be a risk of the whole stock of gold being drained away in exchange for silver rupees. Sir David Barbour therefore did not recommend this plan. According to his scheme, if the Government treasuries were required to give gold coins for silver, whenever it was possible for them to do so, there could not be any considerable premium on gold coins so long as there were any in the public treasuries or in the paper-currency reserve, and the gold standard would be effectively maintained. After the proposed measures had been carried out, it might happen that no gold was brought to the mints to be coined and to be put into circulation, and that the rupee fell in value below 1*s.* 4*d.*—supposing that to have been the ratio fixed—or it might happen that, though gold was brought to the mints for a time and the rupee was worth 1*s.* 4*d.*, yet subsequently, gold ceased to be brought to the mints, gold coins ceased to be found in circulation, and the rupee fell below 1*s.* 4*d.*; in either case it would be a sign that rupee was redundant; or, in other words, that there were too many silver rupees in circulation, and, consequently, their value had fallen below sixteen pence each, and that the gold standard was not effectively maintained. The remedy in such a case would be to contract the rupee currency, and to adopt any feasible measures for improving the general financial position of the country. Such an improvement would give increased confidence, and the reduction of the rupee currency, if carried far enough, must ultimately restore the value of that coin. The objections to the measure were due partly to the ignorance of the currency systems of foreign countries. It was objected that the

Indian people were accustomed to silver; that the transactions were small in amount, so that silver is better suited to their use than gold; and that they would not willingly give up the rupee. But the proposals did not involve the substitution of the gold sovereign for the rupee as currency in ordinary views; and the examples of foreign countries were brought to show the practicability of the plan. Perhaps the Government themselves were unconscious of the implications of their policy; and their proposals were necessarily in a fluid state. Much sounder criticism came from another quarter. The critics objected to the proposal of the Government of India on the ground that a divergence between the value of the rupee and the market price of silver would have the effect of converting the whole of the currency of India into a token currency, which would in no way differ in principle from an inconvertible paper currency. The experience of foreign countries seems to show however that it is possible to have a very large amount of silver coins as full legal tender at a gold value far ex ceeding that of the silver they contain. The United States of America, France, Germany, Holland, and other European countries have succeeded in keeping a very large amount of silver coins in circulation; while in Austria-Hungary, owing to the fall in the price of silver, during the years 1892 and 1893, a forced paper currency founded originally on that metal, corresponded, curiously enough, more nearly with the original gold value of silver on which it was based than the silver itself. Other critics strongly urged that, if the proposal of the Government were carried out, and there arose a great divergence

between the ratio borne to gold by the rupee and by silver respectively, this would seriously affect the trade of India with silver-using countries, and stimulate in those countries the production of commodities which compete with Indian commodities in the markets of the world, and the effect of such increased competition would be seriously felt by India. China, it was pointed out, would not give more silver for Indian cotton goods than it did before, and if the divergence between silver and rupee were considerable, the same silver price would mean a lower rupee price. Trade would consequently be restricted. But the Indian produce imported into China is paid for ultimately by goods exported by China to other countries, and if the gold price of these commodities does not fall owing to a fall in the gold value of silver, they would realize a higher silver price, and China would thus be able to pay a higher price for the Indian imports. Those who objected that the trade of India with other silver-using countries would be diminished in volume lay even greater stress upon the advantage which a great divergence between the silver and the rupee would give to those countries in their competition with India. Some of the articles exported by India are also produced in and exported from silver-using countries, and other important articles of Indian trade are, it is said, capable of being produced there—notably in China. If there came to be a great divergence between the value of silver and of the rupee, a considerably lower gold price would, in China, represent the same amount of silver as before, whilst to India it would give fewer rupees. The Chinese would be content to take the same

amount of silver, that is to say, the same silver price, that they have hitherto done, so that the Indian producer must rest satisfied with a lower rupee price, or perhaps be driven out of the market altogether through the stress of this competition. The reply given to this objection, that it involves the proposition that the continuous depreciation of the currency of a country, in relation to that of others, is advantageous to the commerce of the country whose currency is thus depreciated and adds to its prosperity, is not absolutely conclusive; because, even if it be true that the cost of production in wages and otherwise would ultimately adjust itself to the fall in the value of silver, yet it is impossible to deny that, until this adjustment has been brought about, the exporter in the silver using country, who continues to pay the same nominal wages and whose nominal expenditure for production and otherwise remains the same, has an advantage in competition with the exporter who receives a lower price than before, and who can only retain to himself the same advantages by a reduction of nominal wages; and it must be remembered that, in a country whose civilization is backward and whose industrial institutions are but little developed, the interval may be considerable before such an adjustment can be effected. Sir John Lubbock's proposal to impose a charge on silver, which might take the form either of an increased seigniorage on the coinage of the rupee or of a duty on all silver imported, was seriously considered both by the Government of India and the Herschell Commission Report. It was claimed that it would avoid direct and obvious interference with the standard of value, and that it would bring in additional revenue to

the Government. The charge on a seigniorage would be imposed only on silver brought to be coined, and it might be a fixed charge of so much per ounce, or a charge varying inversely as the gold value of silver, so as to keep the rupee at a certain fixed ratio to gold. A fixed seigniorage would be no remedy for a fluctuating exchange; because, whatever might be its present effect, it would fail to maintain a parity of exchange between the rupee and the sovereign if silver should fall further or should rise in value; and, although it might afford some present relief, a continued fall in exchange would leave India subject to the same difficulties as before. A seigniorage varying inversely with the gold value of silver, may tend to maintain the rupee at a fixed ratio to the sovereign; but it would be difficult to provide from time to time for the necessary alterations in such varying seigniorage. It might embarrass trade and encourage speculation. A ten per cent. seigniorage would have produced only about six lakhs of rupees; and this gain would not have made up the deficiency that would have been caused by the contraction of coinage, consequent upon the diminution of demand. Moreover, no fixed amount could be relied upon, since it would depend on the state of the exchange, and on the quantity of silver brought to the mint. A duty on all silver imported, whether for coinage or otherwise, would have been ineffectual. The Commission recommended the closing of the mints against the free coinage of silver; but they suggested certain modifications in the proposals of the Government of India. They advised that the closing of the mints against the free coinage of silver should be

accompanied by an announcement that, though closed to the public they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1*s.* 4*d.* per rupee, and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio. The recommendations of the Commission were not, by any means, clear. We notice a certain vagueness, and an indefinable feeling of incoherence when surveying their work. Their examination of the effects of high and low exchange on trade was conducted on unsound principles. They neither classified their data properly, nor did they subject them to a scientific analysis. Mere tabulation of figures is useless without a guiding principle, and no valid conclusion can be deduced until the effects of all the forces have been properly assessed. They failed to devise suitable measures for the maintenance of the stability of exchange, as they could not be carried out without the maintenance of some form of reserve, and this was actually recommended by two members of the Commission. They pointed out that the obligation on the Government to coin silver rupees when the rupee is at 1-4 did not, in itself, carry with it a corresponding obligation on the Government to give gold for rupee, and was, therefore, imperfect without some expression of that kind. It would not arise until the rupee reaches the exchange value of $\frac{1}{4}$; and it might not be necessary to provide a reserve of gold before this exchange is reached.

Sir Thomas Farrer, and Sir Reginald Welby recommended that a reserve "should be provided before the

Indian Government takes the final step of announcing gold as the standard, coupled with the correlative obligation to give gold for silver." They pointed out that the circumstances of India are favourable for the accumulation of the necessary stock. India imports more of the precious metals than she exports; and, if the Indian Government receive gold in payment of debts due to them, gold ought to come to their treasuries. These suggestions were not carried out, and a reserve was not provided until about thirteen years afterwards. The Herschell Commission submitted their report on May 31st, 1893. The Secretary of State for India sent a copy of the draft report on May 26th, an official copy on June 2nd, and a telegraphic summary on June 7th. The Government of India replied by telegram on June 15th, and passed the necessary legislations to close the mints on June 26th. Act VIII of 1893 provided for the immediate closing of the Indian mints to the free coinage of silver, with the proviso that the Indian Government should retain power to coin silver on its own account. Three notifications were issued on the same date: The first provided for giving rupees in exchange for gold presented at the Indian mints at the rate of 16*d.* to the rupee; the second authorised the receipt of sovereigns and half sovereigns by the Government in payment of taxes and other Government dues at the same rate; and the third provided for the issue of currency-notes in exchange for British coin or gold bullion at the corresponding rate.

The Herschell Commission regarded the proposal to fix the exchange value of the rupee at 1*s.* 4*d.* as merely

tentative, and thought that it "would not impede further action if circumstances should render it desirable. It would be consistent with this scheme, and would serve as a means of familiarising the public with the use of a gold currency, if the Government were to accept gold coins at the same ratio in payment of all dues."

The advantages of the 16*d.* rate are obvious. At 16*d.* there would be exactly Rs. 15 to the sovereign, and this was the rate at which the gold mohur formerly exchanged for rupees; the annas fitted in nicely with the English penny, and one anna would be equal to a penny, and the Indian pice equal to a farthing. The assimilation of the two units was a meritorious feature of this proposal. There were, however, other solid advantages. During the two years preceding the closing of the mints the sterling value of the rupee varied from 17¾*d.* to 14$\frac{5}{16}$*d.*, the mean being almost exactly 16*d.*, and the average monthly exchange for consuls during the two preceding years 15$\frac{33}{34}$*d.* The 16*d.* rate was therefore a fairly representative one.

SECTION V.—INDIAN CURRENCY, 1893—1899.

Immediately after the closing of the Indian mints there were extraordinary fluctuations in the price of silver. During the month of June 1893, silver in London fell from 38¾*d.* an ounce to 30½*d.* Starting from the year in which Germany demonetised silver, the following table shows the average rate per rupee at which Council bills and telegraphic transfers on India were sold in London.

	d.		*d.*
1872—73	22·754	1886—87	17·441
1873—74	22·351	1887—88	16·898
1874—75	22·156	1888—89	16·379
1875—76	21·626	1889—90	16·566
1876—77	20·508	1890—91	18·089
1877—78	20·791	1891—92	16·733
1878—79	19·794	1892—93	14·985
1879—80	19·961	1893—94	14·547
1880—81	19·956	1894—95	13·101
1881—82	19·895	1895—96	13·638
1882—83	19·525	1896—97	14·451
1883—84	19·536	1897—98	15·354
1884—85	19·308	1898—99	15·978
1885—86	18·254		

From these figures it will be observed that after a fall of about 3*d.* in the first six years there was comparative stability above 19*d.*, for the seven years from 1878—79 to 1884—85; that, apart from the temporary effects of the passing of the Sherman Act in 1890, and the speculation connected therewith, the average rate ranged round 16½*d.* in 1887—88, 1888—89, 1889—90 and again in 1891—92; and, that in 1892—93 the average rate had fallen to under 15*d.* It was under these circumstances that on 31st May 1893, the Herschell Commission, in recommending the closing of the Indian mints to the public, further recommended that rupees should be coined on tender of gold at the mints "at a ratio to be fixed in the first instance not much above that now prevailing, say 1*s.* 4*d.* the rupee." They did

not propose to go back to the so-called par of 2*s.*; they fixed, provisionally, a maximum limit which was lower by 2*d.* than the limit of 1*s.* 6*d.* proposed by the Government of India. Apart from a momentary rise to 1*s.* 4$\frac{3}{32}$*d.* for telegraphic transfers on 27th June, the Indian Exchange fell steadily away though the second half of 1893, and though the whole of 1894, until on 23rd January 1895 council bills were sold at 1*s.* 0$\frac{13}{32}$*d.* From that date onwards there was, on the whole, a steady and a continuous rise of exchange, and 16*d.* was regained [1] in the early days of January 1898. From the beginning of 1898 up to August 1917, a rate of 16*d.* was maintained without a break, the extreme units of oscillation for Bills being 15$\frac{11}{16}$*d.* and 16$\frac{1}{8}$*d.*

The violent fluctuations in exchange which followed the closing of the Indian mints disorganised trade. It seemed at first that the rate of 1*s.* 4*d.* could not be maintained. On 31st May 1893, the date of the Herschell Commission Report, exchange stood at 1*s.* 2$\frac{5}{8}$*d.* It will be remembered that although the Report was not made public till the 26th June, the day the mints were closed, its purport became known to a group of speculators almost as soon as it was signed. This led to immense speculation in exchange and rupee paper, in connection with which unusually large remittances were made to India. Between the 31st May and the 6th June no less than Rs. 3,780,000 council bills were taken, and, in addition £1,180,000 of bar silver was shipped. It was then believed that the closing of the mints would

[1] After an interval of six years.

establish a 1*s.* 4*d.* rate, and consequently there was a strong movement to remit money out at anything under it. Exchange touched 1*s.* 4*d.* for a day on the 27th June, but it soon became apparent that the rise had been overdone, and the downward movement which followed, assisted by the plethora of money arising from the above operations, carried exchange as much below its level as it had previously been forced above it. The price of silver fluctuated violently. In 1892—3 the average price of silver in London per oz. was 39$\frac{1}{16}$*d.* the following year it went down to 35$\frac{5}{16}$; while in 1894—5 it was only 28$\frac{15}{16}$; during the year 1898—9 it stood at 26$\frac{15}{16}$. The exchange responded to these fluctuations, and the average rate per rupee varied considerably. Up to June 1893 the intrinsic value of the rupee and its exchange value were identical; but the divergency began between the value of the silver and the value of the rupee immediately after the closing of the mints. In 1893 the intrinsic value of the rupee went down to 11$\frac{7}{8}$; in 1894 it went down to 10*d.* From 1892 there was a considerable speculation in silver in India. A merchant sold bills for, say, £100,000; the banks bought silver against that, had it coined, and kept it in the shape of currency notes in the Bank of Bengal until these bills were presented. They may have been sold for delivery several months ahead. The merchant had no bills to offer, but he put off the transaction for another six months, and then probably closed the transaction by buying and delivering a bank bill. In that way there were more currency left in the hands of the banks than there would be now for the ordinary

legitimate requirements of trade. This was denied by two witnesses before the Committee, Barclay and Graham; but there is reason to believe that Lord Inchcape's statement was well founded. As Mr. James Finlay, Secretary to the Government of India, admitted, there was large increase in the importation of silver immediately after the closing of the mints, that was due partly to the fact that at the same time Council bills were stopped. The Secretary of State for India held out for a minimum and no council bills were sold for six months from August 1893 to January 1894. On January 20th, 1894, he announced abandonment of his attempts to maintain a forced value for his bills and the first issue of the Council bills, after their virtual suspension during the last half-year of 1893, realised a rate of $14\frac{3}{8}d.$ The total sales of consul bills fell from R. 113·4 millions for the last six months of 1892, to R. 11·4 millions for the corresponding period of 1893. One of the causes of the heavy imports of silver was the repeal of the purchase clause of the Sherman Act by Congress on November 1st. This was due partly to the closing of the Indian mints; "a panic" in the United States resulted in part from the revelation which this incident afforded of the weakness of silver as a basis of circulation. The effects of the suspension of Council bills were disastrous. The Secretary of State confessed in a Despatch to the Government of India: "I think it is now recognised that the policy of refusing to issue bills was a mistaken policy, and that it would have been better to issue bills moderately so as to meet the demands on the Home Treasury." The fluctuations continued, and there was a general feeling of

uncertainty with the result that there was no confidence in the ability of the Government to carry through their policy. There was a temporary stagnation of trade and exports fell off. The evidence of Finlay and O'Conor leads us to the belief that this was only temporary. Insufficiency of money caused a monetary stringency in India, and the closing of the mints reduced the volume of currency in relation to trade. "We have all these things—indigo factories, cotton mills, machinery, and almost every kind of property you can think of, but we have not got the currency."[1] There is considerable evidence to believe that the stringency operated harshly upon certain classes. From January 1898 to March 1898 it was so severe in Bombay that it was impossible to sell Government paper, or to get advances upon it. The brokers for Exchange Banks and Presidency Banks avoided executing orders in Government paper as much as possible, and requested the Banks not to sell paper for one fixed day, as they could not guarantee payment, and in fact, portions of such settlements were postponed beyond due date. Holders of shares and municipal bonds and other first-class securities could neither sell nor raise money on their securities. Even the Municipality of Bombay, whose credit was as good as Government paper, failed to float a loan of 26 lakhs, at 4 per cent. interest. The Bengal Chamber of Commerce urged on the Government the desirability of passing the Gold Bill to enable the Government to pay rupees in India out of the Currency Reserve in exchange for gold, deposited in the Bank of England. Money seems to have been scarce in all the

[1] W. H. Cheetham, Fowler Committee Report, Q. 8726.

Presidency towns during the years 1896-98. The complaint came mainly from the Presidency towns, and the interior of the country does not seem to have been affected by the stringency. This is borne out by the evidence of several witnesses. Lord MacDonnell informed the Fowler Committee that he "had caused inquiries to be made throughout the North-Western Provinces and Oudh, as to the effect of the closing of the mints upon the sufficiency of the currency for ordinary circulation, and that these inquiries placed it beyond doubt that the currency at that time in the North-Western Provinces was amply sufficient for all purposes of commercial or industrial operations." Lord Northbrooke admitted that the stringency was caused partly by the action of the Government in closing the mint. The main causes were:

(1) *Borrowing by Government.*—In 1896-97 they borrowed, including capital paid in by Railway Companies, Rs. 36,54,000; in 1897-98 Rs. 32,75,000, and in 1898 they contemplated Rs. 41,15,000. That was a considerable drain on the capital in India.

(2) *Extension of Joint-stock enterprise.*—A number of new mills were started, companies were formed in 1895, and a large amount of capital was required in 1896-97.

(3) *Famine and war.*—The expenditure on the Frontier War withdrew a large amount of money from the commercial centres. The plague took its toll and denuded the country of a large amount of capital.

(4) *The management of Government balances.*—It was generally believed that the deposit of Government

balances in the Presidency banks would go far towards relieving the pressure.

(5) *Reduction in sale of council bills.*—The failure to sell council drafts is equivalent to being unable to draw money from the Treasury. The council drafts are the means by which money is withdrawn from the Treasury and placed at the disposal of the market. If the Government refuses to sell council drafts it tends to make money scarce.

(6) *Transfer of currency from trade and banking centres.*—The diversion of capital from the Presidency towns affected the amount of capital at the disposal of the banks. The famine expenditure also led to the stringency which was the subject of complaints. Even if the Government raised revenue and spent it in relief of famine it tended to raise the rate of discount; for the revenue after collection was usually sent to headquarters, and kept in the Presidency towns to a great extent, and so made available for trade; and the surplus was made available by being offered to purchasers of Council bills.

(7) *Want of confidence in maintenance of exchange.*—Many people anticipated that exchange would fall again. Exchange had risen from 1*s.* 3*d.* to 1*s.* 4*d.*, and it was natural to anticipate a fall when the pressure was over. Consequently London houses objected to buy exchange at that price, and send sterling out at what might be the "top of the market." This was equally a reason for borrowing in India for a short period, expecting exchange to become more favourable, after the crop season. Traders would prefer to supply their

immediate requirements for money by short loans in India, rather than to convert sterling into rupees at 1*s.* 4*d.*; for to part with gold for rupees would have meant getting only Rs. 15 for the sovereign. The same motive would make them hesitate to buy exchange on India from England. Consequently the chief strain was thrown on borrowing, and money was scarce. There was a tendency to remit capital out of India when exchange rose to about 1*s.* 4*d.*, and there were a great many instances in which more would have been remitted but for the fact that the persons who wanted to remit it were utterly unable to realise their securities. Their securities or Government paper they could not realise, or they would have remitted. The instability of exchange created uncertainty in mercantile circles. This was due partly to the apparent declaration of the Government of India that the rupee shall never rise above 1*s.* 4*d.* Sir David Barber's reply to Sir James Mackay in the Legislative Council showed clearly that the Government of India had not decided upon a definite fixation of the exchange value of the rupee at 1*s.* 4*d.* "It is a fact that representations have been made to the Government of India during the past few weeks regarding the action of the Secretary of State in not fixing some minimum for the sale of his Council drafts during the present dull season. These representations have been considered by the Government of India, and communications have passed, by telegram, between the Secretary of State and the Government of India. The correspondence is not yet closed, and could not properly be published at the present time. The Government of India wish to add,

that misapprehension appears to exist in some quarters regarding their recent action in connection with the Indian Currency. The avowed object of the Government of India in closing the Indian mints to the free coinage of silver, was to alter the Indian monetary standard from silver to gold; but it was expressly stated in this Council on the 26th June last, that it was not intended for the present to do more than stop the free coinage of silver, and as a provisional arrangement, to provide for the issue of rupees at the mints in exchange for gold, at the rate of 16*d.* per rupee. The object of providing for the issue of rupees in exchange for gold at 16*d.* the rupee, was to prevent any great and sudden rise of exchange, and the Government did not undertake, either to establish 16*d.* per rupee as the permanent ratio of exchange between gold and the rupee, or to establish any other permanent ratio immediately, or within any specified time." The arrangement by which the Government offered to give a silver rupee for 16*d.* in gold and to receive a sovereign in payment of Rs. 15 was made by executive authority; and there was no act of legislature which compelled the Government to do that, nor was it a part of the proposal of the Government of India that the Secretary of State was not to sell his bills for less than 1*s.* 4*d.* the rupee. It was, however, this vagueness that proved fatal to legitimate trade. If the public had confidence that there would be no further fall in exchange, then capital would have flowed to India.

(8) *Want of Currency.*—The circulation was starved during the years 1893-98. The supply of currency was totally inadequate to the demand. The

Government of India held that the closing of the mints led to a contraction of the currency. They did not assert that there were fewer rupees in India, but they thought that there were fewer rupees relatively to the increased demand that was due to the development of the country during the five years. They argued that the relative contraction had caused the exchange value of the rupee to rise; if this cause continued to act, the contraction of the currency must continue to increase; and they held that there will be consequently a further rise in the exchange value of the rupee. In that way they would, in course of time, arrive at an exchange which would make it profitable to send gold to the mints. The reply of Mr. F. C. Harrison to one of Sir Henry Fowler's questions seems to confirm the statements of other witnesses with the regard to the contraction of the currency.

"*Q.*—2436. Were any facts brought to your notice in 1896 which led you to think that there was contraction or a scarcity in that year?—

A.—I think so. The census figures show this. I find from 1893, when we stopped coining, that the proportion of the older coinage rose slightly to about 1895-96, and from that point, I think, they are going back again—they are falling. That is to say, when we close the mints, hoarded rupees probably come out to some extent, and now that has ceased. I put in a table to show this."

Mr. Harrison's estimate of the total amount of currency in India was 128 crores for 1893 and 120 crores for 1898. From 1886-93 there was a rise, and from 1893-97 a fall about 8 crores.

This was based partly upon the assumption that the quantity theory of money was universally, and unconditionally, valid. Sir David Barber's enthusiasm for the theory and his duels with the opponents of that dogma have been recorded by him in a series of interesting little books. He has never ceased to champion that article of his faith, and though improvements have been introduced from time to time, Sir David's enthusiasm for that companion of his youth is undiminished. He declared, in his "Standard of Value"[1] that "the proposals recommended by the Government of India had been drawn up by me and were to the effect that the Indian mints should be closed to the unlimited coinage of silver and no further steps taken until the effect of closing the mints had been ascertained;" and again, "I was firmly convinced of the soundness of the quantity theory of money and knew that if the unlimited coinage of silver was stopped, it was quite possible to reduce the amount of the rupee circulation to such extent as to bring the Indian exchange to a par with gold at a rate of exchange which could be permanently maintained. How great the necessary amount of reduction might be I could not tell." The Government of India seem to have followed this advice faithfully. It is true, they denied the contraction of the currency. In paragraph 9 they say: "We consider, "therefore, that the remedy for this state of things is to "remove from circulation as money so much of the in-"creases which were made to the circulating medium im-"mediately before 1893 as we may find to be redundant."

[1] Pp. 186, 200.

Then in paragraph 10 they say: "It is impossible with "any exactness to say, and it can only be ascertained by "actual experience, by how much this rupee circula- "tion has to be decreased in order to remove its redun- dancy." They went on to point out that "some "considerations point to the amount being within quite "manageable limits."

They believed that it was not the contraction, but the redundancy of the currency which brought about the monetary difficulties from which the mercantile commu- nity suffered so severely. The explanation of this pheno- menon is simple enough.

In their strictures on the "starvation of circulation" which was the subject of complaints before the Fowler Committee was greatly exaggerated, the witnesses dealt mainly with Presidency towns, and the majority of them had neither the knowledge, nor the opportunity for the formation of sound judgment. Men of ripe experience, as Sir Antony, now Lord Macdonnel, and Lord North- brook, showed that the interior of the country did not suffer from this disease. The critics did not take into account a number of counteracting causes, which produced the same effect as actual contraction of the currency. The melting of rupees ceased with the closure of the mints, and this use of rupees for the manufacture of ornaments certainly withdrew from circulation a very large proportion of coined rupees. Again, it seems probable that some rupees were drawn out of hoards shortly after the closing of the mints, and a good many more must have been drawn out of hoards during the course of the famine

which lasted for over 12 months. So far as that went, the operation of contraction was counteracted; but it is also to be taken into consideration that, when the mints were closed, the currency was undoubtedly redundant, if we look both at the rate of discount which prevailed during that time and some time after, and also at the range of prices. It may also be pointed out that the imports of silver and coinage of rupees just before the closure of the mints had been extremely large. From 1875-76 to 1884-85, there were received into the mints Rs. 6,61,75,000, while from 1885-86 to 1894-95, were received into the mints Rs. 7,79,33,000—a very large increase—an excess in the last ten years of Rs. 11¾ millions. These figures coupled with the rate of discount and the circulation of notes of very large values, seem to prove that the currency at the time was redundant. As regards the currency note circulation, it is certainly not conclusive evidence in itself, but still it bears on the point. The notes were of various denominations, the largest being 10,000 rupees. These large notes did not ordinarily go into circulation, but they were a rather favourite method in which to keep the reserves of the banks when they have anything like superfluous reserves. If we look at the circulation of these notes starting from 1887-88, we begin with 2¼ crores. Then in the next year, 1888-89, it was under 2 crores. In 1889-90 it was 1¾ crores. Then the amount rose suddenly in 1890-91 to 7¾ crores, falling in the next year to Rs. 5,20,00,000. Then it went to Rs. 5,04,00,000 and still further to 11,96,00,000, say 12 crores in 1893-94; that is the year in which the mints were closed. Then it fell to 6½ crores, to 3¾ crores, and

to under 3; that was in 1896-97. It will thus be seen that until the closure of the mints there was an enormous increase in these notes, which do not go into circulation, but which are known to be notes in which banks keep their reserves. The maximum rate of discount—the bank rate—in 1890 was 12 per cent.; in 1890-91, 4 per cent.; in 1891-92, 5 per cent.; and in 1893, 7 per cent. In 1894 it began to go up again, rising to 10 per cent.; in 1895 it was 7 per cent. These rates lasted for a short period. In 1896 and 1897 the maximum rate was 10 per cent. In 1898 it rose again to 12 per cent. in April. In Bombay it went up afterwards to 13 per cent.

Various economies in the employment of currency were in operation. The very large increase of railways conduced greatly to increase the activity of the circulation, and the savings banks deposits increased to about $1\frac{1}{4}$ crores between 1892-93 and 1896-97. This sum consisted of rupees which, if they had not been put into the savings banks, would have been kept in the waist-cloths of the people, or in their houses. Also there has been a very large increase in the use of money orders, cheques, and drafts. Persons dealing with the exchange banks found it difficult to obtain money from them, because the banks had no money to give them; but all those—and they were a large majority—who dealt in their own money, carried on their business without difficulty. The internal trade seems to have been carried on as actively as before.

The financial position of the Indian Government was fairly good until 1885, the main disturbance resulting

from war and famine, the decline in exchange, though a source of anxiety, not having been so heavy as to be the material factor which it became in 1884. So favourable, indeed, were the conditions after the country had recovered from the great famine of 1877-79 and the war with Afghanistan which succeeded it, that the Government were able to effect reductions and remissions of taxation in 1882. But the taxation remitted then was all re-imposed, and new taxation added. In 1885 exchange fell heavily and the fall was accompanied by the fear of a conflict with Russia, and followed by the annexation of Upper Burma. As a consequence, though new taxation was imposed in 1886,[1] the expenditure largely exceeded the revenue, and further resort to taxation became necessary in 1888. Equilibrium was then restored, but so great was the uncertainty of the financial condition that the Finance Minister of the time did not venture to apply the surplus which occurred in the years from 1888 to 1891 to readjust fiscal burthens, and it was applied to purposes which would ordinarily have been served by borrowed capital. Deficits followed, which again, in 1894, necessitated resort to further taxation, and surpluses were then ensured for two years. Then followed two years of famine, accompanied by war and pestilence, with the accompaniment of deficits. In the whole period of 26 years the net deficit amounted to Rs. 54,14,612.

Prices, 1892-99.—The effects of the closing of the mints to the free coinage of silver upon prices have been

[1] The income tax.

the subject of controversy among the economists. Sir Antony, now Lord Macdonnell, stated before the Fowler Committee that from 1860-73, about the time when the currency depreciated, there was considerable oscillation in prices; from 1873 until 1885 there were less oscillations. The tendency was generally upwards while the variations were marked. Prices steadied from 1885 till the mints were closed in 1893. From 1893 until the middle of 1897, there was an extraordinary rise, and they reached a higher level in 1897 than they had ever reached before. This applied mainly to the United Provinces. According to the quantity theory of money, the closure of the mints ought to have lowered prices; but its theoretical effect was entirely obscured by the series of adverse reasons through which the province passed. The years 1893—97 witnessed a series of four bad seasons, culminating in 1897 in a famine all over the province. This was due partly to the equalisations of prices caused by the improved railway communications, partly to improved communication through the ports, but mainly to the opening of the Suez Canal.

Lord Macdonnell's opinions were confirmed by Mr. J. E. O'Conor, Director-General of Statistics, who informed the Committee that there had been no fall in the prices of commodities. The prices of the staple food grains of India, wheat, barley, jawar, bajra, gram, and ragi, rose enormously. This was due partly to famine, as they began to fall after the cessation of famine; still prices reached a much higher level than that at which they had ranged before the famine began. The index numbers of prices compiled by Mr. O'Conor are instructive.

Variation in the Retail price of 7 food grains.—In this table the average may be taken to represent the general level of prices in the tracts where it is most largely produced and consumed. The price of 1873 = 100.

Year.	Rice.	Wheat	Jawar.	Bajra.	Ragi.	Gram.	Barley.	Total.
1891	149	135	138	137	138	129	131	957
1892	178	151	138	142	177	127	130	1,043
1893	164	125	122	123	146	115	111	906
1894	152	104	112	118	133	99	92	810
1895	141	117	121	119	119	121	111	849
1896	162	152	154	166	128	164	170	1,096
1897	210	206	203	211	183	246	206	1,465
1898	160	144	131	130	174	135	111	985

These index numbers should be compared with those compiled by Mr. Fred. J. Atkinson, Accountant-General of the United Provinces of India. They were first published in the Journal of the Royal Statistical Society of March 1897, and were brought down to 1908 in the issue of September 1909.[1] The 100 commodities consist of 60 articles of food, 29 of raw produce, and 11 of manufactures. The average for the years 1868-76 is taken as 100. The weighing was accomplished "by giving to each commodity included as many quotations as corresponded to its importance in the whole production value of India in 1893."

For the five years prior to the closing of the mints the rupee had been depreciating in its purchasing power over commodities in India. The Atkinson price index numbers for 100 articles for these five years respectively

[1] Pp. 500—502.

were as follows :—1887—101 ; 1888—108 ; 1889—114 ; 1890—114 ; 1891—116 ; 1892—118.

Atkinson's price index numbers of 60 articles of food during the years 1893-99, inclusive, are as follows :— 131 ; 121 ; 113 ; 133 ; 171 ; 131 ; 122.

The price index numbers of 11 manufactured articles are 113, 116, 118, 111, 103, 98, 102.

The index number of the prices of all articles were consequently 125, 119, 116, 127, 149, 122, 117. While the annual increase or decrease [1] for the years 1894-99 was as follows : 5·0 ; 2·6 ; — 8·7 ; — 14·7 ; 22·2 ; — 4·3.

From the above it is clear that the general tendency of rupee prices, from 1895-98, was downward, and the tendency of exchange rates was upward. It is, however, difficult to deduce a general law with regard to the connection between the two movements.

As the Fowler Committee pointed out, one of the main causes of the stringency of 1897-98 was the reversal [2] of the relations of the Government of India and the money market in the autumn of 1897. In ordinary years the Government is able, through the sale of Council Bills and Telegraphic Transfers, to place large sums at the disposal of the money market throughout the autumn and winter. Thus, during the last four months of 1894, the bills and transfers sold by the Secretary of State amounted to Rs. 80,52,000 ; in 1895 for the same period of the year the amount was

[1] Represented by a minus sign.

[2] Necessitated by the exceptional circumstances of India at the time.

Rs. 98,88,000; in 1896 the amount was Rs. 60,56,900. But in 1897, owing to the depletion of the balances of the Government of India, brought about by expenditure on famine relief and military operations and by diminishing returns, the Secretary of State was unable, from 1st September to 15th November, to offer bills or transfers for sale, and was compelled to purchase drafts on India for Rs. 10,00,000. Thus during the last four months of 1897, the amount placed at the disposal of the Indian money market in the Presidency towns in consequence of the remittance transactions of the Government was only Rs. 3,32,700, or Rs. 57,24,200 less than the year before.

It must not be forgotten that high discount rates were not unknown in India under the system of open mints; for example, the Bank rate reached 12 per cent. in April 1890 (in which year the rate did not fall below 10 per cent. from 10th February to 24th April), while in 1889 12 per cent. was quoted continuously from 21st February to 28th March, the rate not falling below 10 per cent. from 17th January to 11th April of that year.

Instability: 1893-99—The years 1893-98 witnessed greater variations in the exchange value of the rupee than the preceding period. Though a certain class of merchants suffered considerable hardship, the volume of trade was not affected thereby. Sir E. Vincent declared that if "these extreme fluctuations could be eliminated, you will get rid of the stringency."[1]

[1] Fowler Committee Report, Q. 5634.

Mr. S. A. Ralli declared before the Fowler Committee[1] that "the idea that fluctuations of exchange have interfered since 1893 with commercial business is preposterous and quite erroneous, because when we make a transaction, then we fix immediately the exchange. There would not be any Indian firm in existence now if they had not done so; they would all have failed." The Manchester merchants were accustomed to fluctuations in cotton cloth and freight. Sir Frank Adam stated before the Fowler Committee that exchange since 1873 had fluctuated much more than it did before; "And those actively engaged in business have had to take that into consideration, and it has been an inconvenience—nothing more."[2]

Sir John Lubbock thought that the importance of a stable exchange was greatly exaggerated. He drew a distinction between "what is really a difference in exchange, that is to say, the difference of gold, as between one country and another, which is limited by the expense of carriage and insurance and freight and so on; and what is generally called in speaking of the Indian currency 'exchange' which is really a question of fall in the value of silver." The difficulty of maintaining a stable exchange was perceived by many traders and the fluctuations during the last thirty years of the nineteenth century had accustomed them to frequent variations in the exchange value of the rupee. It was not so much the financial, as the psychological effects

[1] Q. 6110.

[2] Q. 7805.

that produced baneful effects on the circulation of trade. But a stable exchange is specially difficult to establish in India, as numerous other factors, besides the balance of trade, have to be taken into account. As Mr. Ralli put it "It is utterly impossible to have a stable and permanent rate of exchange in India... The man who could establish a stable and permanent rate of exchange in India without interfering with the development of the foreign and local trade would be a genius, and a statue ought to be erected to him in every town and village of India." The Government of India found it difficult to maintain a stable ratio; their budget estimates were upset by the constant fluctuation; while famine, plague, war, a higher range of gold prices and heavy borrowings, complicated the situation. The increasing number of rupees required to meet the sterling obligations of the Government could not be met from the existing sources of revenue.

Sources of Revenue.—An analysis of the existing heads of taxation, namely, (*a*) land-revenue, (*b*) opium, (*c*) salt, (*d*) excise, (*e*) stamps, (*f*) customs, (*g*) income-tax, (*h*) provincial rate, (*k*) registration is helpful as it vivifies the financial difficulties by which the Government were surrounded.

(*a*) The return from the land-revenue rose in 10 years from 1888-98 from 23 to 26 crores, the rate of increase being 12·66 per cent. or an annual increase of 1·26 per cent. To obtain such a small sum as 2½ crores would have meant an immediate addition to the existing taxation of the land.

(*b*) With regard to opium duty the revenue had been declining for a great many years. It was 6 crores in 1886 and 4 crores in 1898.

(*c*) The rate of duty on salt had been increased in 1880, and additional taxation would have led to restriction of consumption, and consequent diminution in the yield.

(*d*) Complaints were ripe of the incidence excise duties. The Local and the Imperial Governments had raised the rate of duty from time to time, and the revenue showed an increase of 1·83 per cent. per annum. The provincial rates were mainly if not exclusively levied on the land. They were appropriated for provincial and local purposes, for roads, lights, police, etc., and were not a source of imperial revenue.

(*e*) The value from stamps had increased 2·24 per cent. per annum and no further increase was possible.

(*f*) With regard to customs a general rate of duty of 5 per cent. was imposed in 1894. It used to be 10 per cent. until 1863, when, owing to its injurious effects on trade, it was reduced to 7½ per cent. It was found that that rate also restricted trade, and it was reduced to 5 per cent. The principal duties were abolished entirely in 1892, only a few special articles remaining in the tariff. In 1894 they were reimposed, but the exemption of cotton goods was rendered necessary by the persistent opposition of Manchester merchants. After much controversy a lower rate (3½ per cent.) was imposed on cotton goods than the 5 per cent. which was the general rate.

The import duties amounted to 3·79 million in 1895-96. The following year they were 3·5 millions.

The decline in 1896-97 was due to the exemption of yarns and the reduction of the rate in cotton goods.

(*g*) The income-tax increased from about 1½ million rupees to Rs. 19,00,000 in 10 years. That is an increase of about 2·65 per cent. annually. It was difficult to increase the income-tax in that period. It was no doubt only about 6*d*. in the pound, but India is a country of small incomes; and the minimum limit at that time was an income of Rs. 500 a year. If the rate had been raised, then limit of exemption would have had to be raised, say, to Rs. 1,000 a year, and the Government would have had to dispense with about 35 lakhs, or one-fifth of the total revenue. It was consequently impossible to increase the income-tax at that period. The last important source of revenue was (*k*) Registration. It was more in the nature of a fee for services rendered than in the nature of a tax; and nearly every instrument that was registered, whether compulsorily or voluntarily, had to pay the stamp-duty. If this tax had been increased it would have meant practically taxing each instrument twice over. The fee itself amounted to only Rs. 2½ lakhs. There was no other source to be utilised. The earning capacity of the railways was not equal to the cost of working and interest on capital outlay; and an increased rate of interest on sterling loans with a view to the construction of railways would have imposed a heavy burden upon the country. The financial position of India was fairly good until 1885. The Fowler Committee decided that even apart from considerations primarily affecting the Government of India, it is not in the permanent interests of India that her foreign

commerce, over 80 per cent. of which is with gold standard countries, should be hampered by the restoration of monometallism. This conclusion is strengthened by considerations affecting the Government of India. In 1897 the Secretary of State for India referred to the Government of India the question whether if the Mints of France and the United States of America were opened to the free coinage of silver as well as gold at a ratio of $15\frac{1}{2}$ to 1, the Government of India would undertake to reopen concurrently the Indian mints to the free coinage of silver and to repeal the above notification of 1893. The Government expressed their "unanimous and decided opinion" that it "would be most unwise to reopen the mints as a part of the proposed arrangements, especially when we are to all appearance approaching the attainment of stability of exchange by the operation of our own isolated and independent action." This conclusion was endorsed by the Secretary of State for India in Council and by the Imperial Government. In 1898, the position therefore was this.

(1) Gold was not a legal tender in India, though the Government received it in payment of public dues.

(2) The rupee remained by law the only coin in which other than small payments could be made.

(3) There was no legal relation between rupees and gold.

The fixation by the Government of India of a rate at which rupees were to be purchased for gold coin and bullion had not been authorised by law and was purely an administrative act. It is clear from the above that the

question of the establishment of the gold standard in India could not be shelved, and the difficulties of the Government might have been lessened by the adoption of a consistent and definite policy. Sir James Westland's policy was merely a pale reflection of Sir David Barbour's theories, and he made no radical improvement either in the formulation of a definite monetary principle or in the technique of administration. He clung to Sir David's skirts, and his dogmas were accepted with a fidelity that was truly remarkable.

The Proposals of the Government of India.—The Government, with a view to maintaining the exchange value of the rupee at a steady value of 16*d.* proposed to decrease the rupee circulation so as to remove the relative redundancies. They estimated the amount to be withdrawn from circulation at 24 millions of rupees. Within this outside limit it was proposed to melt down existing rupees, having first provided a reserve of gold, both for the practical purpose of taking the place of silver and in order to establish confidence in the issue of our measures. Their first step would be to take powers to borrow sums not exceeding in the whole £20,000,000 and at once to remit £5,000,000 in sovereigns to India as a first instalment. If exchange remained at or above 16*d.*, there would be no further step. But so long as the exchange fell below 16*d.*, the Government of India would take rupees from its balances, melt them down, sell bullion for other rupees in India (at an assumed loss of 40 per cent.), pay these other rupees into its balances, and finally make good thereto the 40 per cent. balance of loss with part of the borrowed

gold. It was anticipated that a loan of £5,000,000 might be sufficient, that sum approximately covering the assumed loss to Government of Rs. 80,00,000, on melting down Rs. 2,00,00,000. As a result it was anticipated that by automatic operations of trade gold would flow into the country and remain in circulation. But until the exchange value of the rupee was established at 16*d.*, and sovereigns became to some extent, however small, a permanent part of the circulation, it was not the Government's intention to part with any of the gold in their possession. Meantime gold was not to be made a legal tender in India, though the Government looked forward to this as a future goal.

The proposals of the Government of India were based on the belief that the rise in the value of the rupee, and in exchange with London, subsequent to the year 1894-95, was due to a contraction of the Indian currency relative to the demands of trade; that this cause will continue to operate so long as the Indian Mints were closed to silver; and that, if only that stage of distrust could be passed, "Which appears the moment exchange approximates to 16*d.* to bring into operation influences which interfere with the actual realisation of that rate," the exchange under normal conditions of trade might be expected "to attain the level at which gold would be tendered under the notification of 26th June 1893, and the introduction of the gold standard would become practicable." They were anxious to terminate the period of transition without further delay. The Government of India do not seem to have analysed the effects of the contraction of the Indian currency upon the value of the rupee.

That was due perhaps to their devotion to the quantity theory of money. There are many other causes of the contraction of the currency which affect the value of the rupee and exchange blunder. Large borrowing in London on account of India, reduction of the drawings of the Secretary of State, an increase in exports from India unaccompanied by an equivalent increase in imports, as well as a general rise in gold prices, would all affect the rate of exchange with India, but it is quite impossible to estimate the relative importance of these factors among themselves, or the amount of their influence on exchange as compared with the effect of a contraction of currency, or to state the precise degree of influence which any, or all of them, have had on any particular alteration in exchange. Nor, on the other hand, is it certain that the unusually low rate of exchange that prevailed in 1894-95 was due solely to a relative redundancy of the Indian currency. The closing of the mints necessarily brought into play many disturbing influences which may have affected exchange in 1894-95.

Since the mints were closed there were large borrowings on Indian account, and there were in some years large reductions below the normal amount in the public remittances from India, while fluctuations have been experienced in the foreign trade of India, due to famine and plague as well as other causes. All these causes must at different times have acted upon the exchange either favourably or unfavourably.

Another influence which must have had a favourable effect on the Indian Exchange is the reduction in the

imports of silver due to the closing of the mints. The average yearly net import in the three years preceding the closing of the mints was 43,133,678 ounces of the value of Rs. 1,20,20,296 ; while for the three years ending 1898-99, the average net import was 31,126,376 ounces of the value of Rs. 61,03,431.

It is clear that the rise in the value of the rupee since 1894-95 was not due solely to the contraction of the currency; as numerous other factors have to be taken into consideration. An additional contraction of the currency would have brought about a serious financial crisis in India. Sir James Westland's advocacy of the quantity theory of money was unfortunate, as it ignored the essential features of the disturbing elements. Prices depend upon three sets of causes: (1) quantity of money in circulation, (2) its "efficiency," or velocity of circulation [1] and (3) the volume of trade. [2] Sir David Barbour has championed this doctrine with vigour, in his monographs on the "Standard of Value," "Bimetallism," the "Influence of Gold Supply on Prices and Profits." In his opinion, "Its soundness, subject to certain limitations, is beyond question and the controversy ought to be closed." But the theory has been made the basis of arguments for many an unsound currency

[1] Or the average number of times a year money is exchanged for goods.

[2] Consult Prof. Irving Fisher. The Purchasing Power of Money ; Conant, The Principles of Money and Banking, Vol. I ; Laughlin, Principles of Money. The quantity theory has been accepted by numerous economists ; but there is a reaction against crude applications of this dogma. See specially Laughlin, *op. cit.*

scheme, and has been utilised on behalf of irredeemable paper-money, and of the national free coinage of silver at the ratio of 16 to 1. Sir James Westland apparently ignored the numerous other factors that affect the value of money, and relied upon the doctrine which Mill dogmatically asserted. "The value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value, and every diminution raising it, in a ratio exactly equivalent." [1] The additional contraction of the currency, which was so ardently desired might not have had so much effect in strengthening exchange as the Government of India believed. Though the Fowler Committee accepted in principle the proposition that a reduction in the number of rupees tends to increase the value of the rupee, they were not prepared to admit that such effect must necessarily be direct and immediate; nor were they satisfied that such reduction, carried out on a large scale and within a limited period, might not aggravate, if it did not produce, a period of stringency in Indian money market. Nearly all the independent witnesses before the commission protested vigorously against the contraction of the currency. Withdrawal of currency would have aggravated the situation, and intensified stringency in the Indian money market; while the sale of silver by the Indian Government would have produced endless complications, and disturbed the exchange with China and other silver using countries. The chief mistake of the Government lay in their conception of the contraction of the currency as

[1] Principles of Political Economy,

the sole factor in the intricate process of exchange. It is impossible to take the total rise in exchange and divide it between the three causes, the reduced import of silver, the higher borrowing, and the contraction of the currency. That the Government borrowed on a large scale is evident from the India Office return. In 1894-95 the Government of India paid off Rs. 11,72,338 of debt; in 1895-96 they paid off Rs. 5,84,812; in 1896-97 they borrowed Rs. 33,26,125 exclusive of the two millions from the currency reserve; in 1897-98 they borrowed Rs. 25,70,500. In 1898-99 the estimate of borrowing is Rs. 26,75,000. In addition the Government received the following sums from railway companies. In 1895-96, Rs. 1,63,800; in 1896-97, Rs. 3,28,200; in 1897-98, Rs. 7,04,800; in 1898-99 (estimate) Rs. 14,40,000. Then, as regards borrowing, the Government and the guaranteed companies raised in 1894-95, £2,339,765 (that is in London). Then in 1895-96 they raised £939,133. In 1896-97 they raised £2,720,901. Then in 1897-98 they raised £10,138,281. In 1898-99, £4,888,300. The companies that were not guaranteed raised in those years the following sums. In the calendar year 1894, £475,927; in 1895 £698,385; in 1896, £1,849,444. In 1897 for the six months up to 30th June they raised £463,037 and they also raised a considerable sum in 1898. Borrowing, it is clear, was sufficiently large to account for an appreciable proportion of the rise in exchange that took place during the years 1895-98. Again, since the closing of the mints, the rupee value of the imported silver fell off considerably. It was reduced from about Rs. 1,20,00,000 to Rs. 60,00,000. There

was consequently a reduced import into India of Rs. 60,00,000 worth of silver. That this had an appreciable effect upon the exchange was admitted by Mr. J. F. Finlay,[1] Secretary to the Government of India, Finance Department. The balance of account between the two countries is moreover effected by what may be called commercial causes, that is, imports and exports, and by financial causes, or the remittances of money which do not originate in exports and imports. It follows that the exchange of any country might fall or rise without any alteration in the quantity of the currency. The Fowler Committee did not approve of the proposals of the Government of India and could not recommend their adoption.

The Reopening of the Mints.—Another problem that vitally affected the monetary policy of India was the question of the reopening of the mints to the unrestricted coinage of silver. The witnesses advocated the reopening of the mints on various grounds. It was thought that a low rupee and a low exchange encouraged the export trade upon which India's prosperity depends, and that an arbitrarily enhanced rupee discouraged exports. They thought that the reversion to the system of open mints would encourage exports, so that the rupee in exchange would again coincide with the gold price of silver, and an end put to the unfair advantage secured by the silver using competitors of India. Mr. S. A. Ralli was in favour of the reopening of the mints by gradual process,

[1] *Vide* Minutes of Evidence, Fowler Commission, Qs. 2489—3274.

and as a first step towards that measure, recommended the Government of India to issue rupees in exchange for gold, at 1s. 2*d.* the rupee, instead of at the rate of 1*s.* 4*d.* Lord Rothschild did not advise the adoption of a gold standard for India. He pointed out the fundamental errors in Sir James Westland's proposals, and showed that the evils would be increased tenfold by creating an alarming stringency in the money market; while the sale of silver bullion in India would not prevent the importation of that metal and would benefit the trade of the silver-using countries. Mr. W. H. Cheetham, a member of the firm of Kilburn & Co., Calcutta, thought that the mint should be reopened, as he believed that the market would take command very soon "and that the currency would go on its old basis immediately after the reopening of the mints." Perhaps the most vigorous of all the criticisms of the policy of the Government of India proceeded from Sir Robert Giffen. He attempted to show that the policy put forward by the Government of India from 1848-72 was fraught with danger to India; and pointed out the disadvantages of an "artificially managed currency" with his usual vehemence. He thought that contraction of the currency for the purpose of maintaining exchange value can seldom be carried out without producing monetary stringency; and the difficulties of India through fall in exchange may be due to (*a*) increase in value of gold, or (*b*) decrease in value of silver. In the first case, there is a real increase in the burden of foreign obligations, which is not alleviated by an artificial rise in the exchange value of the rupee. In the second case, there is no increase in the burden of foreign

obligations, and the additional number of rupees required by the Government can be obtained by increasing the nominal amount of taxation.[1] He thought that the least disadvantageous course to follow would be to go back to silver in spite of all its deficiencies. Giffen admitted that there may be a risk of depreciation. "There would be a great shock; it is not a thing that ought to be done lightly, and the fullest amount of time ought to be given to the consideration of it, but the important thing is this, that, to have a good money at all, you ought to have an automatic standard."[2] Mr. Robert Barclay, President of the Manchester Chamber of Commerce, advocated the policy with considerable force and vigour. He thought that by the reopening of the Indian Mints, and concurrent mintage of silver by the United States on the basis of 42*d.* per ounce, the object of the Government of India would be attained; India would have a supply of currency adequate to her needs; she would have the same standard as China and other Eastern competitors; disturbances of the habits of the people in connection with currency would be avoided; the divergence between the value of coined and uncoined silver would disappear; and, finally, the temptation to illicit coinage would be resisted. Great stress was laid by the advocates of open mints upon the burden imposed upon the export trade of India by stringency in the Indian money market, which they attributed to that measure. The weakness of these advocates consisted mainly in their inability to formulate definite

[1] Qs. Nos. 10050—9.
[2] Q. No. 10129.

proposals for the removal of the evil. There was no unanimity; and the acute divergence of opinion which the evidence of many of the witnesses revealed, detracted from the force and importance of their criticisms. There was a clearly marked division between those who advocated the immediate reopening of the mints, and those who, while contemplating such a course eventually, hesitated to advise such a drastic remedy. The latter class may be further subdivided into those who proposed to leave the time and conditions of such reopening to be hereafter determined, and those who suggested immediate steps towards a gradual reopening. With regard to the policy, which, while declaring in favour of open mints, would have left it to future circumstances to indicate when the step should be taken, it recognised that the benefits anticipated from a return to a silver standard would not counterbalance the evils which would result from abandoning the *status quo*. They had a vague idea of the possibility of reversion to a silver standard without causing a sudden and heavy fall in the exchange value of the rupee, through a rise in the gold price of silver or a fall in the sterling exchange of the rupee or a combination of undefined circumstances. Much more forcible was the argument of those who advocated the closing of the mints upon the ground that the 1*s*. 4*d*. ratio would operate as a tax upon Indian industries while conferring a bounty upon imported goods. It was contended that the system of closed mints handicapped India in her industrial competition with countries on silver standard. This applied especially to China. The greater fall in the London exchange with China as compared with the fall in the

exchange with India stimulates exports from China which compete with exports from India, and also stimulates native production in China to the disadvantage of Indian imports into China; in this way India is placed at a disadvantage; and this disadvantage is increased when an actual rise occurs in the Indian exchange. The arguments employed are not by any means novel. The Herschell Commission had discussed this problem in §§115—120 of their report[1] and arrived at the conclusion that a falling exchange did not afford any stimulus to the export trade of the country; "on the contrary, the progress of the export trade has been less with a rapidly falling than with a steady exchange." We have already referred to this hypothesis, in the preceding sections.[2] Paragraph 27 has been frequently quoted by the advocates of a high exchange. The Fowler Committee were the greatest offenders in this respect. They merely recapitulated the threadbare arguments, concurred in the opinion expressed in § 27 of the Herschell Commission Report, and added that "evidence had been laid before them which showed that prices and wages had risen in China since silver had fallen in price and the local copper currency had appreciated in terms of silver."

Effects on India's Trade with Silver Standard countries.—The theories of the opponents of high exchange are perfectly intelligible. They argued that the

[1] Not in § 27, as stated by the Fowler Committee. § 27 dealt mainly with the effects of falling and rising exchange upon the export and import trade of the country.

[2] See the section on the Herschell Commission Report.

producer in China receives thereby a higher silver price in respect of the same gold price, whilst wages and the other factors in the cost of production do not increase in the same proportion; that production in China becomes more profitable and is therefore stimulated; that, on the other hand, if the Indian exchange does not fall to an equal degree, the Indian producer does not receive a lower rupee price, while wages and other factors in the cost of production do not proportionately diminish; and that the Indian producer does not receive the same profit as before, and production is consequently checked.

The statistics of India's trade with China and Japan during the years 1892-98 bore out the contention of the advocates of a low exchange. Sir John Muir and Mr. Robert Campbell, two of the members of the Fowler Committee, proved conclusively that India's trade with the silver standard countries was seriously affected by the high exchange value of the rupee. The arbitrary enhancement of the rupee to 1*s.* 4*d.* produced a striking fall in the China exchange on India. It fell from Rs. 306 per 100 taels in 1892-93, to about Rs. 204 in 1899. This decline was reflected in India's trade. Though there was an advance in the tael price in Shanghai, it did not go far enough to enable India to export to the same advantage in face of the adverse exchange. The Finance Minister commented thus upon this phenomena: "The growing competition of the China drug has prevented the price in China from rising in proportion to the increased value of the rupee due to the currency legislation of 1893."

Another industry that was exposed to serious danger was the cotton industry. Both China and Japan seemed to have developed the cotton mill industry for the supply of their home markets. India's disadvantage was not less real in her competition with silver standard countries for the export trade to the neutral markets. It was feared that China with a dollar at its bullion value would be greatly assisted by an enhanced rupee in her endeavours to recover her former predominant position in the tea industry. The Fowler Committee, no less than the Herschell Commission, thought that the producer will be recouped by compensating adjustments for the smaller rupee price he has to accept for his produce in consequence of a higher exchange. The problem was not one of gain or loss to the community; it is really a question which has to be considered mainly with reference to the structure of Indian Society.

As Sir John Muir pointed out, "it can never be a sound policy to handicap native industry while giving a bounty to foreign imports, and as, in the case of India with large foreign obligations it can only be met by surplus exports of produce, it would be a fatal course to pursue." To deny that arbitrary enhancement of the currency is a tax, and to argue that the producer is no worse off in the long run, and that wages and other charges must in time adjust themselves to its altered value, is to maintain the dangerous principle that the Government may lighten its liabilities without injury to anybody by a step of this kind. Such a step is undoubtedly a tax on production, and if the Government plead that in the absence of any other avoidable source of revenue trade must bear it, it is

unwise to throw the whole of it on one side of trade, the side which it is least expedient to tax, and to penalise production while giving a bounty to foreign imports.

The Report of the Babington Smith Committee has not contributed to the solution of this problem. Their cursory discussion of this problem is not very helpful to the student of economics. As usual with the Committees on Indian Currency, appointed subsequent to 1893, reliance is placed upon the threadbare arguments which the Herschell Commission had employed in paragraphs 27 and 116-120 of their Report; and a reference is made to the memorandum from the Government of India regarding Indian price movements.[1] The memorandum duly summarises the views of the Herschell Commission, but no fresh argument is adduced to support the drastic proposal which the Committee have urged.

The question can hardly be discussed without a thorough study of the industrial condition of the country. Trade, as has been pointed out often, is merely a barter of goods. You barter the goods of one country against those of the others, and currency is only a means of settling the margin of difference between them, according to the balance of trade. A fall in exchange is generally an indication that a country has been importing overmuch; it is an indication that, to reduce the trade to a position of equilibrium, exporters are to push on, and importers to hold back; it is for the time being a bounty on exporters and a penalty on importers. The movements of exchange are partly a method of clearly stating the

[1] See Appendices, Vol. III, pp. 164-5.

temporary absence of adjustment between exports and imports; and partly a method of indicating to those concerned a clear and definite channel by which they can help to readjust the mutual obligations between that country and other countries, and derive benefit to themselves in so doing. There are, however, other causes, as: (1) Large borrowing, (2) Price of silver, (3) Annual interest on capital invested in a foreign country, (4) The earnings of foreign merchants, tourists, etc., in India. This is, of course, an insignificant factor at the present; Italy and Switzerland, however, derive a considerable portion of their revenue from this source, (5) "Invisible" exports. This includes various items, as shipping facilities afforded to foreigners, insurance, etc. (6) Lastly, tributes or indemnities due by one country to another. All these elements go to determine the balance of indebtedness. The exchange value of the rupee, it need hardly be added, is not determined by all these elements in an equal degree; causes 3 to 6 are generally absent, but the first two are of primary importance. In so far as Indian prices respond to the Pittman Act, everybody importing manufactured goods into India will get a bounty. If the price of silver fall, through the disposal of a large amount of white metal by China, repeal of the Pittman Act, or the closing of silver mines, the value of the silver rupee will necessarily fall, and no amount of legislation can prevent its decline. The variations in the price of silver during the last two years illustrate this clearly enough. The Babington Smith Committee did not discuss the question with the thoroughness which characterises other

parts of their Report, and reliance upon paragraph 27 of the Herschell Commission vitiates their arguments, to a considerable extent. The Herschell Commission was instituted at a time when Indian industries were in an incipient stage; commerce was insignificant; and the landed interest was dominant. The last twenty years have, however, witnessed a striking development of Indian industry and trade; and many of the arguments employed then have lost their force. Against the interest of the producer must be set the interest of the industrialist; and the effects of high exchange on Indian agriculture must be compared with those on Indian commerce and industry. The problem bristles with difficulties; and the only method that can be safely relied upon is the balancing of advantages and disadvantages, and the application of a measure that would pay due regard to the interests of all classes and strike a *via media* that would be acceptable to all. The subject is discussed fully elsewhere;[1] here it is only necessary to refer to the importance of the subject.

Arguments for a Gold Standard.—The Fowler Committee carefully considered the arguments of the defenders of open mints and decided in favour of the proposals of the Government of India. They recommended the Government to take steps to "avoid all possibility of doubt as to the declaration not to revert to a silver standard, but to proceed with measures for the effective establishment of a gold standard." The history of the last twenty years has proved the soundness of their

[1] See Chapter IV, on Exchange Fluctuations.

first proposal and no one will deny at present the necessity of maintaining the existing system. The weightiest argument in favour of closing the mints was the necessity of removing the uncertainty, doubt, rumours, conjectures, and insane speculation in exchange, engendered by the lack of a definite policy.

That trade was greatly affected by the uncertainty and rumours of Government's proposals, is clear from the evidence of many of the witnesses before the Fowler Committee, though the effects of instability seem to have been greatly exaggerated. We are likely to form a false conception if our horizon is contracted to the external fate of the country; the internal, no less than external, fate should receive attention; and it is this aspect that was neglected by the Committee. The weakness of the defenders of open mints consisted not in their conception of equation of indebtedness—some of their views on the effects of high exchange upon the export trade of the country were based upon reliable data, and supported by weighty arguments—but in their failure to formulate constructive proposals for the introduction of a definite currency policy. They were perfectly correct in pointing out the effects of high exchange upon the commerce of the country; nor were they greatly mistaken in their conception of high exchange as a tax upon native industries. [1]

Over four-fifths of the foreign trade of India was with gold standard countries, and for this reason it

[1] See Minute of Dissent, signed by two of the Members of the Fowler Committee, Sir John Muir and Mr Robert Campbell.

was desirable that India should have the same measure of value as those countries. Regard being had to the supremacy of gold in international commerce, the change to a gold basis has been represented by Professor Marshall as "a movement towards bring ing the railway gauge on the side branches of the world's railways into unison with the main lines." This consideration directly relates to facilitating interchange of commodities. The development of the resources of India would have been impossible without the aid which foreign capitalists have rendered to the country. Development degenerated sometimes into exploitation; but even exploitation was better than stagnation, and the need of India for foreign capital was so great, the necessity for the construction of canals, railways and other undertakings so pressing, that the services of gold standard countries could not be ignored. The need was partly of a temporary and partly of a permanent character. For climatic reasons, India is essentially a country of seasonal trade. Consequently the demand for money is greater for one part of the year than for the other. In the busy season there is a brisk demand for temporary advances to move the crops; in the dull season money is in little demand. The distinction is shown in an extreme form by the facts of the money market in 1897-98, where there was a seasonal variation in discount rates of no less than 7 per cent., and the fluctuations were even greater n 1889 and 1890. In order to diminish the risk to Indian commerce of a recurrence of such stringency, and to reduce the average rate charged for the local use of money, the sound policy is to attract capital

to India from the gold standard countries which have capital to lend, and this can best be achieved by a gold standard and a stable exchange. Moreover, it is in many ways as important that money should be able to flow out of a country without depreciation, when it is no longer in relative demand there, as that it should flow in when required. A gold standard appeared to be the only means by which, under present conditions, these benefits can be secured. Foreign capital could only be drawn from gold standard countries and the capital of these countries could only be attracted by a moderate rate of interest or profit on condition that the investor is satisfied that it is not likely to be a fall in the sterling exchange. Other advantages of a gold standard need not be detailed here.

Proposals for the Reform of Indian Currency, 1892-99.—The main difficulty centered round the application of the principle of the gold standard. Some of the schemes formulated by witnesses before the Fowler Committee were ingenious. Major Darwin advocated the establishment of a legal tender currency consisting of notes and silver rupees; the Government were to sell notes to an unlimited extent at the rate of 1*s.* 4*d.* per rupee. The sales in England were to be conducted like the existing telegraphic transfers; while in India the notes were to be sold for gold. Notes were convertible into gold in London at the rate of 1*s.* 4*d.* per rupee, the Government having the right to issue regulations as to the method of translating the notes from India to England. In India the notes were to be sold by the Government to an unlimited

extent, with the option of charging a premium of ½ per cent.; the Bank of England was to cash notes sent back from India, and receive all monies received for the sale of notes in England, and all gold shipped home by the Government of India. A special reserve of gold against these notes was to be provided by the Bank, and the Government had the power at some future date, and with due warning, to cancel the liability to convert notes into silver rupees. If the Bank of England should demand remuneration at a very high rate, because of the apparently unlimited liability, then a limit should be placed on that liability. A definite sum[1] should be named beyond which the bank should not be required to find gold in exchange for notes; and the Government should strictly limit their liability in a corresponding manner.

Major Darwin's proposals were too intricate to be of practical use to the Committee. They should be compared with the scheme of Mr. H. L. Raphael.

He proposed that the Government of India should buy and sell transfers in England at 1*s.* 4*d.*; but in either case charging ½ per cent. commission. By this means exchange would be fixed and banks would not have the fear of loss on exchange if in the active seasons they drew their money over from England; moreover, fixity of exchange would be established. The Secretary of State would have to fix 1*s.* 4*d.* as the minimum at which they could draw, otherwise the banks would make a profit out of the Government. Mr. Raphael proposed the formation of a Reserve in the form of a credit to issue

[1] Say, £5,000,000, at first and increasing as time went on.

from time to time up to 15 million pounds of Treasury bills. Furthermore, a sum of five million pounds was to be acquired by the Bank of England, "to give an extra amount of confidence." If money were very "tight" in London from some cause or other, and credit in a low state, the reserve of gold could be utilised. Mr. Raphael admitted that the scheme was not perfect; it was merely a substitute for a position "where a currency in either of the metals has been found impossible."

The Probyn Scheme.—The scheme postulated the practicability of a gold standard without gold, and from this point of view, its characteristic features should be compared with Probyn's scheme. He laid undue stress on the hoarding habits of the Indian people and justified his proposals[1] on the ground that, "if gold coins were passed into the currency, it would be at first almost like pouring water into a sieve." As explained above, he proposed (*a*) to institute a separate issue of gold notes of the denomination of Rs. 10,000; (*b*) to issue such notes only in exchange for gold; (*c*) to make them payable[2] either in rupees or in gold; and (*d*) to make it optional to the Currency Department when gold is demanded, to pay either in sovereigns or in gold bars of not less than £67. Under this scheme the gold standard would be left to automatic agencies to establish, and its establishment would coincide with an ultimate undertaking to exchange rupee currency for gold bars of high bar.

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[1] See his proposals in the Section on the Herschell Commission.

[2] At the option of the holder.

Peel's Act.—The gold bar was probably the worst feature of the whole scheme. Peel's Act of 1819, upon which Probyn relied, was never executed at all. The Act enacted (*a*) that the Acts restraining cash payments should cease on May 1st, 1823; (*b*) that between 1st February and 1st October 1820 any "persons who presented notes to the Bank of not less value than 60 oz. of gold might have payment of them in bars of standard gold bullion at the rate of £4-1*s.* per oz. Probyn, Lindsay, and others supposed that the Bank subsequently resumed cash payments under this Act, but such an idea is utterly groundless. In August 1819, the paper price of gold fell to £3-17-10½. The bank note was therefore at par. Consequently, nobody went to the Bank to buy gold at £4-1*s.* when it was to be had in the open market at £3-17-10½. Ricardo's scheme was consequently inoperative. The Bank, in 1821, brought in a Bill of their own accord to resume cash payments. The testimony of Mr. Turner, a Director of the Bank of England, is conclusive on this point. "With regard to the effect of Mr. Peel's Bill on the Bank of England, I can state from having been in the direction during the last two years that it has been altogether a dead letter. It has neither accelerated nor retarded the return to cash payments."

Its Weakness.—This was a capital defect in the schemes of Lindsay and Probyn. In Lindsay's scheme gold bars were not essential, and the course of events has justified his contention that the Indian Government could establish a gold standard without gold currency; but Probyn's project would have necessitated the employment of a cumbrous machinery. Bullion may be regarded

as an international medium of exchange; but there is no precedent for its permanent adoption by civilised countries for purposes of internal currency. Primitive nations have no doubt used bars of iron, silver, and of gold, and the Ricardian idea is tenable on the ground that the adoption of any metal other than gold as a medium of exchange would not hinder the development of trade. If, instead of gold, we were to make milk the standard, or egg, that is, if we used these to purchase all other things, they would acquire the same fixty of price, that is, price in terms of milk or eggs. This is no doubt an extreme case, but Professor Irving Fisher has taken the trouble to compare changes in price of commodities expressed in terms of gold dollar, with the changes in the gold dollar in terms of commodities. He shows that, in terms of general purchasing power, gold is no more stable than egg and considerably less stable than carpets. [1] Ricardo's conception of money was fundamentally sound; but the mistake of Probyn consisted in his application of that theory to Indian currency.

Probyn weakened his argument still further by referring to the hoarding bogey in India. On this the evidence of Sir Samuel Montagu is conclusive. "Hoarding is a bogey which may be laid. I cannot pretend to say how. I do not think there is any hoarding in Russia; and I should think that the natives of India are as intelligent as the natives in Russia, the bulk of them." This was confirmed by a number of other witnesses. The Fowler Committee came to the conclusion that the danger

[1] Stabilising the Dollar, pp. 39-41.

therefrom is not so great as has been represented. "There is little or no likelihood, even according to the most sanguine view, that for a long time to come gold coins, even if declared legal tender forthwith, would find their way to any great extent into general circulation. If hoarding did not render a gold circulation an impossibility in the past, we look for no such result in the future." The statistics of imports of gold, under silver monometallism, show clearly that the amount of gold absorbed did not depend upon a particular system of currency.

The Hoarding Bogey and the Gold Exchange Standard.—The "hoarding" theory has been repeated so often, that there is a danger of its passing into a "catchword." India's share of the annual production of gold is not large in proportion to her needs. The amount of gold imported during the years 1835-1912 was 312 crores, equivalent to about 236 million pounds. Mr. Dalal has prepared an elaborate memorandum on the subject, and the student desirous of further information on this point is referred to the Appendices to the Chamberlain Commission Report. The true test of all the proposals was the convertibility of the rupee, and it is upon this rock that many a currency scheme foundered.[1] The Fowler Committee did not possess sufficient data on the gold exchange standard to enable them to formulate any constructive proposals for the introduction of that system. The evolution of that standard in Mexico, its introduction

[1] Lindsay's scheme is treated in detail in Chapter III, Gold Standard Reserve.

in the Philippine Islands, its adoption by Panama, and the application of its fundamental principles to Brazil and Argentine took place subsequent to the institution of the Fowler Committee, and it could neither utilise the rich store of knowledge which the administration of this policy has placed at the disposal of students of monetary policy, nor draw upon the ripe experience, and mature judgment of men, who had taken a leading part in the application of this principle to the varied problems of Mexico, the chaotic finances of the Straits, or the disorganised system of Panama. Silver, as mentioned above, had been demonetised by France, and her currency contains many features of common interest to students of Indian Currency. Her standard represented a crystallisation by law and custom of accidental conditions, which have not always been favourable to the smooth working of the system; while the gold exchange standard represents a monetary system consciously constructed upon a sound basis, adapted to new conditions, and fully guarded in its operation. Both in France and the United States the mints were closed to the coinage of silver. In neither country are such coins convertible by law into gold; in both countries alike they are equivalent to gold for all internal purposes. For international purposes, France and the United States depend ultimately on the international medium of exchange, which is gold. In the last resort, it is their gold which, acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes. The differences between the two types of currencies—the limping standard and gold exchange standard—consisted

not in the method of discharging international indebtedness—both the systems postulate the discharging of international indebtedness in gold—but in the maintenance of two metals of varying standards. The one is the product of chance; the other is the adaptation of means to a pre-conceived end. The reliance of the Fowler Committee upon the "experience" of "practical men" was unfortunate. Lord Rothschild thought it impossible "to secure a gold standard unless the Government has got the gold coins to give to those who want to export, and not bills." His reason was that "the moment you establish a machinery for dealing in bills, the doubt arises in the minds of those who are dealing, and the doubt becomes a certainty, that they cannot get gold, and the whole thing always fails."

Sir Samuel Montagu declared that "it was impossible to have a gold currency until the Government were in a position to provide against all contingencies." He thought that a gold reserve of the Bank of England would be a financial waste. It might be very good for England to keep a gold reserve; but for India to keep a gold reserve that might rarely be touched upon would be a waste. With regard to the Lindsay scheme Sir Samuel declared, that theoretically it might be of some value, but it would be absolutely useless to depend upon it as a basis of practical policy. Sir John Lubbock was the only witness who grasped the significance of the gold exchange standard. His conception of the standard, however, needs modification, as he restricted the term to inconvertible notes and rupees, which he regarded merely

as notes printed upon paper. He thought that it was impossible to have a gold standard without a gold currency; for, "as long as the main currency is in rupees, and all contracts are made and taxes calculated in rupees, and transactions effected in rupees, and rupees are legal tender to any amount, the rupee is really the standard." He thought that the exchange standard was not automatic, and the currency could not expand or contract according to the requirements of trade, but would have to be regulated by the Government or by some financial institution. The interests of different sections would render it totally unworkable. The interests of some people would be to have the currency curtailed while others would be benefited by having it increased. Lord Aldenham, Governor of the Bank of England, opposed the Lindsay scheme mainly upon the same grounds as Sir James Westland. He took objection to Lindsay's proposal to open a current account with the Bank of England. He showed that opening a current account with the Bank would merely mean that the account of the India Council would be enhanced by 5 to 10 million pounds. But there would be no ear-marking—such a deposit would not be different from any account that they have with the Bank. This was merely an administrative detail, and the difficulty could have been, and was actually, obviated by a guarantee of convertibility on the part either of the Governor of the Bank of England or of the Home Government. Lord Aldenham voiced the opinion of the majority of "practical" men when he declared that "a gold currency is inseparable from a gold standard. What I mean is, that that which

has not a gold currency is not a gold standard. That is quite a different proposition. I do not mean to say that when you have a gold standard—what you call a gold standard—that necessarily involves the use of gold in great quantities; but I say that it is not a gold standard, if a man can pay his debts in any quantity of silver. You might just as well call it a platinum standard, or anything else."

The Recommendations of the Fowler Committee.—That these objections had considerable weight with the Fowler Committee is evident from § 53. They were "impressed" by the evidence of Lord Rothschild, Sir John Lubbock, Sir Samuel Montagu, and others, *that any system without a visible gold currency would be looked upon with distrust,* and declared that the adoption of the Lindsay scheme would check that flow of capital to India upon which her economic future so greatly depends. Moreover, if the system were to be permanent, it would base the Indian gold standard for all time on a few millions of gold, or rather, command over gold in London, with a liability to pay out gold in London, in exchange for rupees received in India, to an indefinite extent. They recommended the adoption of the British sovereign as a legal tender and a current coin in India; and advised the Government to throw open the Indian mints to the unrestricted coinage of gold on the same conditions as those which governed the three Australian branches of the Royal mint.

The Committee suggested that the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the

gold which it may hold—a corresponding reduction being made in the drawings of the Secretary of State; and, when it has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in India in gold, instead of in rupee.

The Government of India were to issue regulations that would be ultimately needed for providing such additions to the silver currency as may prove necessary. Two other recommendations of the Committee may conclude our survey of their work: (1) They recommended that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, *but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.* (2) After considering various proposals they came to the conclusion that the "permanent rate should be that which has been adopted as the provisional rate in the past, and which is also the market rate of to-day, *viz.*, 1*s.* 4*d.* for the rupee." One of the members objected to the fixation of a permanent rate at once, and preferred leaving that question to be decided in the light of further experience—the final rate being fixed as below or above 16*d.* Two other members of the Committee recommended the fixation of the value at 1*s.* 3*d.* on the ground that it would be more favourable to the Indian export trade.

SECTION VI.—INDIAN CURRENCY, 1900—1914.

The Government's Failure to introduce a Gold Standard.—The recommendations of the Committee were accepted in their entirety by the Government of India.

On the publication of their report, the Government of India passed the Indian Coinage and Paper Currency Act, in 1899. It made the sovereign and half-sovereign legal tender throughout India at Rs. 15 and Rs. 7½ respectively, and authorised the issue of notes in exchange for these coins. Early in 1898 gold began to be presented in India for rupees, and the Government began to receive gold in London to the credit of the Paper Currency Reserve against payment of rupees in India. The Fowler Committee had declared that it looked forward to the time when the sovereign would be coined and circulated at home and India "under identical conditions." This opinion was shared by the Government of India, for the Viceroy had said in a despatch of March 3, 1898, to the Secretary of State for India:

"We think that the only state of things which can be called a thoroughly satisfactory attainment of a gold standard is one in which the gold coins which represent our standard are those also which are good for payment in England. What we ought to aim at, and what we have every prospect of successfully attaining, is the introduction of the English sovereign itself as a current coin."

The Government of India discussed the question of the amount of proportion of gold, in view of the large influx of gold which had already done. They estimated that it was desirable to hold in rupees 9½ crores. The note circulation was about 27 crores, and the reduction of the investment of the crores and the silver holding of 9½ crores left about 7½ crores or £5,000,000 to be held in gold. They decided to offer extra legal facilities for gold with a view to getting more gold into

circulation. During the years 1900-1907 strenuous efforts were made to popularise the yellow metal. There was not a single month in 1899 in which some gold did not arrive. In their despatch No. 421 of 14th December 1899, the Government proposed that when the stock of gold reached £5,000,000 the currency office should be instructed to offer sovereigns to presenters of notes, but to give rupees to any one who might object to receive sovereigns and who might ask for rupees. The receipts of gold continued and increased after December 1899. For more than eight months the gold in the currency reserve exceeded, and silver fell below, the limits suggested in the despatch of that month. By the middle of January the stock of gold in the currency reserve in India reached £5,000,000. The proposal made in that despatch was at once brought into operation; later on, supplies of sovereigns to the larger District Treasuries were sent with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees; and in March they directed the Post Office to make in sovereign all payments of money orders in the Presidency Towns and Rangoon, and requested the Presidency Banks to make in the Presidency Towns and Rangoon payments in Government account as far as possible in sovereigns. These measures were taken not so much in the expectation that they would in the early future relieve them of any large part of surplus gold, but in the hope that they would accustom the people to the metal, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing would mitigate in future years the

difficulties that they were experiencing from the magnitude of gold and the depletion of their stock of rupees. Additional rupees were coined to meet these difficulties. In January and February 1900, the Government purchased in India sufficient silver to coin about a crore of rupees; recoined into rupees between 30 to 40 lakhs of old rupees which had been withdrawn from circulation; while the Secretary of State for India purchased silver to the value of about £2,000,000, and the Government borrowed about 69 lakhs of rupees from the Maharaja of Gwalior. The total new coinage that the Government undertook amounted accordingly to 6½ crores. In order further to relieve their difficulty the Government ceased receiving gold bullion below standard fineness, other than the produce of the Indian mines, and also directed that sixty days should be fixed as the period for the payment of certificates in respect of gold tendered under the Notification No. 2662 of 26th June 1893.

The measures do not seem to have produced the desired effect; and though certain amount of gold was absorbed by the public, a considerable proportion came back through the Currency Department and the Presidency Banks. The Comptroller-General estimated the amount remaining in circulation at the end of June over a million and a quarter out of nearly 2 millions issued up to that time. It is difficult to place much reliance on this estimate. As the Government of India admitted in their Despatch "There are many uncertain data in the calculation." The Despatch concluded "We are not yet able to say that gold has passed into use as money to any appreciable extent."

This is borne out by the events of April, 1900. On 11th April the officials of the Currency Department in Calcutta, who early in the day had refused to cash currency notes for three lakhs of rupees presented by an important firm in the ordinary course of business, were finally obliged to close the office before the proper time, having no further rupees in hand to meet the current requirements of the general public. The failure in Calcutta was accompanied by the failure of the treasuries in Cawnpore and elsewhere in the North-Western Provinces to cash notes, which though not bound by law to do (elsewhere than at the offices of the respective issue circles), they had been in the habit of doing. In Calcutta much inconvenience was caused to the mercantile and manufacturing community; whilst in the provinces, not only were traders and manufacturers inconvenienced, but currency notes immediately became subject to a serious discount reaching to 1⅞ per cent. even in an important commercial centre like Cawnpore, and thus showing that the confidence of the general public in the fiduciary note currency had been unpleasantly shaken.

Such a state of affairs, if not promptly remedied, would inevitably have led to further demands, impossible to satisfy, for encashment of notes at all the treasuries throughout India.

Its Causes and Effects.—There were various causes of the unexpectedly rapid accumulation of gold in the Currency Reserve. The Government followed paragraph 60 of the Fowler Committee Report with a devotion that extorts our admiration, if not our respect. The Fowler

Committee had advised the Government of India to continue to give rupees for gold, "but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public." The Government pursued that policy with consistency, and tried to force gold on the public, without regard either to the special needs of different sections of the people, or to the abnormal demands for rupees caused chiefly by famine. There were other contributory causes of this crisis. Increase of population, economic development, and wastage of coins produced a steady demand for additions to the coin circulation. The main cause of the continuous tenders of gold which passed into the Currency Reserve, was large and unusual demand for rupees, induced by famine, and a general supply of rupees being limited and proving insufficient in extraordinary circumstances, a drain was the inevitable result. The Financial Statement of 1900-01 is instructive on the point. The Finance Minister disclaimed any intention of forcing gold upon "a reluctant public," though he thought it "not unjustifiable to familiarise people more widely with gold by cashing postal orders in presidency-towns of the value of Rs. 15 or £1 in gold coins," and also proposed to pay certain salaries in gold in presidency towns. He was doubtful whether the Government would be able to continue to do so without check or interruption, "whether now we have once started giving gold for rupees we may not have to suspend temporarily," but he thought that auguries were not unfavourable "for our being able to pursue the path on which we have entered."

That the path was not free from dangers is clear from the Reports of the Currency Offices, and the evidence of several witnesses before the Chamberlain Commission. A serious financial crisis was averted by the vigorous measures undertaken towards the end of the year. The Secretary of State bought silver to the value of £3,900,000 during the year, and the coinage of about 6½ crores of new rupees eased the situation somewhat.

The policy of the Government had proved a complete failure, and the old rupee remained supreme. Its failure convinced the Government of the importance of maintaining an adequate stock of the white metal, and their Despatches to the Secretary of State emphasised the need for a reserve bullion. The Government proposed to accumulate gradually a reserve of silver bullion to be held in the mints as a portion of the Currency Reserve, which would enable them to begin coining as soon as the demand for rupees made itself felt. A stock of silver melted, alligated, assayed, and rolled, ready for immediate coinage, would form a valuable reserve in times of sudden pressure, and its existence would inspire confidence in the mercantile community in India, "who have in the last few months shown themselves peculiarly sensitive to the apprehension, lest our rupee reserve should not always be maintained at a safe level." They contemplated holding permanently about three crores worth of silver, but their stock of gold showed no signs of diminution. The gold in the Paper Currency Reserve was 9 million pounds, during the period 1902-04; in March, 1904, it exceeded ten millions. In accordance

with the Secretary of State's advice, five million pounds sterling were shipped in 1905. These measures allayed the panic, and restored the confidence, which had been shaken by the events of 1900. The most valuable lesson learnt was that gold currency is not suited to India. The primary consideration in all these cases is the needs of the public, and if the latter loses confidence in its stability, or its convertibility, or its utility, no law can prevent it from being a total failure.

In what sense did the Fowler Committee use the term Gold?—The history of the period during which the experiment was tried leads us to the conclusion that the Government attached undue importance to the concluding portion of paragraph 60 of the Fowler Committee. Their recommendations with regard to the maintenance of a reserve were not sufficiently clear to enable the Government to take a decisive action on a matter of such importance; while the phraseology they employed involved them in serious difficulties. They continually used the word "gold" in two different senses. One meaning is metallic gold; the other is sterling assets. When they advised the Government of India to "restrict the growth of their gold obligation," they did not mean obligations which were payable in gold.[1] What they meant was obligations incurred by issuing stock and taking cheques in payment for it, the interest on which is paid merely by dividend warrants in the payment of which not a single sovereign changes hands. Sir Lionel

[1] See Sir Lionel Abrahams' Evidence before the Chamberlain Commission, Minutes of Evidence.

Abrahams' opinion is worth quoting here. "My recollection, since I had some little share in drafting the report, is that the instructions that were given in order that the Report might be drafted were that these profits of coinage were to be held in a sterling form, and not in a rupee form, so that in case of a fall in exchange they could be realised in sterling and used in London." Sir Robert Chalmers, who was the Secretary to the Committee, confirmed Sir Lionel's statement, while three other members of the Committee, Sir David Barbour, Mr. LeMarchant, and Sir Charles Crosthwaite used the word gold in a technical sense. Upon the interpretation of the word depended, to a certain extent, the success of the experiment. The Fowler Committee were partly responsible for the vagueness which surrounds their proposal, and their treatment of the question is far from satisfactory. They had neither the abundance of data which the Herschell Commission possessed, nor the experience of the actual working of the policy of the gold exchange standard which the Chamberlain Commission, and the recent Committee on the Indian currency utilised. Hence their suggestions with regard to the gold currency did not exhibit the logical chain of arguments, or the wealth of detail which have made the Commission on Gold and Silver a classic. The evolution of the gold exchange standard is traced in Chapter III; and here it is only necessary to refer briefly to the experience of the Government of India. The Committee did not contemplate the establishment of a gold standard without gold currency, and the Lindsay plan had been rejected by all the prominent bankers who gave evidence before the

Committee. Indian currency policy, however, followed along the lines pointed out by Lindsay, and exhibited all the salient features of his policy. The system in its final form differed only slightly from the Lindsay scheme, but it was not till the crisis of 1907-08 that the significance of his proposals was completely grasped. The Fowler Committee spoke in very generous terms of Mr. Lindsay, who was the advocate of the policy that was followed in 1907-08 ; they spoke very generously of him as a contributor to the subject, but they very faintly praised his scheme of the Government undertaking to sell exchange on London at a time of adverse trade, and they spoke with equally faint interest or praise of a similar scheme that was put forward by Mr. Henry Raphael. So that in 1907-08, when some sterling exchange was actually sold, it was not only a departure from the previous ideas of the Government, but also from the ideas that bulked very large in their Report. Lord Meston stated before the Chamberlain Commission, " we have been insensibly diverted from carrying this out literally, to some extent, by the very remarkable and very vital experience that we have gained of the working of the system between 1898 and now. There has been no deliberate or ostensible departure from the principles of the Fowler Committee, but the circumstances of the time have been too strong for us."

The experience of 1900 showed the vital importance of maintaining an adequate supply of silver, and subordinating the accumulation of gold to that of the sufficiency of rupees. Only a certain amount of gold could be held in the Paper Currency Reserve in India. Sir Edward

Law's Minute of June 28, 1900, formulated the principles that underlay the currency policy of the Government. It recognised the limitations of gold currency in India; showed that the existing stock of gold was not of practical use for the encashment of notes; fixed a limit to the amount of gold that could be safely kept in the Paper Currency Reserve; provided for the purchase and coinage of silver out of the excess above the limit imposed, and, finally, suggested the formation of a supplementary gold fund unconnected with the Currency Reserve. The entire profits on rupee coinage were to be devoted to the building up of a redemption fund, consisting chiefly of gold, and located in India in a special chest. The last proposal contained the germs of the Gold Standard Reserve. Gradually a large fund was built up, and, in 1907, it consisted of sterling securities of the market value of £12,310,629, together with a sum of 6 crores of rupees, equivalent to £4,000,000, which was held in silver in India to meet a sudden demand for the coinage.

SECTION VII.—THE CRISIS OF 1907-08.

The Causes of the Crisis.—Indian currency policy was put to the severest test by the American crisis of 1907-08. The immediate origin of the crisis may be traced to the failure of certain brokerage firms on October 16, 1907, who had been attempting to corner the stock of a copper company. Mr. F. A. Heinze's brother was involved. Now, Mr. Heinze controlled the stock of the Mercantile National Bank, of which he was President; and the resources of this bank were

used to further his copper speculations. Distrust naturally set in, and deposits were withdrawn. The Clearing House intervened, Mr. Heinze resigned, and the bank was reorganised, thereafter causing no disturbance. Another Director of this bank had to appeal to the Clearing House, and the latter promised assistance on condition of his retirement. The following week fresh difficulties arose in connection with trust companies. As these companies were not subject to the National Bank law, they were not liable to the jurisdiction of the Clearing House; and the attempt of the latter to impose conditions upon them was met with defiance. One of these companies, the Knickerbocker Trust, brought on the second stage of the crisis. On Monday, October 21st, the National Bank of Commerce refused to continue clearing for this Trust. Next day the company had to suspend, after paying out more than a million and a half pounds. On October 23rd, a run began on the Trust Company of North America with deposits of £13,000,000. Over £4,000,000 were paid in two days; and in two weeks nearly £7,000,000, or more than half its deposits, had been paid. This was by far the worst crisis so far as New York was concerned. But the panic swept to the country, and New York, as the chief reserve centre, continued to feel the strain. The Pittsburg Stock Exchange closed; there were runs on banks in Montana and Nevada; and upon a trust company in Rhode Island, with deposits of £5,000,000. All of these were obliged to suspend payment. There was a general lack of confidence in the banks. The total failures in the United

States have been calculated at about £90,000,000, the trading failures amounting to more than £40,000,000, and the bank failures to nearly £50,000,000. In New York State alone twelve banks failed for £20,000,000. The large railway stocks suffered severely. Some of the largest fell 50 per cent., many more from 20 to 30 per cent., and the total fall in the securities was estimated at £1,000,000,000. This was not the only damage wrought by this crisis; far more serious was the growth of unemployment which resulted therefrom. The damage sustained by the world by the general industrial dislocation was at least ten times as large as the part of it represented by actual failures in the United States.[1] The Trade Unions reported thirty-four per cent. of their members as out of work in December 1907, as against 12·8 per cent. in December 1906, when they were also suffering from financial stringency. Six hundred thousand steerage passengers went eastward in the winter. There are always a certain number who go eastward at that season, but this was more than double the usual number. On April 7th, 1908, it was estimated that no less than 4,750,000 mechanics and labourers (not including agricultural hands) were out of work in the United States; that is, about 20 per cent. of the male adult population; there were 750,000 unemployed in New York State alone. Various measures were adopted to relieve the situation. The Federal authorities took their share; a large amount of new coin was minted; over £18,000,000

[1] Compare an illuminating chapter in Professor Foxwell's "Papers on Current Finances;" various numbers of the Banker's Magazine for 1908; Economic Journal for September, 1908.

were withdrawn from London, and both the Bank of France and the Bank of England sent a large amount of bullion to the United States. Practically every European country was involved in the general ruin which attended the explosion. England, France and Germany suffered severely. India too had her share of these difficulties. The jute crop was poor; the monsoons failed in some parts of India; the sales of Council drafts declined; the failure of the monsoon in the autumn of 1907 involved her in a severe famine, and approximately 50 million people were affected; the price of silver fell considerably; and, finally, the imports were at a considerably higher figure than in any of the preceding years, or than in the two years following. The rates of Council drafts in September were only 131 lakhs, against 340 lakhs in September 1906, and 397 lakhs in September 1905. The average monthly price of standard silver fell from 31·68*d.* for August 1907 to 26·24*d.* for December 1907. The decline in the price of silver destroyed the Secretary of State's market for Council bills. On November 6th tenders for Council Bills dropped to 15$\frac{31}{32}$*d.* and the Secretary of State sold only a very small amount. Thereafter for five weeks he practically withdrew from the market altogether; but the scarcity of gold and the absence of exports continued, and exchange ceased to be stagnant and moved steadily downwards. On the 13th November it fell to 1*s.* 3$\frac{15}{16}$*d.*, on the 18th to 1*s.* 3$\frac{3}{4}$*d.* and on the 25th to 1*s.* 3$\frac{11}{16}$*d.* This was the lowest point reached during the crisis. Within five days exchange rose to 1*s.* 3$\frac{31}{32}$*d.* Further sums of £1,000,000 and £500,000 were released in 6th and 18th December, and exchange was

fairly steady at 1*s.* 3$\frac{31}{32}$*d.* On December 7th the exchange banks were informed that the Government, in the event of a serious weakness in exchange, contemplated offering sterling exchange on London. In January a sterling loan of £5,000,000 further improved matters, but the sale of Council drafts again fell off in February.

The Measures taken.—To meet this emergency various measures were adopted: (*a*) The Secretary of State for India reduced the sale of Council bills, and then for a period of five weeks practically discontinued it. (*b*) The Government refused to pay out gold freely on demand in exchange for rupees. The severe financial crisis in America led to requests on the part of the Exchange banks for export of gold. The policy of the Government of India is revealed in their telegram, dated 20th November 1907. They informed the Secretary of State that they had been requested by the Exchange banks to issue Telegraphic transfers upon him at the rate of Rs. 15 to the sovereign. The telegram continued: "In reply we have informed them that before giving any answer we must refer the matter to you. The request, in the present state of Treasury balances, could only be met by drawing on Currency gold in London. This would, we consider, be contrary to the purposes for which the gold is maintained, and therefore open to strong objection, especially as it would weaken our capacity to remit to you for Treasury purposes in the event of exchange continuing weak. Our advice therefore is that we may be authorised to refuse the application."

Further measures were rendered necessary by the demand of the banks for remittance and by necessities of trade.

(1) The issue of gold to any individual was restricted to 10,000*l*. Up to this daily limit banks in Bombay took gold steadily. Over £100,000 were taken on the 26th and 27th of November 1907. British postal orders for £10,000 and other large sums were also bought by certain banks.

(2) In accordance with the directions of the Secretary of State, the banks were asked to state the amount of gold they would take, if the Government were to make it freely available. The Calcutta banks estimated the outside limits of requirement for the whole of India at £1,000,000. They declined to furnish any estimate of the requirements, though they thought that a large export of bullion was improbable.

(3) The Government expressed their readiness to arrange to issue gold freely up to a million pounds, but the Secretary of State's policy was much bolder than that adopted by the Government of India. On the 21st November he telegraphed out: "Please inform me if it is the case, as reported here, that you have informed the Exchange banks that you will not give gold for export while you continue to give it for internal purposes." On the 28th November 1907, he suggested that in addition to the relief that they were giving by issue of gold, they should also, in order to give confidence and steady exchange, at once issue a notice inviting tenders for Telegraphic transfers of £250,000 on London,

at early date, at rates not exceeding 1*s.* 3$\frac{3}{32}$*d.* the rupee. There was a steady improvement in exchange in the interval, and the Government of India thought that the adoption of the course would be unnecessary. Four days later, a slight fall was reported, and the Government offered Telegraphic transfers, to the maximum limit of a quarter of a million pounds sterling, if the rate fell below 1*s.* 3$\frac{31}{32}$*d.* The plans were modified later on, as the interval of over two months improved the position. The Exchange banks came to the conclusion that it would be better for the Government to sell bills on London at 1*s.* 3$\frac{33}{32}$*d.* if the rate of exchange fell again rather than Telegraphic transfers. The minimum amount for which the bills were to be sold was fixed at £10,000. But exchange remained low and as the Telegraphic transfers did not rise over 15$\frac{32}{32}$*d.*, it was feared that diminution of exports would produce weakness. The crisis was over in September and the following telegram from the Viceroy, dated 11th September 1908, announced the discontinuance of their offer of bills. "No sterling bills have been sold for four weeks, and exchange being steady above 1*s.* 3$\frac{15}{32}$*d.* per rupee, and council bills being freely sold, we are announcing to-day discontinuance of offer of bills."

Over £8,058,000 was withdrawn during this period from the gold standard reserve to meet the bills, while a further sum of £933,749 was temporarily borrowed from that reserve and used to strengthen the India Office balances, and the balance was righted by the issue of gold (or sterling assets) to the extent of 18 million pounds in India and London, combined. The sale of Council drafts

in London was suspended during this period, but the India Office kept themselves in funds, apart from its transfer from the Gold Standard Reserve, by the transfer of £4,530,000 from the gold in the paper currency chest in London (replaced, as already explained, by the addition of rupees to the paper currency reserve in India), and by the issue of India Bills to the amount of £4,500,000 to meet the deficit in revenue which followed the crisis in India. The Indian currency system was put to the severest test, but the arrangements made to maintain the exchange value of the rupee stood the test well.

How was the Gold Standard Reserve utilised?—The primary object for which the Gold Standard Reserve exists is to maintain the par of exchange and if a crisis arises the total resources of the reserve should be utilised. Both the India Office and the Government of India failed to carry out the recommendation of the Fowler Committee that the Gold Reserve should be freely available for foreign remittances whenever the exchange falls below specie point. It would be easy to point out the mistakes, nor would it be difficult to criticise the policy, both of the Secretary of State and the Government of India. The sudden fall of exchange to 1*s.* 3$\frac{3}{32}$*d.* in Calcutta in November 1907 was due not to any insufficiency in the sterling resources of the Government but to the failure of the authorities to utilise those resources effectively. If gold had been released freely, the crisis would not have spread. The feeling of uncertainty which these measures generated was partly responsible for the unusual demands of the banks for money. No one had any experience of the machinery required for meeting the crisis, nor had

any plans been worked out in advance for dealing with a situation of that kind. It is, however, easy to be wise after the event. It was an unprecedented event, and the final success achieved by the Government of India is a striking testimony to the soundness of the measures ultimately taken for meeting the situation. The Government had no precedent to guide them. The Fowler Committee themselves seem to have believed that a cessation of the sale of Council Drafts combined with the use of funds from the Gold Standard Reserve for meeting the requirements of the Secretary of State in London would suffice to maintain the exchange, without any provision of gold by the Government for private export; and the measures taken to maintain the exchange value of the rupee were less in pursuance of the recommendation of the Committee of 1898, than supplementary to it. This was fortunate for India, as a rigid adherence by the Government to any one preconceived course would have seriously affected both her finances, and her commerce. Indian currency has not developed along the lines adumbrated by the Committee of 1898, *viz.*, a gold standard based on a gold currency in active circulation, such as the system in the United Kingdom is commonly held to be. On the contrary it was proved in the crisis of 1907-08 that the gold in circulation in India was of very little value in maintaining the exchange. The Indian system as the crisis of 1907-08 revealed it, is more like the system advocated by Mr. A. M. Lindsay in 1898, *viz.*, a gold standard supported by gold in reserve, with a currency for internal use composed mainly of rupees and notes. The chief difference between Lindsay's system

and the present system is that, instead of the reserve depending mainly on the power to borrow in a crisis, an actual reserve of gold or sterling assets has been provided. Though in origin and machinery the Indian currency system based on what is now known as the gold exchange standard is different from the currency systems of Russia, Holland, Japan, or Austria-Hungary, yet in actual practice the latter are not very different from that of India. In these countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large proportions of the gold resources are held not at home, but in London, Paris and other monetary centres, just as India's Gold Standard Reserve is held in London.

Indian Currency after the Crisis.—Since 1908-13 India has enjoyed a period of exceptional prosperity, and during this period the demand for remittances from London to India was so strong as not only to call for the reissue of the large stock of rupees accumulated in India during the crisis, and thus incidentally to restore the Gold Standard Reserve in London to its former amount, but also to necessitate large coinage of fresh rupees in 1912-13 and 1913-14, the profit on which went to increase the reserve far beyond the maximum point reached before 1907-08. The only important development affecting the Reserve since 1907-08 were

in the direction of making it more liquid. Partly owing to conditions affecting all gilt-edged stocks with no due date for redemption, and partly owing to a clearer perception of facts, the authorities responsible for the Reserve reduced the holding of Consols and other similar securities and invested them in preference in short-term securities, such as Exchequer Bonds and Treasury Bills. Mainly under pressure from the Government of India the Secretary of State cancelled the decision of 1907 to divert one-half of the profit of fresh coinage, and introduced (in 1909) the practice of holding part of the reserve in the form of money lent out at short notice, whilst in 1912 he began to accumulate a portion in actual gold ear-marked at the Bank of England. The total which the Secretary of State expressed his intention so to accumulate was fixed in 1912 at £5,000,000.

The Chamberlain Commission Report.—The Chamberlain Commission Report dealt mainly with what may be called the technique of the Indian currency. They investigated the organization and procedure of the India Office; formulated proposals with regard to the amount and location of the Government balances as well as the method by which their distribution between India and England is arranged; and suggested various improvements in the composition, the amount, and the location of the Gold Standard and the Paper Currency Reserves. The recommendations of the Committee may be summarised under three heads.[1]

[1] See Chapter III on the Gold Standard Reserve, for details.

They declared that the maintenance of the exchange value of the rupee is of the first importance to India, and pointed out that the measure proposed was rather supplementary to than directly in pursuance of the recommendation of the Fowler Committee. The Commission declared that the gold exchange standard was not only workable, but, in the absence of any developed banking system, was admirably adapted to the country on account of its cheapness.

(1) *The Gold Standard and the Paper Currency Reserves.*—The Commission recommended the support of the internal currency by a thoroughly adequate reserve of gold and sterling, and fixed no limit to the amount up to which the Gold Standard Reserve should be accumulated. They recommended the abolition of the Indian branch of the Gold Standard Reserve and advocated the location of the whole of the reserve in London. The paper currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by the Government in the Reserve Treasuries plus one-third of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London as an alternative to investment in permanent securities.

(2) *Balances.*—The Commission thought that the aggregate balances in India and London were unusually arge and the Government exercised greater caution in

framing their budget than was necessary. They commended the proposal to change the date of the commencement of the financial year from the 1st April to the 1st November or 1st January to the favourable consideration of the Government of India. The Commission recommended that the Government of India should make a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks. In deciding upon the location of surplus balances, the Government of India and the Secretary of State should act in consultation, and, while the transmission of the necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors, including the possibility of utilising surplus balances for loans in India. In carrying out these recommendations they should proceed tentatively and with caution.

The Loans by the Government of India.—The Commission recommended that the amount of annual rupee loans in India should be increased as much as possible; and thought that the system of placing portion of the India Office balance out on short loans with approved borrowers was, on the whole, well managed, but they drew attention to (*a*) the terms for which loans are made; (*b*) the desirability of giving greater publicity to the methods by which admission is gained to the list of approved borrowers; (*c*) and the necessity of removing some defects in the list of approved securities and especially its narrow range.

The Finance Committee of the India Office.—They suggested that the Finance Committee of the India Council should, if possible, contain three members with financial experience representing Indian Official Finance, Indian Banking and Commerce, and the London Money Market. They were not in a position to report either for or against the establishment of a State or Central Bank, but regarded the subject as one which deserves early and careful consideration and suggested the appointment of a small expert committee to examine the whole question in India, and either to pronounce against the proposal or to work out in full detail a concrete scheme capable of immediate adoption. Some of the recommendations of the Commission, notably those regarding the action to be taken in a fall in exchange, the abolition of silver holdings in the Gold Standard Reserve, and the increase of facilities for the encashment of notes, were carried into effect shortly after the outbreak of the war.

SECTION VIII.—INDIAN CURRENCY IN WAR TIME, 1914—1918.

The outbreak of the war immediately caused, in India as elsewhere, a general dislocation of trade and business, of which the principal symptoms were the weakening of exchange, withdrawals of Savings Banks deposits, a demand for the encashment of notes, and a run on Indian gold stocks. The position of the Government in 1914 was fairly strong. They had a large stock of rupees, amounting to forty crores, and had fortified themselves

still further by the measures taken to encourage the more rapid growth of their note circulation. Immediately after the outbreak, however, their difficulties commenced.

(A) *Exchange difficulties.*—At the outbreak of the war exchange dropped, and from August 1914 to January 1915 it was necessary to have weekly sales of sterling drafts on London. Exchange fell once more in June 1915 and the sale of reverse drafts had to be resumed for three months. The demand for Council drafts then recommenced and for a long time continued on a moderate scale. It first attained abnormal strength at the end of January 1916, and sales were maintained on a heavy scale during February and March. Thereafter during the first six months of the financial year 1916-17, the demand was again reduced to more moderate dimensions, but revived at the end of October, and in the early part of December the weekly sales averaged over £2 million. The rupee holding in the Paper Currency Reserve had then sunk to Rs. 14 crores, and in spite of the silver awaiting coinage, it was evident that, under the conditions as regards purchase and shipment which the war imposed a limit must be placed, for some time at any rate, upon further sales. To have held on would have been to accept the probability of falling short of rupees for the encashment of notes and of having to declare the paper money temporarily inconvertible. Accordingly, on December 20th, the Secretary of State imposed a limit of Rs. 80 lakhs on his weekly sales which was raised to Rs. 120 lakhs for the following week. The weakening of exchange was met by the expedient of offering drafts on London. Between 6th August 1914

and 28th January 1915 Reverse Councils were sold to the extent of 8,707,000*l.* In February 1915, the demand for Council Drafts revived, and apart from further periods of weakness in 1915-16, and between November 1918 and April 1919, when Reverse Councils were sold to the extent of 4,893,000*l.* and 5,465,000*l.* respectively, Indian exchange remained strong throughout the duration of the war.

(B) *Effects on Indian Banks and Paper Currency.*—The outbreak of the war led to the withdrawal of Savings Bank deposits, encashment of notes, run on the banks, and demand for gold. The net withdrawal of Savings Bank deposits amounted in the first two months of the war to Rs. 6 crores, out of the total deposits of 24½ crores on 31st July 1914. From September to October 1914 there were further withdrawals to the extent of Rs. 2 crores. Subsequently there was a recovery, but the net withdrawals for the year 1914-15 amounted to over Rs. 8 crores. Improvement manifested itself in 1915-16, and since that date deposits have continued to increase, with the result that the figure at the end of 1918-19 was 18¾ crores. There was also a run on some of the banks, but this proved of short duration.

Indian Notes.—Some lack of confidence in the Indian note issue manifested itself at the outbreak of war and resulted in a net return of currency notes to the extent of 10 crores between 31st July 1914 and 31st March 1915, at which date the net circulation had declined from Rs. 66·28 crores to Rs. 55·65 crores. The

silver held in the Paper Currency Reserve fell from Rs. 33·94 crores on 31st July to Rs. 29·89 crores on 31st December 1914. But from the spring of 1915 onwards there was a steady increase of the note circulation and on 30th November 1919 it amounted to Rs. 178·93 crores.

At the end of July 1914 there arose a keen demand for gold in exchange for notes, and between the 1st and 4th of August the Government of India lost about 1,800,000*l.* of gold. Some precautions had been taken to discourage the withdrawal of gold for internal purposes when there was a demand for its use as a means of foreign remittance; but when it was seen that the precautions were unavailing, it became necessary on the 5th August to suspend the issue of gold to private persons. After that time notes presented for encashment were paid in silver coin only.

(C) *Decrease in imports of precious metals.*—The Government of India are obliged to remit large funds to England, and their ability to do so depends on the existence of a favourable balance of trade. Before the war India had enjoyed a series of remarkably prosperous seasons and the net exports of merchandise during the years 1909-10 to 1913-14 averaged £52,237,200. During the years 1914-15 to 1918-19 the average balance in India's favour was slightly less. This was due mainly to the heavy fall in the first two years of the war. Leaving aside the years 1914-15, 1915-16, the average balance of trade in India's favour amounted to £59,601,100. This was considerably in excess of the last three years

of the pre-war period, *viz.*, £53,429,200. The figures for the years 1914-15 to 1918-19 are as follows :—

Year.	Exports.	Imports.	Net Exports.
	£	£	£
1914—15 ...	121,061,100	91,952,600	29,108,500
1915—16 ...	131,586,800	87,560,200	44,026,600
1916—17 ...	160,591,200	99,748,000	60,843,200
1917—18 ...	161,700,000	100,280,000	61,420,000
1918—19 ...	169,230,000	112,690,000	56,540,000
Average for five years.	148,833,800	98,446,100	50,387,700

During the war imports into India were limited by the restriction of the available supplies from manufacturing countries in Europe. Imports from Germany and Austria ceased entirely on the outbreak of war, whilst the productive power of the United Kingdom and her allies was more and more completely absorbed on war industries, as hostilities were protracted. There was consequently a large reduction in the quantity of goods imported into India, and it was only the rise in prices that maintained the value of the import trade and prevented its actual contraction. Exports from India, on the other hand, though restricted by difficulties of transport and finance, were in great demand. Supplies of raw materials and food-stuffs were required for the use of the Allied Powers, and the prices they realised were abnormally high. Enhanced values counteracted the shortage of freight and restrictions of finance, with the result already indicated, that favourable trade balance was not only maintained, but even showed a tendency to increase.

(D) *Military Expenditure, etc.*—Exceptional disbursements by the Government of India on behalf of the Imperial Government added to the difficulties and created a heavy demand for the Indian rupee. India formed the base of military operations in Mesopotamia, Persia, and East Africa, and the Government were called upon to provide funds for the payment of British and Indian troops engaged, for the purchase of a large part of the supplies, and for other expenses incidental to a modern campaign, and also for meeting civil expenditure in occupied territory. The amount of the recoverable expenditure incurred by the Government of India on behalf of the Imperial Government between 1914 and 1919 exceeded 240,000,000*l.* and expenditure of this nature has not yet ceased. In addition to the above, arrangements were made for the financing of purchases in India on behalf of certain Dominions and Colonies and for the provision of rupee credits amounting to 20 crores in 1917-18 and 1918-19, for American importers of Indian produce.

The military expenditure during the years 1915-16 to 1919-20 was as follows:—

Year.	£
1915—16	22,261,353
1916—17	24,990,811
1917—18	29,043,141
1918—19	43,926,000
1919—20	55,475,000
Total ...	175,696,305

(E) *Decrease in imports of precious metals.*—The outbreak of the war radically altered the volume of imports of precious metals. India has always been a large buyer of the yellow and white metals and her thirst for the precious metals has been a subject of comments by many a popular writer. She has been denounced as a "sink of precious metals;" and her ingrained capacity for hoarding has been regarded as the sole cause of her commercial lethargy, industrial passivity, and financial inertia. That these criticisms are not unfounded is clear from a review of the controversy in 1898.[1] But it is equally clear that the influence of this habit has been greatly exaggerated; nor is it less certain that the amount of precious metal consumed in England, or the United States is greater, *per capita*, than the amount absorbed in India. She may have pleaded guilty to this charge, in pre-war days; she was certainly innocent during the war period.

The following table exhibits the value of India's imports of gold and silver, and the corresponding value in the years 1914-15 to 1918-19 :—

Year.	£
1909—10	20,688,000
1910—11	21,700,000
1911—12	28,706,000
1912—13	29,435,000
1913—14	19,713,000
Total ...	120,242,000

[1] See the Fowler Committee.

Imports of precious metals during the war period:—

Year.	£
1914—15	12,313,000
1915—16	6,984,000
1916—17	1,357,000
1917—18	15,277,000
1918—19	53,000
Total ...	35,984,000

The contrast between the two totals is striking. The total imports during the war were only one-third of the pre-war period.

Causes of decline in the imports of precious metals.—The main causes of this shrinkage were: The cessation of the free market in England. India had drawn liberally upon the supply of gold in the clearing-house of the world. The measures actually adopted by all the belligerent countries admirably illustrated the soundness of the doctrine of the economists. Every belligerent Government conserved its stock of gold in a central reserve, and met the shortage of internal currency by an expansion of note circulation. Restrictions on the export of gold were imposed by all the countries and India consequently was able to obtain only a limited amount. The relatively high imports in 1917-18, mainly from Japan and the United States, were largely caused by the difficulty of obtaining rupee exchange when the sales of Council drafts were limited and controlled; while the restrictions placed upon the

export of gold by the United States were primarily responsible for the low figure for 1918-19.

The stoppage of the import of gold intensified the demand for silver. But silver was as scarce as gold. There was a great shortage of supply, and the world's production of silver exhibited a marked decline from the production of the preceding years. According to Professors Carpenter and Cullis, the mine production of silver averaged 228,552,000 fine ounces while the average for the years 1914-17 was only 178,075,000 fine ounces, and the total output of silver between the end of 1912 and the beginning of 1919 has been fully 275 million ounces less than it would have been if production had been maintained at the 1912 level.

Approximately, three-quarters of the world's silver is mined in North America, and the decrease in the Canadian production due to the progressive exhaustion of the Cobalt field was more than compensated by an increase in the production of the United States of America. The falling off in the output of the last five years was due solely to the Mexican Revolution and the European War. It is not due to any general exhaustion of ore supplies, as the slight decline that occurred in certain localities has been more than made good by the development of new supplies in others. The production of silver in Mexico fell from an average of 73,937,000 fine ounces for the years 1910-13 to an average of 30,292,000 fine ounces for the years 1914-17, a reduction of 43·6 million ounces out of a total reduction of 50·5 million ounces in the world's production.

The supply of silver being limited, its price would have risen, even if demand had remained constant. But not only was there diminution of supply, there was an enormous increase in demand. This applies not only to India, but also to Europe and America. Every belligerent country restricted its use of gold for internal circulation and increased its demand for silver, and the coinage of all the belligerent countries absorbed an ever-increasing amount of the white metal. The coinage of the British Empire absorbed, *e.g.*, nearly 108 million fine ounces during the years 1915 to 1918, as against 30·5 million ounces in the years 1910 to 1913, and the increases in the other countries were in the same proportion. China was another disturbing factor. She follows a mysterious policy with regard to the white metal. In the years 1914-17 she was a seller of silver and her net exports amounted to over 77 million standard ounces. From 1918, on the other hand, she was a persistent buyer and her large purchase of silver has frequently disturbed the silver market. The Secretary of State cannot bid until "China has been shaken off," and it is difficult to shake her off. She is as persistent in her sales, as she is rigorous in her purchase, and both these transactions produce endless confusion in the silver market.

The above causes led to a considerable shrinkage in the imports of silver. The normal flow of precious metals would have liquidated the trade balance in India's favour, and the normal course of Indian exchange would have been free from violent shocks. But the burden of liquidating this balance was placed upon the shoulders of the Government of India, and the absorption of

rupees went on apace. In 1918 it was monotonously high, rising to 1½ crores in each of the first three weeks of January. At the end of February the rupee balances had fallen to 12½ crores "a point," remarked Lord Meston, "which in previous years would have been regarded, in the absence of large supplies of silver available for further coinage, as marking a position of grave danger." March saw no improvement, and on the closing day of the financial year the silver balances had been brought to under 10½ crores. This was not all. During the first fortnight of April over 4¼ crores of rupees had been absorbed. The Government did what they could to relieve the situation. They bought over 300 million standard ounces of silver, between April 1916 and March 1919, and purchased 200 million fine ounces under the Pittman Act. Altogether over 500 million ounces of silver bought during the three critical years. This figure should be compared with that for 1904-07, when the Indian demand for silver was specially heavy and continuous. The enormous increase in demand, and considerable reduction in supply, produced an unprecedented rise in its price. The highest price of silver in 1915 was 27¼ per standard ounce. By April it had risen to 35⅛*d.*, and in December had reached 37*d.* The rise was continuous throughout the first part of 1917, and in August it exceeded 43*d.* The position in Bombay was most critical. "Rupees were pouring out to finance the cotton crop at fanciful prices." It was clear that the chase for the rupee could not continue for an indefinite period. The amount at the disposal of the Government had shrunk to little more than 4½ crores. In this emergency the Government appealed to the United

States of America through Lord Reading, the British Ambassador at Washington. The appeal was not made in vain. Their request was sympathetically considered, and the Pittman Act, enabling the United States Government to withdraw silver certificates and to borrow from the Treasury the greater part of their dollar reserve of 375 million ounces, was passed. Early in June, an agreement was arrived at between Lord Reading and the United States Government whereby the latter consented to sell to India 200 million ounces of silver thus released. By the beginning of July shipments of silver under the Pittman Act began to arrive in large quantities, and during the succeeding months a position of comparative security was thereby attained.

The prohibition of the export of silver by the United States and the institution of control over the trade, checked the rising tendency of prices, somewhat, and between October 1917 and April 1918 the London quotation varied between 41$\frac{7}{8}$*d.* and 49$\frac{1}{4}$*d.* per standard ounce. After the passing of the Pittman Act, the United States of America refused to grant licenses for export of silver, unless it was bought at 101$\frac{1}{2}$ cents, or less, per fine ounce, and was required for the prosecution of the war. Similar measures were adopted by the Canadian and British Governments. That these measures were effectual in lowering the price, is evident from the London quotations. Between May 1918 and April 1919, the London price for silver ranged between 47$\frac{3}{4}$*d.* and 50*d.* per standard ounce. Immediately after the withdrawal of control, fluctuations in the price of silver resumed their course unhindered. On December 17,

1919, it stood at 78*d.*; a few months later it had risen to 85*d.* per ounce.

(F) *Fluctuations in the London-New York Exchange.*—The unprecedented rise in the price of silver was caused partly by the London-New York exchange. The Secretary of State can buy silver for coinage into rupees without loss at 63*d.* per standard ounce, provided the exchange value of the rupee is maintained at the 2*s.* level. If the London-New York exchange fell 10 per cent., the sterling quotation for silver would, *cèteris paribus*, react in proportion, and the 63*d.* level would be altered to 69*d.*, as the direct consequence of the fall. This is due to the fact that America is the chief source of the world's silver supply, and the payments for the metal have to be made ultimately in that country. The sterling price of silver is consequently influenced by the state of the London-New York exchange, and a fall in sterling has the effect of raising the London quotation for silver. The par value of sterling before the war was 4·8666 dollars; the constant fluctuations in exchange led to the formulation of arrangements whereby the sterling exchange on America was "pegged on" at 4·76$\frac{1}{16}$ dollars. The withdrawal of Government support, in March, 1919, produced precisely the same effect on the London-New York exchange, as the withdrawal of control over the price of silver. The London-New York exchange moved heavily against the United Kingdom, and on December 17, 1919, the sterling had fallen to 3·83 dollars. The decline continued this year, and sterling has fallen to 3·61 dollars at certain periods.

The Cumulative Effect of these Changes on the Exchange Value of the Rupee.—The cumulative effect of these changes was overwhelming. The exchange was washed up by the tide of rising silver prices till it was flung above high water mark. The currency system that had been laboriously built up by the three Commissions was unhinged, trade and industry were dislocated, the principal currency arrangements underwent a startling change, and the institution of remedial measures became necessary. The crisis of 1907-08 was overshadowed by the exchange crisis of 1917-20 and the measures adopted during the war period necessarily affected a much larger section of the community. It affected the export trade, influenced the industry, and revolutionised and modified the structure of monetary institutions. Strong, even revolutionary, measures were absolutely indispensable, and the Government did not hesitate to adopt heroic devices, or introduce stringent laws. That a large section of the community suffered severe hardships from the operation of some of these measures, was only to be expected, for the novelty of the situation, the unprecedented nature of the crisis, and the critical financial position of the Government in April 1918, necessitated vigorous measures and their prompt execution.

SECTION IX.—MEASURES TAKEN.

(A) *Control of Exchange.*—After the exchange had recovered from the dislocation due to the outbreak of the war, the demand for Council drafts continued on a normal scale until October 1916. The machinery

of the gold exchange standard was brought into play with the result that early in 1915, which marked a revival of business confidence, the return of money to the Savings Banks, an increase in the currency note circulation and a firm demand for remittance to India in the shape of Council bills, the Government of India could congratulate themselves that their currency system had proved itself efficient in practice. This improvement continued progressively during the financial year 1915-16; there was a strong internal demand for money to finance India's exports; the note issue showed a large increase; and there was a very heavy demand for remittance to India, Rs. 3,037 lakhs of Council bills being sold during the year, the effect on the internal currency being a heavy absorption of rupees (nearly 10½ crores as against a net return of over 6½ crores during the previous year) and a record figure for the active note circulation.

By the middle of 1916 it became clear that the absorption of rupees was likely to be on an unprecedented scale, and in November the Secretary of State was asked to expedite the purchase and shipment of silver. At the time when these difficulties began the original £100,000,000 of sovereigns had been reduced by various calls to £8,000,000. There was besides £7,000,000 worth of gold bullion which the Government held on behalf of the Bank of England. They purchased this gold from the Bank and reimbursed it from the gold in the Paper Currency Reserve. In spite of these precautions it became clear that the continuance of the sales of Council drafts would jeopardise the convertibility of the note issue, and restrictions were imposed upon their purchase from

December 20th, 1916. The weekly amount, which varied between 120 lakhs and 30 lakhs, was fixed from time to time mainly on the consideration of the rupee resources of the Government of India. As the demand for remittance to India was exceptionally strong at the time and no adequate alternative method of remittance was possible, a marked divergence between the market rate of exchange and the rate at which the drafts were sold took place. Moreover, the remittance available proved totally insufficient to finance the whole of the Indian export trade. As it was essential that the exports required for war purposes should not be impeded, certain measures of control were gradually introduced. From 3rd January 1917 Council drafts were sold at a fixed rate, which at the outset was 1*s.* 4$\frac{1}{4}$*d.* for immediate Telegraphic transfers, and the sales were continued to Banks and firms on the " Approved list," which included a few exchange banks and a few large purchasers of drafts. A little later these banks and firms were required to do business with the third parties at prescribed rates, and to apply their resources primarily to financing the export of articles of importance to the Allies for the purpose of carrying on the war, a list of which was drawn up by the Secretary of State. An appeal was at the same time addressed to other firms engaged in Indian trade to conduct their remittance transactions through the Exchange Banks. Further, in order to encourage the Exchange Banks to buy export bills in excess of their purchases of exchange in the other direction, the Secretary of State insured them against the risk of the rise in exchange, by undertaking to sell to them within a

year after the war exchange up to the amount of their overbuying at the rate at which their excess purchase had been made.

The Approved list was liable to great abuses, and many of the Indian businesses before the Babington Smith Committee severely criticised the arrangement. Mr. S. R. Bomanji declared that "the exchange banks were on that favoured list, for reasons best known to themselves, but probably because of some of their business connections, naturally favoured English firms to the detriment of Indian firms." They declared that the special arrangement for the sale of Council drafts to Banks and firms on the approved list created a monopoly in favour of Exchange Banks and European firms; and if no such special arrangement been made, the profits would have been shared by the Indian traders. There is some evidence to believe that the Exchange Banks made large profits during the war, as the balance-sheets in some of them show that after paying eighty per cent. excess profits tax, they made bigger profits in the last three or four years than during the year 1914. But it by no means follows that the "Approved list" was unnecessary. It would have been difficult for the Government to have carried out its obligations to the Home Government without the hearty co-operation of the Exchange Banks; and the excessive profits made by the banks during the war were not due to the operation of the system of control, but were the direct result of the war conditions.

The scheme of Government control was a complete departure from the system of free and unlimited

remittance that prevailed before the war, and was naturally disliked by the mercantile community. There was a belief amongst the merchants in India that the Secretary of State and the Government of India were unable to resist the pressure brought upon them by the Bank of England and the English joint-stock banks. It is hardly necessary here to tabulate a list of all the grievances. Some of the criticisms are well-founded; but the bulk of them were vitiated by lack of authenticated details, and impartial judgment. Premises are faulty; and no less faulty is the conclusion. A frank explanation of the object of these measures on the part of the Government would have been useful; and many of the criticisms levelled at the procedure of the India Office and the Government of India would have lost their importance. The public remained totally ignorant of the severe financial crisis through which the Government of India were passing in the first six months of 1918; nor was there any organ that could explain the motive, or analyse the causes of a large proportion of the measures they were compelled to adopt. The termination of the war rendered it possible for the Government to withdraw many of the restrictions on trade. They were undertaken in pursuance of three aims (*a*) to satisfy India's own needs, (*b*) to satisfy the needs of Great Britain and the Allies, and (c) to hamper the enemy. Restrictions of the third class remained in force for a longer period than either the needs of Indian commerce, or the necessities of the Allies. Of the second class of restrictions some were retained, and others abolished. The Government maintained control, to a

limited extent, over the food supply, the tea industry, and mica. All these were essential to the Allies, as every country required food until its depleted industry had been rehabilitated. On the other hand, restrictions on the export of jute manufactures, salt-petre, tanning materials and petrol were removed, the control of raw and tanned hides was gradually relaxed, while the prohibition on the import of motor cars was raised. The overbuying guarantee was in due course terminated, and the list of articles to which priority of export finance was given was abolished. On the withdrawal of these restrictions, importers were naturally unwilling to continue incurring loss by effecting homeward remittances through the exchange banks, and a considerable business was transacted direct between exporters and importers at rates appreciably higher than the rate for Council drafts. From 18th September 1919, drafts were sold by open competitive tender, subject to a minimum rate, and subject to the condition that no applicant may apply for more than 20 per cent. of the amount offered each week.

(B) *Raising of Rate for Sale of Council Drafts.*—The enormous rise in the price of silver to a point at which the bullion value of the rupee exceeded 1*s.* 4*d.* made the sale of Council drafts at the original rate impossible. If the rupee had been undervalued, Gresham's Law would have applied, and rupees would have disappeared from circulation, to be melted down for export. The Secretary of State for India could not go on selling the Council drafts at a loss to the Indian Treasury, and the rate that has remained in operation for over sixteen years was first

raised from 1*s.* 4¼*d.* to 1*s.* 5*d.* on August 28th, 1917. The Government of India announced that the price of the Council drafts would be determined by the market price of silver. This policy governed alterations in the rates of exchange up to the beginning of the present year, when they made a heroic attempt to stabilise the rupee by the sale of Reverse Councils and issued sterling Bills to the value of £50,000,000. The fixation of the exchange value of the rupee at 1*s.* 5*d.* in August 1917 proved impossible; the price of silver rose by leaps and bounds, and the exchange value was gradually raised from 1*s.* 8*d.* on the 13th May 1919 to 2*s.* 4*d.* on the 12th of December. The last figure was the minimum rate for the sale of immediate Telegraphic transfers by competitive tender, while the Secretary of State announced that he will sell reverse immediate Telegraphic transfers at the rate of 2*s.* 0$\frac{29}{32}$*d.* The rate of exchange was raised by successive steps from 1*s.* 4*d.* to 2*s.* 4*d.* as shown in the following table :—

Date of Introduction.	Minimum rate for Immediate Telegraphic Transfers.	
	s.	*d.*
3rd January 1917	1	4¼
28th August 1917	1	5
12th April 1918	1	6
13th May 1919	1	8
12th August 1919	1	10
15th September 1919	2	0
22nd November 1919	2	2
12th December 1919	2	4

(C) *Purchase of Silver.*—A mere change in the exchange value of the rupee would have been absolutely futile unless special measures had been taken to increase the stock of silver in India. The enormous expansion of Indian commerce, the heavy military expenditure, and the popularity of the Indian rupee in Mesopotamia and East Africa, made heavy demands upon the rupee resources of the Government. Gold was impossible to procure; and silver was no less difficult to get, as every belligerent country used either silver or notes and conserved its gold supply. The Indian demand for rupees showed no signs of abatement, and its absorption was unprecedented. During 1916-17 it amounted to 3,381 lakhs; the necessity for rupee coinage on a large scale became apparent; the Secretary of State for India began to purchase silver; and the import of silver into India on private account was prohibited in September 1917. During the years 1915-19 inclusive, the Secretary of State purchased silver to the value of 538,005,000 standard ounces, whereof the United States of America supplied India with 200,000,000 fine ounces at 101½ cents per fine ounce.

Other measures were adopted for the conservation of silver supply. On 29th June, 1917, the use of silver or gold coin for other than currency purposes was declared illegal, and on 3rd September, 1917, the export of silver coin and bullion from India was prohibited except under license. Steps were also taken to economise silver by the issue of Rs. 2½ and one-rupee notes, and by extending the use of nickel for coin of small denominations. At the end of March 1918 a new two-anna nickel coin

was issued to replace the silver two-anna piece, and this new coin has been so readily accepted that legislation was passed in September 1919 authorising the issue of four-anna and eight-anna nickel coins.

(D) *Expansion of the Indian Notes.*—The difficulties of procuring sufficient supply of silver led to a large increase in the note issue. Prior to the war the invested portion of the Paper Currency Reserve was limited by law to 14 crores of rupees. Since the beginning of November 1915 the legal limit of the invested portion of the reserve was frequently modified, and at the end of 1919 it stood at 120 crores. During this period the gross circulation of notes increased nearly three-fold, while the percentage of metallic backing decreased by nearly a half. The growth of circulation and the changes in the composition of the reserve were as follows :—

Date.	Lakhs of Rupees.					Percentage of total Metallic Reserve to gross Note circulation.
	Gross note circulation.	Composition of the Reserve.				
		Silver.	Gold	Securities.	Total.	
31st March 1914 ...	66,12	20,53	31,59	14,00	66,12	78·9
,, 1915 ...	61,63	32,34	15,29	14,00	61,63	77·3
,, 1916 ...	67,73	23,57	24,16	20,00	67,73	70·5
,, 1917 ...	86,38	19,22	18,69	48,49	86,38	43·9
,, 1918 ...	99,79	10,79	27,52	61,48	99,79	38·4
,, 1919 ...	153,46	37,39	17,49	98,58	153,46	35·8
30th November 1919.	179,67	47,44	32,70	99,53	179,67	44·6

The use of paper currency was further stimulated by the issue in December 1917 and January 1918

of notes for Rs. 2½ and one rupee respectively, to supplement the notes of Rs. 5 and higher denominations already in circulation. At first these notes of small denomination did not circulate to any appreciable extent, but later, when the supply of rupees was curtailed, its circulations increased rapidly, and on 31st March 1919 the gross circulation exceeded Rs. 184 lakhs in the case of the Rs. 2½ denomination and Rs. 1,050 lakhs in the case of the one rupee denomination. Various steps were taken to popularise the notes. Sir William Meyer issued instructions that they should be cashed as a matter of course at each treasury, provided, of course, that the treasury had sufficient funds, and that the Controller of Currency should take steps to keep the treasuries in funds. Attempts were made to popularise them by keeping them clean. In the old days a note used to be passed into a treasury, say for payment of Government dues or for change, and, as it was issued out again, it got very dirty and loathsome. The Government arranged that notes once handed in to their offices should not be reissued. Unfortunately during the war the Bank of England could not supply them with paper rapidly enough, and they had to go back on that. The one-rupee notes cost 8*s.* 4*d.* per thousand; and the life of the five-rupee note has been calculated at one year. Before the war, when notes came into the hands of the Government, they were immediately cancelled, they were thus always kept clean, like the Bank of England notes; but during the war the practice had to be altered. The Bank of England did not manufacture notes fast enough, so that the life of the note

was prolonged and cleanliness consequently diminished. There is evidence to believe that large quantities of rupees were retained as a store of value or were used for industrial purposes, in spite of the prohibition of melting, while the purchase of jute, cotton and other crops was effected mainly by means of notes. Considerable discount was reported, and as much as 19 per cent. was charged for the encashment of notes of low denominations.

From 1916 the absorption of rupees was abnormally large, the figure for 1916-17 being Rs. 3,881 lakhs, and for 1917-18 Rs. 2,786 lakhs; and on 1st April 1918 the silver balances had fallen to under 10½ crores, or about 8 crores less than what was considered a safe minimum in the period before the war. The unfavourable war news in March and April 1918 caused a run on the Bombay Currency Office for the encashment of notes, and this was followed by similar difficulties elsewhere, notably in Lahore. Inconvertibility appeared to be inevitable, and was only averted by the energy and resource of the officers responsible, and by the timely announcement of the acquisition of the Pittman silver. By the first week in June the rupee balances had diminished to little more than 4 crores. From July the delivery of the Pittman silver commenced, and the situation gradually improved; but the necessity for conserving their reduced stock of rupees had forced on the Government a reversal of their previous policy. Facilities for the encashment of notes at District Treasuries were in a large degree withdrawn. The conveyance of specie by rail and river steamer was prohibited, and an embargo was placed

on its transmission by post. Later, in January 1919, owing to the practical administrative difficulties of dealing in full with the demands for encashment at the Currency Offices during the busy season, the daily issues of rupees to single tenderers of notes were limited to a figure which made it practicable to satisfy large demands in part and small demands as a rule in full. The result of these restrictions was the substitution to a large extent of notes for rupees as the common circulating medium. These restrictions were removed in September 1919.

(E) *Acquisition and Use of Gold.*—The demand for gold and silver is interchangeable, and the Government would not have had run on silver from 1916 to 1918, if they could have arranged for a supply of gold. The stoppage of gold inevitably increased the run on silver. The interchangeability varies in particular provinces; in the Punjab, Bombay, and parts of the United Provinces, the people were quite ready to take gold, but in Bengal they refused it. The interchangeability extended to their use for social and ornamental purposes; their use depends in many cases upon the relative price of the two metals, and there is a margin at which the price would determine their preferences. Gold is usually preferred for ornaments; and Sir William Meyer's little story, in the Minutes of Evidence, is worth reproduction here. "The clerks and the smaller employees for a time got their salaries paid in sovereigns and I said to one of my clerks: 'How do you like getting your pay in sovereigns?' He said: 'I do not like it at all. When I get my pay in rupees,

I could keep it, but now I get it in sovereigns my wife takes them all for ornaments'." A few months before the outbreak of the war, there was a striking diminution in the holding of gold in India, which fell from about 20½ crores in March 1914, to less than 4 crores in September of the same year, or taking the total including gold held out of India, there was a decline from about 31½ crores to about 11½ crores. Nearly 2 million pounds in sovereigns were taken away at the end of July and the beginning of August by private persons. There was a run on the Government gold store at the end of July both in Bombay and Calcutta. Mr. Gubbay stated before the Currency Commission that "there were trains leaving the seaports taking away the Marwaris and their gold to what they thought was a safer place of refuge." Owing to the demand for gold for social and industrial purposes and its restricted supply, the bazaar price of the sovereign gradually rose and remained considerably above its statutory rate of Rs. 15. This premium on gold precluded its use as currency except in emergencies, but on two occasions attempts were made to prevent a further diminution of the rupee stocks by the issue of gold. At the beginning of 1917 gold bullion of the value of about 4,000,000*l.* was sold and subsequently sovereigns to the amount of about 5,000,000*l.* were issued for the purchase of crops in certain areas. Again, from February 1918 sovereigns and gold mohurs amounting to nearly 6,000,000*l.* were issued for the financing of certain crops. The earlier issue of sovereigns was coincident with a large return of rupees from circulation, especially in those districts where sovereigns

had been issued, but in 1918 it did not result in the return of rupees.

The Government devised various measures to relieve the pressure upon the rupees. The first measure was adopted in June 1917, when all gold imported into India was to be sold to the Government at the original rate of exchange, and the gold so obtained was placed in the Paper Currency Reserve as a backing against the issue of additional notes. A branch of the Royal mint was opened in Bombay in August 1918; and pending the establishment of the Royal mint a gold mohur, a fifteen-rupee coin, of the same weight and fineness as the sovereigns, was minted in order to supplement the stock of sovereigns available for issue as currency during the period. The minting of gold coin at the Bombay branch of the Royal mint was suspended on a suggestion from the British Treasury, as their Deputy Master, who was in charge of the Bombay mint, had to be invalidated in April 1919. The plant of the gold mint was utilised by the Indian silver mint, the resources of which had been severely taxed in order to cope with the great demand for rupee coinage. Mr. Howard thought that experience had shown "that, owing to the large internal premium on gold, the minting of gold coins for use as currency was in present circumstances of little assistance, as such coins did not remain in circulation." The mint coined altogether 2,110,000 gold mohurs and 1,295,000 sovereigns. These measures for the acquisition of gold proved ineffectual, and it was not till 1919 that the pressure upon its supply was removed. The United States removed the embargo on the export of gold in June 1919; the South African

and Australian gold mines were also freed; in July 1919 immediate Telegraphic Transfers on India were offered against deposit at the Ottawa Mint of gold coin or bullion at a rate corresponding to the prevailing exchange rate; while a limited amount of immediate Telegraphic Transfers on India were offered weekly for sale by competitive tender in New York. By these devices the Government obtained gold to the extent of about 467,000 fine ounces, and were able to coin about 2 million sovereigns. They purchased about 2,485,000 fine ounces of gold in London, the United States, and Australia, and altered their rate for the acquisition of gold brought into India on private account, owing to the fluctuations of exchange. That this measure facilitated the import of gold is evident from the fact that over 345,000 fine ounces of gold was tendered to the Government of India from the 15th September to the 30th of November.

(F) *Sale of Gold.*—With a view to removing the premium upon gold the Government of India announced, at the end of August 1919, that sales of gold would be held fortnightly until further notice, and that in each of the first three months not less than the equivalent of the gold content of one million sovereigns would be offered for sale. The amount offered at the second sale in November was increased to 500,000 tolas (equivalent to nearly 8,00,000 sovereigns), and it was announced that this amount would be offered fortnightly for the three months beginning from December. The immediate effect of these sales was a considerable drop in the bazaar price of gold. The price of English bar gold fell from Rs. 32·12 per tola (Rs. 20·9 per sovereign) on 15th August to Rs. 27

per tola (Rs. 16·5 per sovereign) on 22nd September, but by the end of October the market had recovered and the price was Rs. 29·12 per tola (Rs. 18·11 per sovereign). At the beginning of December the price had again fallen to Rs. 28·5 per tola (Rs. 17·11 per sovereign). The total amount of gold sold up to 30th November amounted to about 2,159,000 tolas, being the equivalent of the gold content of about 3,439,000 sovereigns.

Madras secured very little of the gold sold at these official sales. The highest rate tendered for was in most cases in the neighbourhood of the lowest rate accepted for the whole of India, and in three of the sales the former was below the latter, while the quantity applied for at the first sale amounted to a moderate sum of about 70,000 tolas. This fell down to about 50,000 tolas at the second sale. With reference, however, to the lowest rate of Rs. 24-8-0 per tola accepted at the second sale, the applications at the third and fourth sales amounted to about 200,000 tolas each. The lowest rate accepted at the fourth sale having risen to Rs. 26-15-3 and this rate having been more or less steady until the tenth sale, there was a fall in the amount applied for from the fifth to the eleventh sale held on 19th February, 1920, the quantities applied for after the seventh sale having been very trifling. With the removal of the restriction of a minimum rate of Rs. 23-14-4 from the eleventh sale, the lowest rate accepted at that sale fell down to Rs. 16-2-3, and there was therefore a rush of applications in Madras at the next two sales of the year. Nearly 200,000 tolas

were applied for at the twelfth sale and nearly 300,000 tolas at the thirteenth sale.

(G) *War Loans.*—Throughout the war capital expenditure was kept as low as possible, while from 1916-17 onwards additional taxation was imposed which raised the total revenue of the Government from £84,413,500 in 1915-16 to £144,218,700 in 1919-20. A striking feature of the financial policy of the Government of India was their floatation of War Loans. The success of these loans surprised the Government themselves. Sir William Meyer estimated the total amount of the war loans at about £10 million, though he expressed the hope that this might be materially exceeded. That the hope was justified to an extent far beyond the anticipations of the most sanguine experts, including Sir William Meyer himself, will be evident from the figures for 1917 and 1918.

	Millions of pounds.
Main Loans	26·6
Postal Sections	2·9
Cash Certificates ...	6·6
Total ...	36·1

Altogether the loans of 1917, 1918 and 1919 yielded about Rs. 130 crores and from October 1917 short term Treasury Bills have been issued in considerable quantities, the amount outstanding on 30th November 1919 being about Rs. 65·58 crores.

These measures tended to relieve the critical position in which the Government was placed. Some of them

aroused considerable opposition, and there is no doubt that the freedom of trade was seriously interfered with. Freedom, however, is a purely relative term, and the quantity, no less than the quality, depends ultimately upon the ends for which it is designed. The necessities of the war led to the imposition of restrictions that the individualists of the type of Cobden and Spencer would have been shocked to witness. Dora spread her tentacles in all directions in England; her hand was visible everywhere; and not a single person in England remained unaffected by the rules and regulations which the Government poured forth in quick succession. Every belligerent country followed the same policy and passed numerous laws curtailing individual liberty, imposing stringent conditions on industry and trade, and inflicting severe penalties upon the delinquents. India too suffered, and she too had to pay a heavy toll. But the damage sustained by her trade bore no relation to the amount of misery wrought in the allied countries.

Even so some of the restrictions seem to have been unnecessarily severe. Perhaps the exigencies of the war justified their imposition; but there was no reason for their continuance long after the war. This seems to have been the opinion of a number of witnesses before the recent Commission, and the Government themselves were conscious of the importance of liberating trade from the grip of officialdom. As Lord Meston declared in the Indian Legislative Assembly in March 1919: "No one is more anxious than the Government of India to complete this process of liberation."

SECTION X.—THE BABINGTON SMITH COMMITTEE, 1919.

The Secretary of State appointed on May 30th, 1919, a Committee to "Examine the effects of the war on the Indian Exchange and Currency System and Practice, and upon the position of the Indian note-issue, and to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of the system or practice may be required, to make recommendations as to such modifications, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintain a satisfactory monetary circulation and to ensure a stable gold exchange standard."

Sir Henry Babington Smith was the Chairman of the Committee, and the other members included Lord Chalmers, Sir Marshall F. Reid, Sir James Brunyate, Mr. F. C. Goodenough, Sir Charles Addis, Mr. M. M. S. Gubbay, Sir Bernard Hunter, Mr. D. M. Dalal and Mr. Thomas McMorran.

The Nature of the Problem.—The problem which the Government of India had to face was the stability of the rupee in terms of the sovereign, and this was the pivot upon which practically all the discussions of the Currency Commission turned. From one point of view, the question with which the Committee had to deal was a comparatively simple one, as the essential features of the Indian currency had already been determined by the early investigators. They had collected a large amount of data; examined a number of witnesses, and formulated

specific proposals for the execution of their plans. The Indian mints were closed to the free coinage of silver, on the recommendations of the Herschell Committee; the exchange value of the rupee was fixed, and gold currency introduced on the advice of the Fowler Committee; and, finally, the mechanism of the Gold Standard Reserve was thoroughly investigated by the Chamberlain Commission and some of their recommendations were actually carried into effect by the Government of India. Thus the main lines of the Indian currency policy had been determined by a succession of investigators, and the problem with which the Babington Smith Committee had to deal was a comparatively simple one. There was no question of reversion to the silver standard, there was no possibility of reopening the mints, and no thought of dislocating the gold exchange standard.

Stability: The Proposals of the Government of India.—From another point of view, however, the work of the Committee was much more difficult. It had to re-examine the system in the light of the experiences of the war, to formulate proposals for the maintenance of exchange; and to devise measures for the harmonious working of the disturbing elements of the system. It utilised the experiences and advice of the previous investigators, to be sure; but it was presented with difficulties to which none of the earlier inquirers had given a thought.

The main problem was the maintenance of stability and the duel between the Government of India and Sir Lionel Abrahams was fought upon this issue. The

Government of India favoured the stability of exchange at a rate which, regard being had to the probable future supplies and prices of silver, could be reasonably expected to afford an assurance that a rupee will remain a token coin. In order to make this assurance as complete as possible, they were prepared to raise the gold value of the rupee to whatever point the Committee might consider requisite for the purpose. They recognised that an abnormal rise in the price of silver might upset the Committee's anticipations; but they thought that a "reasonably high rate" should be adequate against all ordinary fluctuations; by a reasonably high rate they did not imply the fixation of a rate at a level at which it would be impossible to maintain it by the ordinary method of selling sterling remittances in India. If such a rate is determined by the Committee, the Secretary of State would have to be prepared to sell Council Bills freely to prevent the rate from rising, and he would have also, in the last resort, to be prepared to suspend the purchase of silver, should it unexpectedly threaten to rise above whatever point is recommended by the Committee for the purpose of securing the necessary stability. The Government were afraid that the stoppage of silver supplies and the demand for extra currency might force them into the position of being unable to pay silver coin against currency notes tendered to them. They did not minimise the consequences of this step. But they drew a distinction between inconvertibility, caused at a time of war by the total depletion of the Government's silver reserves, and suspension of specie payments caused by deliberate

withdrawal from silver purchases as part of a definite policy designed to secure for India the undoubted advantages of a stable exchange and protect it from the demands of silver producers. In the former case, inconvertibility if it had come, would have been the consequence of the complete disappearance of the Government's silver resources as a result of heavy withdrawals, due largely to popular apprehensions as to the stability of the British Raj. In the latter case, suspension of specie payments, should it come, would be the result of leaving the silver market at a time when the Government might still hold not inconsiderable supplies of silver in their resources. Furthermore the suspension might be of brief duration, if India's abstention from silver purchases reacted on silver prices with the sharpness which we should expect. Nor should it be overlooked that very considerable progress has in the last year been made with the education of the Indian public in the use of the notes for the financing of produce and, more particularly, in the use of small notes.

The Government did not wish to dogmatise upon the permanent fixation of a precise rate of exchange; and their views with regard to a suitable rate naturally varied with the variations in the exchange value of the rupee. In the beginning of 1919 their choice lay between 1*s.* 6*d.* and 1*s.* 8*d.*; but the constant fluctuations in the course of the year necessarily modified their original proposals and they left it to the Committee to find a solution of the difficulty. Briefly the Government of India invited the Committee to select a rate at which there was a reasonable assurance of maintaining the

rupee as a token coin. The last sentence of paragraph 17 of the statement of their case specifies the various factors which they recommended the Committee to take into account in the fixation of the rate. "As regards the rate to be ultimately recommended, the Committee will no doubt give due weight apart from the all important question of the future of silver, to the special consequence in India's case of raising the rate of exchange, namely, a recurring reduction in her home charges and in the amount of capital expenditure incurred in the United Kingdom, accompanied by an initial capital loss on her sterling holdings. In determining the method of reaching the new rate, they would also have regard to the effects of a rising or falling exchange on the import and export trade of the country and on internal prices."

A telegram of the Government of India, dated April 14, 1919, contemplated an announcement that the Government would abstain from the purchase of silver, while the Memorandum put it that the Secretary of State would have to be prepared to suspend the purchase. There is some discrepancy here, and it is difficult to reconcile the measures proposed by the telegram with the policy suggested by the Government in their Memorandum. Mr. Gubbay, the representative of the Government of India, explained, however, that "the telegram of the 14th April might almost be regarded as being not as authoritative as the statement which has been put in on behalf of the Government of India," and we may leave it at that.

Some Reasons for their Proposals.—The inconvertibility of the note issue is fraught with serious results, and the evidence not only of Mr. Gubbay, their able and resourceful spokesman, but also of other witnesses brought out vividly the serious difficulties by which they were surrounded. Their position in April 1918 was most critical. The storm centre was Bombay. The Currency Office in April after the Easter Holidays began with a silver balance of 130 lakhs. Within three days the balance was reduced to 19 lakhs. The mints were working overtime; and rupees were brought in from all parts of India, particularly from Bengal and the Central Provinces. Over 187 lakhs of rupees were despatched to Bombay in six days, while the Currency Office at Calcutta closed with considerably less than one lakh, on more than one occasion. Mr. Gubbay informed the Committee that "things were quiet in Calcutta at the time, and no untoward consequences followed. We had taken there the precautions of discussing the matter with the banks, and telling them beforehand the possibilities of the situation and the Commissioner of Police had similarly discussed it with the Marwari community, with whom he is in particularly close touch. Actually in April our issues were 579 lakhs in that month alone. In each of the first two weeks the issues were well over 2 crores." In May the issues were 547 lakhs, and the storm centre then had passed away from Bombay and difficulties were arising in Cawnpore and Lahore. The lowest point actually reached was on June 4th. The Treasuries had been practically denuded, and the silver balance all over India was only 414 lakhs; it was

only because the "Northbrook," which had been specially sent across to Hong-Kong to meet a shipment from America, had brought over a large amount of silver, that the Government managed to get through the first half of June. The turn of the tide occurred in the third week of June, when the balances fell to 474 lakhs. Every device had been employed, even to the extent of declaring holidays on days on which Bank holidays were not usually declared. Advantage was taken of the Empire day to declaring a Bank holiday, so as to give the Mint time to coin a certain consignment of silver which had reached it. It would be clear from this bare recital that the Government passed through most critical times in the early part of 1918. Their proposals with regard to the inconvertibility of the note issue should be considered in the light of these experiences. There is an apparent divergence between the Memorandum which Mr. Gubbay indited on January 23, 1918, and the Memorandum of the Government of India. In the former the evils of the inconvertibility of the note issue were graphically described; while in the latter the Government of India contemplated inconvertibility as a feature of their future currency policy. Again, in their telegram, dated 14th April 1919, they said: "A year ago inconvertibility would have been unthinkable. To-day India is more prepared for it." This was not all. Their policy underwent another striking change. Within a few weeks after sending their telegram of the 14th April they telegraphed out "Change in political situation here since our last telegram has made further talk about inconvertibility for the present impossible."

It is not difficult to reconcile these views. There was no change in the sense that they did not believe that the consequences previously anticipated would follow; but they believed that the consequences after the war would not arise in such an acute degree as one would have expected at a time when the country was at war. Moreover considerable progress had been made in the education of the people in the use of notes in the interval. The jute crop was financed with notes, and the same policy was adopted in regard to the cotton crop. The growth of note-using habit led the Government to believe that inconvertibility would not be attended by the evils which their earlier memoranda and telegrams had graphically described. Moreover, they did not contemplate anything further than that they should have the power of restricting the issues of rupees at currency offices. They contemplated that, having proceeded with the sale of unlimited councils and watching their silver balances very carefully, a stage might be reached at which they might feel that the unlimited issue of rupees might definitely leave them with nothing at all in a very short time, say, in the course of three or four months. Then, and not till then, would they take power to restrict the issue of rupees at currency offices, leaving themselves still with quite a substantial amount of silver, which would be added to, if the price of silver enabled further purchases to be made. This would naturally have led to an institution of schedules, and the Government would have had to discriminate between the uses to which the rupee could be put. They thought that confidence in their notes would be restored by seeing

the Government physically disbursing rupees to certain people to certain payments. Moreover, the inconvertibility was only transient; they hoped that, if restrictions had to be applied, a time would come when they could safely abolish them. The development of banking in India would lighten their task, and they would gradually get nearer and nearer the normal conditions in course of time.

Criticism of these Proposals by Sir Lionel Abrahams and others.—These proposals were vigorously criticised by Sir William Meyer, Sir Lionel Abrahams, and others. The critics do not seem to have grasped the essential difference between total inconvertibility and the partial inconvertibility which the Government of India advocated. Nor did they take into consideration the peculiar financial position of the Government, the serious difficulties they had passed through, or the reasons for the step they had proposed. An objective view of the scheme was lacking; and there was a lack of a conceptual grasp of the fundamental elements of the problem. Both Sir Lionel Abrahams and Sir William Meyer's criticisms were, however, marked by great acumen and in sight. Sir Lionel Abrahams' mellow wit, his shrewd thrusts at Gubbay, and his brilliant repartees illuminated many a dark passage in the progress of the Committee, and the dreary proceedings were enlivened with occasional glimmerings of wit and humour. But it was an unequal fight, and the doughty champion of the Government convinced neither the members of the Committee, nor the majority of witnesses.

Inconvertibility would have meant a considerable change in the habits of the Indian public with regard to currency. The note had become popular and large additional issues, made with some misgivings during the war have remained in circulation; but the absorption figures show that during the same period the demand for metallic currency has also been considerable. Even in England the sudden cessation of the issue and use of coin of all denomination above 10*d.* would be unpopular; in India the population is still less educated and an issue of a large amount of notes would have produced serious effects in the country. The Government of India's proposal would probably have secured fixity of exchange between the rupee-note and the sterling in much the same manner as the reduction of the fine silver in the rupee and subject to the same qualification. That is to say, the exchange value of the rupee-note could be prevented by the free sale of Council drafts from rising above the adopted rate, and it could be prevented from falling below the rate, provided that the consequences of inconvertibility predicted by the Comptroller of Currency in his Memorandum of 23rd January 1918 did not occur in a form so intense and prolonged as to cause a very protracted transformation of India's usual favourable balance of trade into an unfavourable one. But the fixity of exchange thus attained would be in some respects incomplete and unsatisfactory. Even if the price of silver remained at or near to the parity corresponding to the adopted rate of exchange, it is probable that (since rupee-notes could not be obtained from the Government for silver rupees, but not silver rupees for rupee-notes)

the note would circulate at a discount as compared with coin, as was the case at times during the war. If the price of silver rose above the parity, the discount would be greater, *e.g.*, if the adopted parity were 1*s.* 6*d.* and silver stood at the parity of 1*s.* 8*d.* the exchange between notes and silver rupees would, on a purely arithmetical basis, be Rs. 100 (silver) = Rs. 111½ (notes). It may be argued that this would be of no consequence because the rupee-note would be the money of business and practically the standard money of India, while the silver rupee would be a sort of luxury coin. It is no doubt true that, as the note and coin came to be regarded more and more in this light, the difference between their values would decrease in importance and might in course of time cease to be of any importance whatever. But many years would probably be required for this. In the interval there would be a risk of disturbance of trade through the rupture of the long familiar relation between the rupee-note and the silver rupee; and the stabilisation of exchange would to this extent be imperfect.

What would have been the Effects of their Scheme?—If silver rupees went to a premium, in accordance with Gresham's Law, they would disappear from circulation. Some might be used by silversmiths; some exported; some perhaps stored in hoards. Five years of inconvertibility would reduce enormously the number in existence. When silver fell to what the Government of India call [1] a reasonable price, convertibility could not be restored

[1] § 7 of Telegram of 14th April 1919.

without providing for the wastage of the period of inconvertibility and for a current and future demand intensified by the memory of the past. It does not seem unreasonable to doubt whether convertibility, if it ceased for a few years, could ever be restored.

Thus inconvertibility, whenever it might be adopted, would involve the risk of general disturbance, and the probability that, if adopted as a temporary measure, it would prove to be permanent. Once inconvertibility is declared, it would be difficult for the Government to retrace their steps if the silver position improved. Resumption of specie payments would, in these circumstances, be attended by a rush for encashment of notes to ensure against the next dose of inconvertibility which would be anticipated. Faith in the note issue would be completely shaken, and confidence would be very difficult to restore. Even if the Government adopted an "in and out" policy *qua* inconvertibility there would be constant instability in regard to the ratio between rupees and paper money. The latter would be at a discount in the inconvertibility period, which would tend to disappear when convertibility conditions applied. Assuming, then, that inconvertibility if adopted would have to continue for at any rate a lengthy period, the economic results would obviously be serious depreciation of the paper currency as compared with the metallic rupee (even the limitation of encashment in 1918 to the obligatory currency centres brought about some tendency to this), and eventually the hoarding and melting of rupees, for prohibition of melting would be very difficult to enforce. There would, then, be the disappearance

from circulation of the "King's Rupee," described by the Government of India in § 5 of their Telegram of the 14th April, as the "symbol of British rule firmly rooted in the habits and feelings of the Indian people." Small silver coin would also be hoarded, as happened, for instance, at Simla during the currency crisis of 1918, when rupees were scarce there. Depreciation of the paper currency would cause a rise in prices, which would aggravate internal discontent and react prejudicially on India's foreign trade. There is also the danger, always present in countries in which the paper currency is inconvertible, that the Government when it found itself in a position of temporary embarrassment would be tempted to issue fresh uncovered notes, and thus debar the paper currency still further.

Advantages of a Steady Exchange.—The right solution of the problem depends upon our conception of the importance of the stability of exchange. The effects of the fluctuation of exchange during the years 1870-99 have been traced in the previous sections. The evidence derived from the data for the period shows that the volume of trade was not restricted, and that the instability of exchange is not an essential condition for the current operations of trade. There is no doubt that a steady ratio between the rupee and gold is convenient both to the Government of India and the Indian people. It enables the Government to know in advance the total amount required to discharge its sterling obligations in any year. It saves merchants from the risk of loss, and the cost of insurance through that loss, and it draws foreign capital into the country. This is a great practical convenience. But mere

stability cannot give steadiness in the purchasing power of money. There can be no doubt that from 1873-93 prices in India varied much less than sterling prices. There are many instances including that of India herself, before the closing of the mints, which show that trade had flourished with the fluctuating exchange. This was the crux of the problem, and the proposals of the Government of India would be incomprehensible without taking into account the fundamental conception upon which their scheme was ultimately based. They regarded stability as the essential factor in the mechanism of Indian exchange and thought that inconvertibility of the note issue was the only means whereby stability could be attained.

Stability does no doubt give the most healthy condition for production and trade; it is a necessary condition for the free investment of foreign capital in India, as well as for the protection of capital already invested; but it can be far too dearly purchased at the cost of inconvertibility. As Sir Lionel Abrahams pointed out, "stability of exchange is an advantage for which it is worth while to pay a great, but not an unlimited, price." He attempted to show that in the period from 1873-98, when there were violent fluctuations in exchange India had a time of very great commercial prosperity. He did not deny that it is an advantage both for business people and for private individuals, but he argued that business can be carried on, and carried on prosperously, with an unstable exchange, more specially if there is co-operation on the part of all the institutions that operate in connection with Indian trade.

Sir Lionel Abrahams' Scheme.—Under Sir Lionel Abrahams' scheme the Secretary of State would go on buying silver so long as the rise in exchange does not threaten to lower Indian prices to the extent of interfering with the free sale of her products to other countries. He would, of course, take the natural precaution of temporarily standing out of the market, as far as possible, when the price seemed to be temporarily raised by a spurt of buying from other quarters, *e.g.*, China. He would from time to time vary the price of Council drafts, in correspondence with what appeared likely to be any comparatively lasting change in the price of silver, thus continuing the practice which he has followed during the war. With the help of the ample information easily obtainable through the Department of Statistics and from the mercantile public, the Secretary of State and the Government of India would watch the exchange closely, so that when it becomes clear that the rise threatened to lower Indian prices to the extent of interfering with the free sale of her products to other countries, further purchases of silver may be stopped. If and when they became manifest, the purchase would cease; and if they did not pass away so as to allow purchase to be resumed, inconvertibility would ensue. Thereafter the rate for the sale of Council drafts, *i.e.*, the rate of exchange between sterling and the rupee note, would be fixed on a consideration of the circumstances of the time—probably at the rate which had prevailed when the purchase of silver finally ceased, or perhaps somewhat lower. This policy would differ from that recommended by the Government of

India in that it would maintain convertibility so long as it was compatible with India's larger economic interests, and would abandon it only in order to avoid substantial evils of which the threat had already appeared. It would therefore be sound in itself and capable of intelligible explanation and defence to the great population in whose interests inconvertibility, if it became necessary, would be adopted. As regards the probable difference in the course of events according as the policy now recommended or that proposed by the Government of India, is followed, it is obviously impossible to predict with confidence. The price may settle down in the neighbourhood of the parity of 1*s.* 8*d.* in which case the maintenance of convertibility would be compatible with both policies. Or the price of silver may rise to, and remain at, the parity of (say) 1*s.* 10*d.* without injuriously affecting Indian trade, in which case the policy now recommended would avoid inconvertibility while that of the Government of India would bring it on. Or the price of silver may conceivably at an early date rise to such a height that inconvertibility for the sake of stopping a rising exchange may be deemed safer. Sir Lionel thought that it would be practicable in the next few years, if exchange remained unsettled, for the banks and mercantile communities to make arrangements, such as were common certainly before 1893, and probably, in more recent years as well, to mitigate the disturbing effect of instability on the growth of foreign trade. The Secretary of State could improve on his present practice, by being prepared either to make with banks and other remitters contracts for forward exchange on India or to

sell usance drafts on India. His rates would be adjusted so as to include what would in effect be an insurance premium against the possibility of a rise in exchange. If at any times he was receiving too many applications for forward exchange, under this scheme he could, if he thought, stiffen the rate. Sir Lionel confessed that the Exchange Banks were unwilling to make exchange contracts forward, but he thought that this difficulty could be avoided by the Secretary of State for India making forward contracts with the bankers, just as he wants the bankers to make forward contracts with merchants. The covering of exchange, simultaneously with the making of contracts, for purchase and sale would not be a regular feature of Indian business; but if it can be done then instability would have lost most of its terrors. The India Office would have to be very liberal in this matter, because actually it does not much matter to the Secretary of State, if he is prepared to take this risk, and to cover it by a sort of insurance premium which would be included in the rate at which he sells, whether he sells 2 months, 4 months or even 6 months forward. The insurance premium which would be expressed in thirty-seconds of a penny in the rate would be a little heavier for the more distant period. To the objection that the insurance premium would represent what in the minds of the Secretary of State's advisers is a measure of their anticipation of the future course of silver prices, Abrahams replied that they would not be able to forecast the future of silver. They would as a matter of precaution suggest the inclusion of some suitable fraction of a penny per rupee so that there may be something to get

against the loss that would occur if, after selling forward exchange, he had to deliver with the rupee at a higher price. The justification for this part of the policy would be that, if Indian trade was suffering through the difficulty of making forward exchange contracts, the Secretary of State would most reasonably help trade by taking that particular risk on his own shoulders, and might very properly at the same time get some *quid pro quo*, though he would have no certainty that the premium would cover the loss. In other words, if exchange went up he would sell a certain number of rupees at a loss; if it remained steady he would have pocketed so many lakhs of thirty-seconds of a penny and would be so much the better off. There is really little difference in substance between this scheme and the scheme for guaranteeing the Banks over-bought position which was introduced during the war. Sir Lionel claimed this advantage for it that it would be open to a rather larger number of persons; and if it were applied, when applications for Council drafts were accepted from all comers, every one would be able to get his measure of advantage from it. These drafts would probably be limited in amount, but figures of sales or of contracts would be published. The publication of these figures might give an indication to the speculator of the requirements of the Government of India; but it would be very difficult to calculate beforehand the amount of demand for silver to meet certain requirements expressed in the form of rupees. In one week, for example, the Government of India might be meeting, say, 100 lakhs of immediate drafts and 50 lakhs of

drafts sold under the scheme which might be maturing simultaneously, and yet, supposing there was a brisk import of Manchester goods, the currency figures of the week might show either no considerable absorption, or even a return from circulation. To the objection that the knowledge of these forward engagements on the part of the Government of India must, to some extent, influence the price of silver, Sir Lionel replied that it is much more influenced by immediate facts or by known facts. He asserted that the silver market is a much less speculative market than is often assumed in the discussions which take place on Indian currency. His scheme aimed at following the price of silver upwards by steps, so long as it continues to rise until a time "would come at which we should be able to say, with a great deal of confidence and with safety, that there was no further occasion for raising the rupee." He was doubtful as regards the policy of fixing the exchange value of the rupee at 2*s.*, and informed the Committee "If I were you, listening to my conjectures, I should be inclined to say 'what is the good of your conjectures? How can you tell how Indian trade is going to be affected, say in 1920 or 1921, by the operation of a rate of exchange which does not now exist, and of which we have no experience?' I think the whole wisdom in this matter is not to stray in advance of experience, and form conjectures of what the effect, say, of a particular rate of exchange is going to be, unless, of course, you are forming an adverse opinion of some scheme that is obviously absurd; but that is not the case that now arises." Sir Lionel's scheme was confessedly a temporary measure, and aimed at avoiding

the inconveniences of exchange fluctuations. He was opposed to any declaration by the Committee in favour of a particular rate, as he thought that the time was not ripe for permanently fixing the exchange value of the rupee. In his opinion the silver position was too unsatisfactory to enable the Committee to formulate specific proposals for a permanent fixation.

The Decision of the Currency Committee.—The Currency Committee admitted that the circumstances were abnormal, and that it was extremely difficult to foresee future developments, but they thought that in their terms of reference they were directed to make recommendations with a view "to ensuring a stable gold exchange standard," and they conceived it to be their duty to submit proposals which did not aim at securing stability. In their opinion "the postponement of a decision which is synonymous with the continuance of the existing uncertainty would be open to serious criticism, and would entail the prolongation of Government control over exchange and over the import of the precious metals into India."

Criticism of this Decision.—It is unfortunate that the terms of reference should have been regarded by the Committee as obstacles to the scientific investigation of the problem. The "wait and see policy" was rejected, not because it did not contain a substratum of truth, but, because it did not come within the purview of the Commission. The statement of the Commission that "the postponement of the decision would entail the prolongation of Government control

over exchange and over the import of the precious metals into India" ignored the history of fluctuations during the last thirty years of the nineteenth century. It is as absurd to connect instability of exchange with the prolongation of Government control, as it is ridiculous to regard a fixed exchange as a panacea for all evils. Mere fixity of exchange is an absolutely barren concept. It must be based upon a thorough analysis of all the factors that go to make up a problem. If the terms of reference obliged the Committee to restrict themselves to recommendations with a view to ensuring a stable gold exchange standard, they ought to have made this point clear to all the witnesses. Mr. Gubbay raised this point in connection with Sir Lionel Abrahams' proposals. Terms of reference are, however, never satisfactorily drawn up. As Sir Lionel pointed out, "Terms of reference are very troublesome things sometimes. You have to make a great effort to get rid of your hump of reverence; you must not revere terms of reference too much." The Committee seem to have followed an exceedingly strange policy. They patiently heard the "very able evidence of Sir Lionel Abrahams," and went into the minutest detail of his scheme. But they finally reported that the "terms of reference," among other things, prevented them from entertaining his proposals. It is hardly necessary to point out that a great amount of time would have been saved if they had this point sufficiently clear, and excluded all schemes that did not aim at "ensuring a gold exchange standard."[1]

[1] Question 1188, Minutes of Evidence.

Should Rupee be linked to Gold or Sterling?—Another important problem intimately connected with the stability of exchange was concerned with the relation between sterling and silver. Before the war the convertibility of sterling into gold was complete. Sovereigns and half-sovereigns were in circulation, and Bank of England notes could be exchanged without any difficulty for gold. The discussions on Indian exchange had hitherto been carried on on the assumption that gold and sterling were interchangeable terms. The question of exchange was merely a question of the price of money in one place, as expressed in the same money in another place, with fluctuations governed by the supply and demand, and limited by the cost of sending money from place to place. This limitation did not imply that supply and demand ceased to govern the market, but merely that at a point supply could be increased to meet any demand by the despatch of currency. In theory the exact gold equivalent of an English sovereign is 25 francs, 22 centimes, and the cost of shipping is about 8 centimes, so that if the price of English sovereign rose above 25 francs, 30 centimes in Paris, the exchange dealers would immediately ship gold to London and sell in Paris the English money which they would get for their gold. The London-New York exchange followed the same law, and the gold sovereign was equivalent to 4·8666 dollars. During the war, however, price of sterling was divorced from that of the dollar, and though artificial measures were taken to stabilise it, the exchange rapidly deteriorated when control was withdrawn in March 1919. The depreciation continued the following year.

Nearly all the countries, unable to cover the expenses of the war from their national current revenue, find their balance-sheet burdened with an enormous volume of both internal and external debt, the amount of the latter being still undetermined in the case of Germany. The total external debt of the European belligerents converted into dollars at par amounts to about 155 milliard dollars compared with about 17 milliard dollars in 1913; while the Government expenditure of these belligerent countries has increased in proportions which vary between 500 and 1,500 per cent., the present figures amounting to between 20 and 40 per cent. of the total national income. The effects of these changes are visible in the movements of exchange. In every country the purchasing power of the national currency is diminished, and the cost of living in terms of that currency has changed. With few exceptions, neutral as well as belligerent countries have suspended the gold basis of their currency; and even where the gold basis has been retained the purchasing value of the currency has declined, for the value of gold itself in terms of commodities has diminished to about one-half. The result is that there is a divergence between the pound sterling and the sovereign. One hundred ounces of fine gold can be coined into 425 sovereigns, but at the quotation on 19th of December 1920, sterling was equivalent only to 3·49 dollars as compared with its par value of 4·8666 dollars. Thus one pound sterling (paper) is equivalent to ·72 of the sovereign gold, a discount of 28·2 per cent. or conversely the sovereign (gold) is worth 1·39 sterling (paper), a premium of 39 per cent. The sterling price of silver

accordingly must take account of the state of the London-New York exchange, and any rise or fall in that exchange would be reflected in the London price. A fall in the sterling exchange would consequently raise the London quotation for silver. If the London-New York exchange fell 10 per cent., the sterling quotation for silver would, *ceteris paribus*, react in proportion, and assuming that the price stood at 63*d.* before the fall in American exchange, it would rise over 69*d.* as the direct consequence of the fall in exchange. If under these conditions the Secretary of State wanted to purchase silver for coinage without loss it would be necessary for the rupee exchange to be raised to about 2*s.* 2½*d.* Hence it becomes necessary to consider whether the exchange value of the rupee should be linked with reference to gold or sterling. A very able Memorandum by Mr. F. H. Lucas, Financial Secretary, India Office, outlined a scheme for the fixation of the exchange value of the rupee in terms of *Gold.* He proposed that the exchange value of the rupee should be fixed at Rs. 11 to the gold sovereign. The same rate was to be the internal ratio in India and the mint par for free coinage of gold at Bombay. As a preliminary step to alter the legal internal ratio he suggested that sovereigns in India tendered up to a fixed date should be redeemed at Rs. 15; while the bazaar premium on gold was to be concurrently brought down to the new legal parity by continued sales of bullion to the public by competitive tender. The Indian Government was to continue and expand all valuable means of economising metal (including gold) in circulation:—(*a*) by popularising notes, restoring as soon as

possible the fullest facilities for ready encashment; (*b*) by holding gold as far as possible in Central Reserves and meeting demands for coin as far as possible in silver; and (*c*) by stimulating banking and the investing habit among the people of India.

Its Advantages.—The stabilisation in *sterling* would involve a great element of risk, and the rate chosen would subsequently have to be altered again by administrative action either upwards if sterling again falls seriously, or later downwards when sterling returns to par. Such stability would be at best a precarious stability only and would be seen to be so by the public. It would be vitiated from the start by an element of gamble on the future of sterling which none can foresee. It would, moreover, prejudice the chance of maintaining convertibility as the Government price of silver would be subject to sterling fluctuations. It would also prevent the demonetisation of the sovereign and its free coinage in India, at a new internal ratio corresponding to the internal exchange ratio, since, while the sterling ratio was fixed, the gold ratio would be variable.

Hence sovereigns would be issued in encashment of notes only at the present legal ratio which would involve their becoming token coins, or at some other arbitrarily fixed token value, which would necessitate first redeeming all the sovereigns now out at Rs. 15. Moreover, a token coin of any value would necessitate the continuance of restrictions on the import of gold. Finally, it would mechanically link the standard of value and the level of prices in India to the fluctuating fortunes

of the sterling. Mr. Lucas claimed that his scheme will:

(1) Provide automatically for a return to a stable sterling rate, when sterling recovers to par, and so avoid the necessity for any further tinkering by administrative order, which is in itself a great evil and cause of public uncertainty.

(2) Provide as fair a chance as any other alternative, short of full silver standard, of maintaining specie payment of notes, if possible in both metals, or, failing adequate supplies of silver at the parity chosen, in gold.

(3) Equate the internal with the external ratio between the rupee and gold, and both with a mint par at which the Bombay mint could be opened to the free coinage of gold.

(4) Impose no restriction on the supply of unlimited exchange, other than the natural tendency of a high rate of exchange to limit the demand for exchange.

(5) Provide a corrective for high prices in India, which would protect the masses of the poor in India from a part of the evils afflicting the rest of the world as a consequence of the war.

The Scheme criticised.—Mr. Lucas severely criticised the school which was in favour of maintaining the arrangement of what may be called the sliding scale. He thought that would be a crushing disappointment to all those groups interested in trade and commerce which have been looking forward to some sort of certainty in business as a result of the currency Committee. His criticism of this policy is neither just nor well-informed. It would be easy to show that Sir Lionel Abrahams'

scheme would have worked well, if it had been modified in certain respects. Mr. Lucas was very desirous of eliminating uncertainty, but he himself introduced a brand new element of uncertainty into business. His statement that Indian prices would be reduced by the fixation of rupee on gold instead of sterling basis because gold is going to appreciate as compared with the sterling, is not based on an exhaustive analysis of price levels in India. It is as difficult to calculate beforehand changes in the value of gold, as it is impossible to control the vagaries of the London-New York exchange. His defence of the theory on the ground that a fall in prices should be an essential factor in all the investigations into currency problems, was no less untenable than Mr. Keyne's statement in considering at some remote date the possibility of putting down the rupee prices rather than its relation to a particular metal as the determining factor. It is as impossible to say that particular change in the value of the rupee will produce a particular scale of prices, as it is difficult to say what particular scale of prices is the best when the interests of all classes have to be taken into consideration. The prices of jute would, for example, affect only a small percentage of population, and no permanent harm would be caused to the community by a rise or fall; it is totally different with regard to wheat and rice. A rise in the price of wheat would involve in its train not merely the price of wheat, but also all the substituted grains, the millets, the rice and all those grains which are part of the sustenance of India.

Mr. Lucas assumes that if sterling depreciates in relation to gold the rupee therefore also depreciates in

relation to gold, and in so far as the gold price of commodities remains constant, it means a depreciation of the rupee in terms of commodities. But the prices of some commodities are fixed mainly by Indian conditions, while those of other commodities are fixed mainly by the demand in sterling countries. The question is by no means so simple as it looks, and currency arrangements are not the only factors that determine the level of prices in a country.

Other disadvantages of the scheme need not be mentioned here. The bulk of India's trade is with sterling-using countries rather than with countries upon an effective gold basis. Perhaps Japan and the United States are an exception; but the exports to these countries in 1918-19 amounted only to 25 per cent. of the total exports of India, while the import trade from them was 30 per cent. of the total. On the other hand, the trade with the British Empire (excluding those portions which do not use sterling) amounted to 40 per cent. for exports and 48 per cent. for imports. The scheme would do away with the fixity of exchange for the most important section of India's trade; and it would place serious obstacles to the development of trade within the Empire rather than outside it. The growth of Japanese trade during the war has been astonishingly rapid, and the scheme will facilitate this process.

The fixation of exchange value in Gold possesses, however, solid advantages. It will remove all the inconveniences of a depreciated currency, stabilise the rupee, reduce smuggling and illicit coining, and free the country from irritating restrictions on trade. The

Currency Committee declared that "the balance of advantage appears to us for these reasons to be decidedly on the side of fixing the exchange value of the rupee in terms of gold," and recommended that "the stable relation to be established between the rupee and gold should be at the rate of 10 rupees to one sovereign"—not sterling—"or, at the rate of one rupee to 11·30016 grams of fine gold both for foreign exchange and for internal circulation." Both their recommendation and defence were unfortunate. They decided at a time when every country was suffering from an inflation of credit; when the vicious spiral of constantly rising prices and constantly increasing inflation were disorganising all business, dislocating exchange, and progressively increasing the cost of living and labour unrest. Their recommendations would have been valuable if normal conditions had been restored, if all the countries had reverted to, or established, an effective gold standard, and stabilised the value of gold. As the Commerce and Exchange Committee of the International Financial Conference at Brussels, 1920, put it "Attempts to limit fluctuations in exchange by imposing artificial control on exchange operation are futile and useless." In so far as they are effective they pacify the market, tend to remove natural correctives to such fluctuations, and interfere with free dealing in forward exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Running right through their argument is the assumption that the price of silver would be maintained

at a high level, and that the Pittman Act would be effective in preventing a fall.

Criticism of their Proposals.—They did not contemplate the possibility of a fall in its price, nor do they seem to have been conscious of the innumerable factors that were constantly disturbing the equilibrium of foreign trade. The fluctuations in exchange since December 22nd, 1919, the date on which they signed their Report, throw a searching light upon the practicability of their proposals. The exchange value of the rupee on the 22nd December stood at 28½*d.* In January it never went beyond 28¼*d.*; in February it fluctuated between 27½*d.* and 33*d.*; this was the highest limit during the month. In March the average seems to have been 29*d.*; April witnessed an unusual uniformity, for, with the exception of the first six days, it was exactly 27½*d.* for the rest of the month; in May the average was slightly over 25*d.*; while in June considerable variations manifested themselves; for example, on the 1st it stood at 25¼*d.*; the highest for the month, on 30th it was barely 21*d.* The same remarks apply to the month of July. The highest figure was 23*d.* on the 28th of July, and the lowest 20¾*d.* on the first three days of the month. From July the rupee took a downward course, and only once did it reach 23*d.*, the highest figure for the month occurring on 29th. There was no improvement in September. Variations were frequent, *e.g.*, it was 22*d.* on the 2nd; 22⅜*d.* on the 15th; 21¾*d.* on the 21st; and 22*d.* on the 27th. In the first four days of October, its value stood at 21*d.*, and this figure has not been reached yet. In November, the highest point reached was on the

6th and 7th when the rupee stood at 20*d.* December has seen no improvement. It started well with 18¼*d.* on the 1st, but went down to 16¾*d.* in the second week of the month. During the last two weeks of December, 1920, it rarely exceeded 16¾*d.*

Why their Proposal proved impracticable.—The above sketch brings out clearly the difficulty of the problem. Exchange is still wobbling, for the simple reason that normal conditions have not been restored. Indian currency problems are intimately connected with the problem of International Exchange, and no proposal would have any effect unless it took into account the innumerable factors that are modifying the financial and monetary relations of the world.[1] The Report of the International Financial Conference at Brussels, 1920, lays bare all the elements that are fermenting beneath. Thirty-nine nations placed before the Conference a statement of their financial position. Their import may be summed up in the statement that, three out of every four of the countries represented at this Conference and eleven out of twelve of the European countries, anticipate a budget deficit in the current year. Every country finds its balance-sheet burdened with an enormous volume of both internal and external debt, while the total external debt of the European belligerents in 1920 was nine times greater than that before the war ; and their expenditure has increased in proportions which vary between 500 and 1500 per cent. These figures show clearly that we have

[1] For the effects of the dislocation of international exchanges on Indian exchange, and the causes of exchange fluctuations, see Chapter IV, Exchange Fluctuations.

not reached the normal period yet; and though the restoration of the pre-war standard is impossible, it can be said, with a certain amount of assurance, that the severity of the malady and the effects which it has produced on the body politic would be considerably mitigated, in the near future. This is bound to take some time, and it would have been better if the Currency Committee had acted upon Sir Lionel Abrahams' advice, and adopted his scheme. They analysed the effects of the fixation of the exchange value of the rupee at 2*s.* and showed (*a*) that it would lower prices; (*b*) that the Indian trade would not suffer any permanent injury from the fixing of exchange at a high level; (*c*) that the development of Indian industry will not be seriously hampered by a high rate of exchange; (*d*) and lastly, there would be a saving of 12½ crores on the Home charges. They concluded that "the material interests of India are not likely to suffer from the fixing of a high rate of exchange for the rupee," and recommended the fixation of the exchange value of the rupee at 2*s.* These recommendations were carried into effect by the Government of India, and Act No. XXXVI of 1920; and substituted the word "ten" for the word "fifteen," in Section 11, of the Indian Coinage Act of 1906, and repealed the Gold Ordinance of 1920. Some of the proposals formulated before the Currency Committee deserve a mention here, as they contain several novel features.

Proposals for the reform of the coinage.—(*a*) *Rupee of Lower Silver Content.*—It was suggested that a new rupee should be issued having a lower silver content than

the present coin. If the existing standard of fineness or the weight were sufficiently reduced, it would be possible to fix the exchange value of the rupee at any level that might be chosen, and to maintain its token character however great the rise in the price of silver might be. The fineness of the present rupee which is known to every goldsmith and silversmith in India has remained unaltered since 1835, and its use is so firmly rooted in the habits of the Indian people as to have given it the character of a standard weight. A new rupee of lower silver content would drive other rupees out of circulation, and very large quantities of the new rupee would be required to meet the demands of metallic currency.

(*b*) *Proposal for a New 2- or 3-Rupee Coins with a smaller amount of Silver.*—The Indian Merchants' Chamber and Bureau made an interesting suggestion with regard to the issue of a new coin of the denomination of 2 or 3 rupees, containing a much smaller amount of silver. All new demand for currency in India should be met either by the issue of this new coin which had a much smaller amount of silver in it, or by the issue of gold notes against which gold will be deposited in India. This proposal possesses all the defects and none of the merits of the preceding proposal. Rupees would disappear from circulation before the competition of the new and baser coins, and a 2- or 3-rupee unit would be inconvenient. Sir Vithaldas Thackersay suggested a much larger coin, say, a 5- or 3-rupee coin, as he thought that coin is better than paper. He thought that it would be a kind of metallic note, with all the advantages, and none of the disadvantages of the paper currency. A 5-rupee coin

would be much more inconvenient even than a 2- or 3-rupee coin.

(c) *Nickel Coins.*—It was also suggested that a nickel-rupee should be issued, either alone or in association with 2- or 3-rupee coins of lower proportional silver content than the existing rupee. The experience which the people gain with the eight-anna nickel coin would help a good deal towards realising this project. If the eight-anna nickel coin proves a failure, then the one-rupee nickel coin is not likely to succeed. There is the further danger of counterfeiting, and though nickel is one of the most difficult metals to coin, a nickel coin could be minted outside by anybody who has facilities approximate to those of the mint. It would, moreover, drive rupees out of circulation. The small coin has come to stay and there is no more remarkable feature in the history of Indian coins during the war than rapidity of its absorption. The following are the figures for the years 1913-14 and 1918-19 in thousands of rupees:—

Year.	4 annas.	2 annas.	1 anna.	¼ anna.	Total.
1913—14 ..	15,38	12,89	19,91	7,95	56,13
1918—19 ...	116,34	94,75	46,82	19,62	277,53

Import and Export of Gold.—Under the Gold Import Act all gold imported into India had to be tendered to Government at a specified rate based on the exchange value of the rupees and the premiums on gold. The main object at the present time is the utilisation of all available metallic resources as a medium of exchange. It would, in other words, aim at the remonetisation of sovereign, now temporarily demonetised in India.

There is reason to believe that the run on the rupee would have been avoided if gold coins had been kept in circulation. It would have relieved the pressure on silver, and mitigated some of the hardship from which some sections of the community are suffering at the present time. The issue of gold coin by Government has been looked upon in certain parts of India as an indication that the Government were in difficulties regarding the provision of metallic currency; and the Currency Committee thought that, "in order that gold currency may be available when required, it is important to provide facilities in India for the conversion of gold bullion into legal tender coin." They recommended the reopening of the branch of the Royal mint at Bombay; and advised the removal of the prohibition on the import of silver as soon as possible, and the prohibition of import of silver.

The Import of Gold into India.—The principles of this policy were enunciated by the Chamberlain Commission "The extent to which India should use gold must, in our opinion, be decided solely in accordance with India's own needs and wishes, and it appears to us to be just as unjust to force gold into circulation in India on the ground that such action will benefit the gold-using countries of the rest of the world, as it would be to attempt to refuse to India facilities for obtaining gold in order to prevent what adherents of the opposite school have called the drain of gold to India."

India has a right to receive payment for her dues in gold as well as in silver, and it would be most mischievous and quite inconsistent with the declared policy of India's

future status within the Empire to force her to inconvertibility by denying her gold supplies. This does not exclude the possibility of some form of control over the import of gold for a short period. The Government may be, and was, during the war, perfectly justified in imposing restrictions with a view to prevent such gold supplies from being frittered away. India's normal demand for the industrial arts, and for the satisfaction of the social customs of 315 millions of people was met before the war by about 10 millions of gold annually. Every country in the world uses gold and silver for industrial and domestic purposes, but the Indian demand for precious metals, for precisely the same purposes, is perverted into senseless hoarding, specially when the history and conditions of India would justify a far larger gold absorption than the western nations, with their general literacy and highly organised credit systems can claim. Sir Lionel Abrahams advocated (*a*) the continuance in force of the Gold (Import) Act; (*b*) the reduction of the market price of gold in India, by sales of gold to the public, to the equivalent of Rs. 15 to the sovereign and its maintenance at that rate; and (*c*) the continuance in force of the existing statutory ratio of Rs. 15 to the sovereign.

Arguments for the proposal.—Presents of gold and silver ornaments are enjoined by custom both amongst the Hindus and the Muhammadans, and it finds its justification mainly in the fact that a woman, whether Hindu or Muhammadan, who possesses gold or silver ornaments regards them as her personal property. The precious metals are also regarded as a store

of value, and this habit cannot be eradicated until banking and investment facilities have been extended. India as a creditor country has a right to demand payment for her produce in the form most acceptable to her, and gold imports alone can secure to her in combination the three advantages of unrestricted exports, a currency freely convertible into metal on demand, and a stable exchange on the basis of a gold standard. It is the unquestioned right of a creditor country to take at its discretion as much gold as its population collectively desires in payment for its trade balance, and so long as foreign nations continue to take her produce, India will be in a position to demand gold, in so far as she may prefer payment in this form to the import of commodities, or the investment in foreign securities of credits due to her.

Reverse Councils.—The Committee agreed with the recommendation of the Chamberlain Commission that the Government of India should make a public notification of their intention to sell in India bills on London at a price corresponding to the gold export point, whenever they were asked to do so, to the full extent of their resources. In order to avoid the inconvenience resulting from the necessity of consulting the Secretary of State before offers of reverse remittance are announced, the Committee recommended that the Government of India should be authorised to announce, without previous reference to the Secretary of State on each occasion, their readiness to sell weekly a stated amount of Reverse Councils (including telegraphic transfers) during periods of exchange weakness. The rate will, as in the past, be based on the cost of shipping gold from India to the United Kingdom.

The Government of India accepted these recommendations "without qualification,"[1] and regarded them as being substantially on the lines which they had themselves recommended in October 1919. Mr. Hailey sounded a note of caution in his statement that "certain of the Committee's recommendations may be the subject of discussion or legislation;" but he was firmly convinced of the utility of selling Reverse Councils with a view to maintaining the stability of the exchange. Unfortunately, "the export trade at the time was not urgently calling for finance and the uncertainty as to the future led a number of remitters to take advantage of the 2*s.* 4*d.* rate, then prevailing."[2] A demand for sterling drafts arose, and during January Reverse Councils to the extent of 5½ millions were sold. Misfortunes never come singly, and just about the time the Report was published the dollar-sterling exchange took a further downward plunge; this necessarily raised the exchange value of the rupee; the demand for Councils assumed unusual proportions, and the Exchange Banks could have absorbed considerably more than the £11 million of Councils which the Government sold during February 1920. That the speculators and profiteers were not slow to take advantage of the facilities offered by the Government was admitted by Mr. Hailey himself; but this does not disprove the soundness of the principle upon which the sale of Councils is based. For the essence of the Gold Exchange standard is mutuality. Unless rupees are convertible into sovereigns, and a definite rate of exchange is consistently followed, stability would be

[1] *Vide* Financial Statement, 1920-21, pp. 2, 3, 4; 230-48.

[2] See Financial Statement, 1920-21, pp. 2-3.

attainable only by letting exchange be washed up by the tide of rising silver prices till it is flung above high water mark. This was the policy that had been forced upon the Government of India during the war, and which received the support of Sir William Meyer, Sir Lionel Abrahams, and others. But it was rejected by the Committee after careful consideration; and the Committee's recommendations having been accepted both by the Secretary of State and the Government of India, it was the duty of the Government to carry their recommendations into effect. The principle had been suggested as early as the Fowler Committee; the Government of India had acted upon it during the crisis of 1907-08,[1] while the Chamberlain Commission had recommended its applications in times of crisis. Mr. Hailey's policy is theoretically sound, for the conception of the Gold Exchange standard involves the assumption that the Government should provide for remittance, not only from London to India through Council Bills, but also from India to London through the sale of Reverse Councils.

The Sale of Reverse Councils from 1907 to 1920.— The sale of Reverse Councils from 1907-08 to 1918-19 was as follows:—

Years.	£
1907—08	70,000
1908—09	7,988,000
1909—10	156,000
1910—11	.....
1911—12	.....
1912—13	.....

[1] See the section on the crisis of 1907-08.

Years.	£
1913—14	.....
1914—15	8,707,000
1915—16	4,893,000
1916—17	.....
1917—18	.....
1918—19	5,315,000
1920—21	24,544,000

That the difference of about 3*d.* in the rupee between the rate at which Reverse Councils were sold and the market rate acted as a stimulus, and incited many people to make their remittances to England as quickly as possible, rather than spread them throughout the year as they would otherwise have done, was admitted by the Finance Member himself. It is not, however, an essential principle of the Gold Exchange standard that there should be an exact correspondence between the rate of the Council Drafts and the market rate, for if the correspondence is complete, and no substantial difference is perceptible, Reverse Councils will not be needed at all. There is evidence to believe that people had at one time obtained allotments of Reverse Councils, and had been able to resell them at a profit of several pence in the rupee; others sent money to England in the hope that if the agitation for the withdrawal of Reverse Councils was successful and the exchange fell they could re-transfer their money at a profit. But these practices do not prove the unsoundness of the principle; they merely show the dangers to which the application, not only of this, but also of other principles, is exposed.

CHAPTER III.

The Gold Standard Reserve.

SECTION I.—THE PRINCIPLE OF THE RESERVE. RICARDO'S PROPOSALS.

The function of money in international trade is difficult to define. The conception of money as wealth, and the identification of treasure with the riches of a country led ultimately to the establishment of the mercantile system in the seventeenth century. No appreciable progress was made towards the evolution of a sounder conception of its place in the national state. Mercantilism dragged on its slow course; trade was carried along the usual lines; and industry did not feel the benumbing effect of the dominant theory, as circulation was limited, and communication difficult. The Industrial Revolution shattered the foundations upon which the crude conception of money rested; industry was reorganised, commerce was revolutionized, and the conception of money was modified to suit the changes that had been wrought in every sphere of national life. Adam Smith's merit consisted in his enunciation of the fundamental principles which regulated the place of money in international trade, and in his exposure of the fallacies of mercantilism. "The gold and silver money" said Adam Smith "which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either." He showed that if the prosperity of a nation grows, it necessarily attracts the precious metals, because a

multiplication of exchanges leads to a growing demand for money. David Hume had already shown that the exports and imports of a country will depend upon the ralative cheapness or dearness of money.[1] Ricardo developed the theory which Adam Smith had propounded, and elaborated the laws governing the movements of commodities and the counter-movements from one place to another, with admirable lucidity. He showed that an unfavourable balance of commerce leads to the exportation of money, and that the consequent scarcity of money, and its rise in value, leads to a fall in prices. The fall in price checks imports and encourages exports, so that imports show signs of falling off while exports increase. In this roundabout way money returns to the country from which it had been exported, and the current begins to run the other way until the total amount sent abroad is returned again. His elaboration of the quantity theory of money, and his theory of the automatic regulation of the balance of trade by means of variations in its value, are paralleled only by the conceptual grasp which Mill's theory of International Values exhibits.

Ricardo's Contribution to the Theory of International Trade.—Ricardo's greatest contribution to the theory of international trade may be stated in his own words. "Gold and silver having been chosen for the general medium of circulation, they are by the competition of commerce, distributed in such proportions amongst the different countries of the world as to

[1] *Cf.* David Hume's Essay on Money and the Balance of Trade.

accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter." His conception of the equation of international demand, and introduction of stable equilibrium to which, even when it is departed from for a time, there is a tendency to return, were instrumental in clearing our ideas of the vagueness which characterised discussions on monetary problems. Money came to be regarded merely as a common denominator of values, which does not itself affect them; and paper money could very well take the place of metallic money. As he explained in the "High Price of Bullion," published in 1809, "The introduction of the precious metals for the purposes of money may with truth be considered as one of the most important steps towards the improvement of commerce and the arts of civilised life; but it is no less true that with the advancement of knowledge and science we discover that it would be another improvement to banish them again from the employment to which, during a less enlightened period, they had been so advantageously applied."

He points out that where you have only metallic money it might happen that the production of gold fails to keep pace with the growth of population, in which case you have a rise in the value of gold accompanied by a fall in prices. This danger might be obviated by a careful issue of notes in accordance with the demands of society. Ricardo would prefer to abolish the metallic system altogether, and the depreciation of notes could be prevented by keeping a reserve of gold at the bank, not necessarily in the form of money, but in the form of

ingots. The bank would not be allowed to issue any notes beyond the value of these ingots. He was opposed to the free banking system, and doubted its efficacy. "In that sense there can be no excess whilst the bank does not pay in specie, because the commerce of the country can easily employ and absorb any sum which the bank may send into circulation."

The Development of the Theory.—The barter theory is modified in cases when gold is used by itself in one country and silver in the other, for the prices in each country are regulated by the quantity of metal used as currency in that country, and barter settles the ratio between gold and silver. If it is successful in preserving the equation of international demand no change will occur; otherwise an alteration of prices is needed. This is usually caused by the exportation of money from one country to another. In the present instance, however, it is impossible; and the adjustment has to be effected by some other means. The failure of the equation leaves a balance to be paid by the debtor country, which can be done by procuring a sufficient amount of the currency of the creditor country; the demand for this commodity will produce a rise in its value as measured in the debtor country's currency, that is, an alteration in the ratio hitherto existing between gold and silver. All gold prices as measured in silver, as well as all silver prices as measured in gold, are altered and equilibrium is restored.

Ricardo developed this theory in his "Proposals for an Economical and Secure Currency," [1] and suggested that foreign exchanges may be stabilized by the simple

[1] Published in McCulloch's edition of Ricardo's works.

and economical expedient of arranging that the Bank of England should sell its paper-money at a fixed gold price, and buy back the notes when desired at $1\frac{1}{8}$ per cent. below that price, the gold employed to be in the shape of gold bars or any other form that would prevent its being used as a medium of local payment. He thought that currency is in its most perfect state when it consists of cheap material, but of cheap material of an equal value with the gold which it professes to represent; and he added that a currency of this description might be equally well issued by a Government as by a Bank.[1] These proposals were favourably considered, and the law of 1819 was based mainly upon the principles which Ricardo had expounded. It provided that the Acts restraining cash payments by the Bank were to be continued until May 1st, 1823, at which date they were to cease; that between February 1st and October 1st, 1820, the Bank should pay all notes presented to it at the rate of an ounce of gold for each £4-1*s.* (the par rate being £3-17*s.*-10½*d.*); between October 1st, 1821, and May 1st, 1821, the rate should be £3-19*s.*-6*d.*; and between May 1st, 1821, and May 1st, 1823, the rate for gold bullion should be £3-17*s.*-10½*d.*[2]

[1] See Ricardo's Proposals, Chapter IV.

[2] Statutes of the Realm, Vol. LIX, p. 156; Andreades, History of the Bank of England, p. 241; Kemmerer Modern Currency Reforms. The proposal as developed by Mr. Lindsay, Deputy Secretary of the Bank of Bengal, differed from the original proposal of Ricardo in that the latter did not go further than merely to propose abolishing gold coins and substituting gold bullion as a reserve, using paper for actual circulation. The Government was to sell and buy gold, for paper, at the pleasure of the public with a slight margin between the two prices.

SECTION II.—THE DEVELOPMENT OF THE RESERVE.

Mr. Lindsay applied the theory underlying Ricardo's proposals to Indian Currency. He proposed to establish in India a gold standard without gold coin, by making the rupee currency expand and contract automatically at fixed sterling rates with the aid of the gold reserve provided by the silver clause of the English Bank Act. A careful study of the second edition of his pamphlet shows that his original design underwent radical alterations later on. He suggested that open coinage at the Indian mints should be definitely stopped; the Secretary of State (through the Bank of England) would sell Council Bills at a fixed sterling price, calculated to yield a profit over their bullion value, and settled after due consideration of all the interests concerned "care being taken in raising the rate from the current figure to the fixed price; that it is done gradually by small gradations, so that trade may not be disturbed, and no encouragement given to operate in exchange for a rise;" and that for every £10,000 of Council Bills sold in excess of the sum required to meet the home charges, the Bank should purchase and ship to the Indian mints sufficient silver bullion for coinage to meet such Council Bills.

Lindsay's Scheme analysed.—He would secure convertibility in case of necessity, that is when rupees in this country become redundant and seek export, through the Bank of England undertaking in consideration of the profit which it could derive from its monopoly of the sale of rupees under the scheme, to repurchase, at a penny below

the fixed rate, any rupees that might be offered for conversion into sterling. To enable it the more readily to do this, Mr. Lindsay suggested that the Bank should devote the sum of about £5,000,000 held in the issue department, to its legitimate purpose by treating it as a fund to be utilised in the purchase and resale of silver in connection with the conversion part of the scheme. The *modus operandi* of conversion would be that the Indian mints would be prepared to purchase rupees tendered for the purpose, by granting drafts on the issue department of the Bank of England at the rate named, *i.e.*, a penny below the fixed Council bills rate, the rupees thus repurchased being resaleable at a corresponding profit on the revival of the demand for Council Bills; and the writer further suggested that, with the view to obviating the transfer and re-transfer of silver coin between this country and the issue department of the Bank, the Bank Act might be amended so as to admit of the silver portion of the note reserve being held in Indian mints. Such a change, he added, would be independently beneficial to London money market by enabling the Indian banks during pressure in England to place large sums in silver in the Indian mints at the disposal of the Bank of England, and thus set free a corresponding amount of gold in London that could not otherwise be used as loanable capital. The difference between the price obtained for Council Bills and that paid for the bullion to be coined would be the seigniorage earned by the Indian mints, and it would be increased by any further fall in the price of silver that might occur after the fixing of the rate; while the difference of a penny between the price at which

rupees would be accepted for conversion into sterling, and that at which they would be resold, would be the remuneration of the Bank of England. Lindsay thought that the reserve could be reduced to £5,000,000, if the Government would impose a prohibitive duty on the importation of silver. The Government of India was to offer to sell on demand both in Bombay and Calcutta drafts on the Gold Standard Reserve in London for sums of £1,000 and upwards, at the fixed rate of 15$\frac{3}{4}$*d.* to the rupee; and in London to sell, on demand, drafts on Bombay and Calcutta for sums of Rs. 15,000 and upwards at the fixed rate of 16$\frac{1}{8}$*d.* to the rupee. The Indian rate of 15$\frac{3}{4}$*d.* was supposed to represent approximately the gold export point of India. Lindsay proposed to give to the would-be-gold-exporter not gold to export, but a draft on the Government's gold fund located in London and held as deposit in the Bank of England, and to deduct from the value of the draft $\frac{1}{4}$*d.* on each 16*d.* to cover the expenses which the exporter would have incurred had he been compelled to ship gold from India to London. The gold standard drafts were to take the place of bullion, and, being monetary operations rather than fiscal, were to be independent of the Government's fiscal operations in the sale of Council Bills. The rupees which the trader would pay for these drafts were to be physically withdrawn from circulation and kept in the Government's Gold Standard Reserve vaults in India. Lindsay thought that the withdrawal of rupees from circulation would force exchange back toward the 16*d.* par. When exchange turned in favour of India, and rose to the gold import point, the Bank of England was to

sell to the gold importer into India rupee drafts on the rupee part of the Gold Standard Reserve held in Calcutta or Bombay. He suggested that if the rupees were scarce the Government might issue usance drafts. This would give sufficient time to the Government to purchase silver in London, and ship it to India and mint rupees, before the drafts matured. The difficulty could be avoided by an organised system of transfers between the Gold Standard Reserve and the Paper Currency Reserve, so that, the bullion in process of shipment could be credited to the Paper Currency Reserve, and a corresponding amount transferred from the latter to the Gold Standard Reserve in Calcutta or Bombay. In his opinion, there were only three uses for gold coin in India, *viz.*, (1) hoarding, (2) internal circulation, and (3) settlement of foreign balances. He was justified in thinking that the evil of hoarding would be greatly increased if India adopted the gold standard. With regard to internal circulation, Lindsay's contention that rupees were better suited to the trade of the country than gold was grounded upon perfectly sound premises; for, convertibility is the essence of a sound system of currency, and when this is secured the question of gold currency loses all its importance. With regard to the settlement of foreign balances, Lindsay thought that London was preferable to India as a place for the keeping of the projected reserve. His reasons for the location of the reserve in London are, in the main, sound; and the subsequent development of the Gold Standard Reserve has shown clearly the advantages of this procedure.

I am not in perfect agreement with the policy of locking-up the whole of the reserve in London, nor do I advocate the development of the reserve along the lines indicated by the Chamberlain Commission. Part of the money may very well be kept in India; and there is no reason why productive undertakings should not be supported by the resources of the reserve. There are, however, valid reasons for keeping a large proportion of the reserve in London. Lindsay's reasons for this step are as true to-day as they were about fifty years ago. They meet some of the criticisms that have been levelled against that policy.

Should the Reserve be located in England or India?—Lindsay argued that gold is really required only for settlement of the balances of India's foreign indebtedness, and as London is the one great centre for settlement of international indebtedness, it will be the most convenient spot both for receipt and payment of the gold. Secondly, there must be more or less uncertainty as to the quantity of gold or sterling money required as a conversion fund, and gold or sterling money can always be borrowed in London at short notice, whereas there would be no facilities for prompt replenishment in India. Thirdly, the establishment of the fund in India would withdraw gold from London, whereas its location in the Bank of England would strengthen the great central reserve of the Empire. Fourthly, India is a hoarding country, and if her currency is made convertible on the spot into gold coins, or even into gold bars, and these bars are always exchangeable on the spot into currency, there is a danger that the gold bars and

coins will be absorbed into hoards and kept there, instead of rupees bearing extrinsic value. Fifthly, the location of the reserve in India might create a monetary crisis under exceptional circumstances. Although London may obtain gold in a few days' time, both from Paris and Berlin, yet a monetary crisis occurs here now and then, because the gold is not obtainable promptly. India is protected as a rule from these crises by a system of council wire transfers; but these are not always available, and looking to the great distance between London and India, the issue of fresh currency should not be delayed until gold can be imported. Sixthly, under ordinary circumstances (*i.e.*, except during or shortly after periods of redundancy), the gold paid by the public into conversion fund will be for the purpose of new rupees, and part of the gold will, therefore, be used by Government in the purchase of silver for the mint. As silver can be bought in London, it is desirable that Government should reserve the gold there. If gold is received in India, and the silver bought there, not only will it have to buy in small and unreliable market, but two metals will be sent to India when only one, *viz.*, silver, is wanted. Seventhly, the object of the scheme is to prevent the use of gold as currency in India, and to continue its use in connection with Indian currency to the settlement of the balances of India's foreign indebtedness; and it is pure waste of time and money to bring gold out to India merely for the purpose of having it sent back.

Objections to the Lindsay's Scheme.—(1) The Lindsay plan was objected to by the Indian Government on the

ground that it would involve them in a liability to pay out gold in London in exchange for rupees received in India to an indefinite extent. They thought that the liability would be beyond their control and they might find themselves unable to discharge it on certain possible suppositions as to the market rate of exchange, and as to the comparative redundancy of the existing volume of the rupee currency. Lindsay replied that their liability was not unlimited, since the amount of rupees that could be taken out of the exchange market for the purchase of Government drafts, without causing such a scarcity of money as automatically to stop the withdrawal of money from circulation, was limited. Moreover, the maintenance of the value of the rupee, and of confidence in its future stability, would require redemption in either gold or gold drafts, and under the Government's scheme for redemption in gold in India, their liability would be much greater than under his scheme, since the public would make demands on the Government's reserve not only to secure gold for settling trade balances, but also to secure gold for hoards and internal circulation.

(2) Sir James Westland thought that the public would regard with distrust arrangement for the establishment of a gold standard in India which involved the location of the gold reserve and its use there by trade. "A gold reserve intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure. If the Indian gold reserve is located in London and public believe that

it may at any time vanish in supplying the requirements of trade or of the Secretary of State, confidence will hardly be established; and in any case it seems certain that a reserve of any named amount will produce a greater effect if it is located in India than if it is six thousand miles away."

Reply to the Objections of the Government of India.—To this criticism Lindsay replied that it is only people who send out capital to India that are concerned in this matter; the people who work with local capital in India will be very much in the same position as they are at present. The token rupees are all they want. It is those who send out capital to India that should be inspired with confidence, and these people will have greater confidence if the gold is held in London. As regards the gold vanishing in supplying the requirements of trade or of the Secretary of State, he showed that there was much greater danger that the gold that Sir James Westland proposed to introduce into circulation in India would vanish, because in addition to supplying the requirements of foreign remittance and the Secretary of State's drafts, it would be liable to be used in internal circulation, and to be taken into hoards. In London the gold would be reserved for one of the few purposes for which it is required in connection with currency. It would be used solely for the purpose of fixing exchange, and employed in the manner best calculated to inspire confidence in the stability of exchange.

(3) Mr. D. Graham criticised it on the ground that the elasticity allowed in it was insufficient, and that

the principles underlying it, *viz.*, that the rate of exchange, and not the rate of discount, is the test of the deficiency or redundancy of the currency, are wrong and mischievous.

(4) Much more forcible was the objection of Sir Robert Giffen. He was opposed to a managed currency of any kind, and informed the Committee that the scheme might work, or appear to work, but it could not be depended upon permanently, because essentially it would have been a managed currency, and that is not a thing which will answer permanently and which ought to be recommended by any Government.

(5) Sir John Lubbock thought that it was too complicated, and would involve the replacement of silver currency by a gold currency, " because the coin which is the legal tender must be the main coin. You cannot have an enormous amount of token coinage floating about in the country. It will not keep its value, and, if you are really going to have the gold standard and gold currency, the gold currency must be the main currency of the country, as it is here." He also thought that India could not be said to have a gold currency unless 100 millions were in gold, or notes issued against gold. The sale of 90 to 100 millions of tens of rupees would seriously affect the silver market of the world, and produce a slump in its place.

(6) Another objection was raised by Sir David Barbour. He pointed out the evil effect of the Indian currency that would result from a panic in the City of London at a time where India's Gold Standard Reserve was largely tied up in a deposit account at the Bank of

England. In reply, Lindsay showed that the Peel Act had been suspended more than once during a crisis; and that the Indian demands on the Gold Standard Reserve in the Bank of England would not be so much demands for gold to be withdrawn from the Bank as demands for credit to be transferred from one account in the Bank to another. A gold currency system is likely to break down in exceptional circumstances, *e.g.*, the suspension of bank note convertibility in France during the Franco-Prussian War; and a temporary suspension of the convertibility of rupees into sterling drafts would be excusable as a last resort during a crisis.

(7) Lord Farrer thought that under Lindsay's scheme there would be really no remittance of gold either from England to India or from India to England, and consequently no real cost of remitting gold to serve as a gold point. No one would give more than one pound sterling for Rs. 15, if he knew that the Government would cash any quantity of sterling in rupees at that rate; and no one would give more than 15 rupees for 1*l.* sterling, if he knew that the Government were bound to give any quantity of sterling for rupees at the same rate. Under such a system the Exchange Banks would cease to do what is not only a profitable business to themselves, but a business important to trade; and the Government would in all probability suffer loss. That there must be a margin is clear; and it is no less clear that there is a difficulty in fixing the margin. "That is an argument against Lindsay's scheme and in favour of having a gold currency in India; in which case the real exchange would be automatic, as it is between gold countries."

Why the Scheme was rejected?—We need not go further into these arguments. Many of the criticisms of Lindsay's scheme ignored the essential features of his policy. They were due either to misconception of his leading principles, or to the fear that a managed currency would involve the currencies both of India and England in endless confusion. The scheme was too daring, and certain of its features too novel to appeal to "practical" men like Lord Rothschild, Sir John Lubbock, or Sir Samuel Montagu, and it was by the experience of these men that the Committee were guided. They thought that any scheme without a visible gold currency would be looked upon with distrust. The Fowler Committee, "in face of this expression of opinion," found it difficult to avoid the conclusion that "the adoption of Mr. Lindsay's scheme would check that flow of capital to India upon which her economic future so greatly depends." Moreover, "if the system were to be permanent, it would base India's gold standard for all time on a few millions of gold (or rather command over gold) in London, with a liability to pay out gold in London, in exchange for rupees received in India, to an indefinite extent. This was the main reason which weighed with the Government of India in deciding not to adopt the scheme, and we think they were justified in their conclusion." They looked forward to the effect of the establishment in India of a gold standard and currency based on the principles of the *free inflow and outflow of gold*, and recommended "that any profit on the coinage of rupees should not be credited to the revenue or held as a portion

of the balance of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances."

In what Sense did the Committee use the Word Gold?—There is a considerable amount of ambiguity in the use of the word "gold" here. The interpretation of the term is rendered difficult by the fact that its denotation was not logically defined. There is a certain amount of conflict between the different uses to which they desired to put gold. It was partly to be dissipated in good times so as to provide the population of India with a gold currency, and partly to be hoarded up in a central reserve for bad times to be available for meeting a fall in exchange. Their primary purpose was to provide a central reserve of gold for its maintenance; but there was also a different purpose of establishing, somehow or other, a gold currency in India.

Latent Condradiction in the Minds of some Members.—There seems to have been a certain latent contradiction in the minds of some members of the Fowler Committee; and they did not perceive entirely how the two objects of keeping a central reserve for one purpose, and encouraging the active circulation of gold for another purpose, were to some extent in conflict. In their recommendations to the Government of India to make British sovereign legal tender and a current coin in India and to open the Indian mints to the unrestricted coinage of gold, they failed to perceive that, under the regulations that were in force at the time that they

reported, the gold would come into Government treasuries as Government reserves, and would then naturally go up into the general circulation. Again, their advice to the Government of India,[1] to "restrict the growth of their gold obligations," did not mean obligations which were payable in metallic gold, but obligations incurred by issuing stock and taking cheques in payment for it, the interest on which is paid merely by dividend warrants in the paying of which not a single sovereign changes hands. Sir Lionel Abrahams informed the Chamberlain Commission that "the instructions that were given in order that the Report might be drafted were that the profits of coinage were to be held in a sterling form and not in a rupee form, so that in case of a fall in exchange they could be realized in sterling and used in London." The Secretary to the Committee confirmed Sir Lionel's recollection, while two other members, Crosthwaite and Le Marchant, differentiated the various uses of the word gold, and Sir David Barbour conceived the gold standard reserve as a logical deduction from the recommendations of the Fowler Committee.[2]

The Importance of this Distinction.—This puts a different complexion on the policy of the Committee, and the point is of importance, as it simplifies some, if not all, of the difficulties which students of Indian Currency have encountered. For the development of the gold standard reserve during the years 1900-08 is not marked by uniform progress, and its ultimate aim was

[1] Fowler Committee Report, paragraph 70.

[2] See his "Standard of Value."

foreseen neither by the Government of India nor by the Fowler Committee. The Report of the Committee of 1898-99 affords a general indication of their views as to the purpose for which they considered, or would have considered if they had specially dealt with the point, that the Reserve should be used.

The Provision of a Gold Reserve.—In paragraph 59 they say:—

"We regard it as the principal use of a gold Reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point (that is, presumably, gold exporting point), and the Government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable. For example, the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding deduction being made in the drawings of the Secretary of State." This remark indicated in very general terms the Committee's view of the purposes to be served by any Reserve held for the support of exchange. But it was not made with any special reference to the Gold Standard Reserve, nor did the Committee consider the best procedure for enabling the Reserve to serve the purpose indicated in general terms.

SECTION III.—THE RESERVE FROM 1900 TO 1908.

Sir E. Law's Proposals for a Reserve.—The vital experience of 1900 showed that only a small amount

of gold could be held in the Currency Reserve in India, and the Government abandoned the policy of forcing sovereigns upon the people. The accumulation of gold in the Currency Reserve increased rapidly until on the 15th of May 1900 there were 9¾ millions of sterling of gold in the Currency Reserve, equal to the proportion of four-fifths of the total stock of bullion and coins held as security for the note issue. The situation was improved in June by the release of one million of gold held in London. Now the sole object for which the Currency Reserve was originally instituted was to provide the necessary security for the encashment of notes on presentation, and there was no idea of utilising the funds so held for exchange or any other purpose not directly connected with security for the note issue. Sir Edward Law pointed out that it is essential that the Currency Reserve shall provide a sufficiency of the class of coin which the public have the right to demand in exchange for notes which they may present for encashment; the existence of gold in the Reserve, although it has been declared legal tender, cannot satisfy the legitimate requirements of the public as regards such demands. Owing to the smallness of the sums representing an enormous proportion of commercial transactions, and the very conservative habits of the people, no one requires gold as a circulating medium in India, and consequently the stock, as far as currency purposes are concerned, was of no practical value in case of sudden demands for the encashment of notes. The only way in which it represented suitable security for the paper currency was that it was

convertible by sale into silver bullion, from which bullion, rupees could be coined. Hence under those conditions the gold in the Currency Reserve could only be considered as an investment subject to the same conditions as the 10 crores held in Government securities, and in permitting the large gold investment the limit of safety for the conversion of notes into the circulating medium required by the people had been passed, and serious difficulties had been encountered, whilst the Government had not acquired the stock of gold requisite for exchange purposes.

"*The Gold Exchange Fund.*"—Sir Edward Law was of opinion that seven million pounds was the maximum sum that could be held in gold in the Currency Reserve, in addition to the 10 crores already invested. It was clear that such assistance as could be obtained from manipulating the reserve would fail to provide sufficient sum for the purpose of maintaining a steady exchange. Law proposed a special "Gold Exchange Fund" independent of, but in case of *extraordinary* requirements for exchange purposes to be used in conjunction with, the gold resources of the Currency Reserve. The fund would be built up out of the profits to be realized by converting into rupees the excess above seven million pounds then held in gold in the Currency Reserve. The total sum in gold in this Reserve being about 9 millions sterling, the profit on the proposed operations would be about 700,000 pounds. To the 700,000 pounds thus provided should be added the profits in coinage amounting to a million pounds. The new reserve fund would open with a combined cash

and credit balance amounting to nearly one and three-quarters million sterling. The initial reserve would be steadily increased by the addition of profits on future coinage. He proposed further (*a*) to gradually increase the amount of the paper currency investments to a sum approximating to 50 per cent. of the circulation of currency notes, the increase being 5 crores if the circulation remained at the level of about 30 crores; and (*b*) to make the additional investment in Consols. There would be about 12 million pounds in readily saleable gold securities. The interest on 12 million pounds amounting to 360,000 pounds would be devoted to increasing the stock of gold in the gold exchange fund. In this way, the Government will hold a stock of gold of about 8½ million pounds in five years.

The views of the Government of India and the Secretary of State.—The Government of India unanimously supported the first three of the above proposals, and outlined the steps required to carry them into effect. They were, however, doubtful as regards the efficacy of the last proposal of Sir Edward Law, as they thought it dangerous to reduce, by so large an amount as proposed, the gold stock in the Paper Currency Reserve until the stock in the new Special Gold Reserve had attained some magnitude. They also objected to an increase in the invested portion of the Reserve. Lord Curzon pertinently asked "if we have just decided that 7 million pounds ought to be kept in gold, why propose to reduce it simultaneously to 2 million pounds? This seems to me to take away with one hand what have been conferred by the other," and objected to his proposal to gradually convert

the investments in rupee paper into Indian Government gold securities, on the ground that the rupee paper had proved very useful and very easily convertible into rupees in time of crisis.

Sir E. Law's proposal was the first consistent scheme for the maintenance of exchange, and though time has introduced many new features—features that have essentially modified the original conception of the mechanism of the Gold Standard Reserve—no person had such a luminous grasp of the *raison d'etre* of the Reserve as Law. It was the original design of the Government of India that it should consist entirely of gold and that it should be held in India. The Secretary of State for India differed from the Government of India's view and decided that it should be held in London, and should consist in part, though not entirely, of sterling securities. He rejected the particular scheme put forward by the Government on the ground that the gold would have been dissipated in good times, instead of being held as a reserve for bad times to meet a period of unfavourable trade.

Modification of the Original Scheme.—Further modifications were gradually introduced, and the character of the new fund was defined. The Government of India remitted profits on coinage to London by shipment of gold, the gold being taken out of the Paper Currency Reserve in exchange for newly coined rupees. When the Secretary of State drew on this fund for the purchase of silver, he replenished it from time to time by the sale of Council Bills, and informed the Government on

each occasion of any intended operations on the fund, so that they could adopt their arrangements accordingly. By 1906 the Government had strengthened their position and accumulated a stock over 12 millions in the Gold Standard Reserve, besides over 11 millions in the Currency Reserve, and in addition their paper currency investment included ⅓ million pounds worth of sterling securities. Their rupee balances had however reached a dangerous level, and in March 1906 they held only 1,165 lakhs of coined rupees. The stoppage of telegraphic transfers would have disorganised trade; while the restrictions on the sale of Council Bills would have led to gold being shipped and tendered for conversion into rupees, with all the inconveniences which this process involved.

The Government's Proposals for a Silver Reserve of 600 lakhs of tolas.—The Government, therefore, (1) proposed the formation of a Silver Reserve of 600 lakhs of tolas outside the Currency Reserve, and the coinage of rupees at the rate of 150 lakhs a month throughout the slack season. They proposed to build up the enlarged bullion reserve entirely from profits on coinage and to hold it as part of the Gold Standard Reserve to convert the Gold Standard Reserve into a Gold and Silver Reserve Fund, and to deposit in the latter all profits on future coinage until the full reserve of 600 lakhs of tolas had been accumulated. To utilise this bullion reserve they proposed the coinage of rupees and transfer to the Currency Reserve of the necessary amount, and to credit the Gold and Silver Reserve Fund with the equivalent in gold. In other words, a portion of the profits of rupee coinage

would be held on behalf of the fund in silver to be used in meeting a demand for remittances in excess of the amount that could be met from other resources, the proceeds of such excess remittances being devoted to the purchase partly of additional sterling securities for the fund and partly of silver to make good the amount withdrawn. The total of the fund would remain intact and would be increased as now by the profit on additional coinage; and the whole amount would be kept separate from the Treasury balances and the Paper Currency Reserve. Poaching is regarded as justifiable in times of emergencies, and the Government of India can hardly be regarded as guilty if the suddenness and magnitude of the demand for rupees, and unusual trade activity forced upon them the necessity of encroaching upon the preserves.

Lord Meston's Letter on the Silver Protion of the Reserve.—A letter from Lord Meston pleaded for assistance at a time of stress and anxiety. The most promising source was, as usual, the silver branch of the Gold Standard Reserve. It formed a most convenient and readily available source and the Government thought that it will be quite legitimate to draw upon it temporarily, whenever their other cash balances were exhausted. They therefore desired the sanction of the Secretary of State (*a*) to the coinage of the silver in the Gold Standard Reserve into rupees, which would be kept entirely separate from other ordinary balances and from the Currency Reserve, and (*b*) to their drawing upon the stock they made available, when circumstances may require it in the form of temporary loans, bearing interest at 3½ per cent.

The View of the Secretary of State.—The Secretary of State approved the former proposal, and agreed that the silver in the Reserve might properly be used in an emergency. He thought, however, that ordinarily an investment in securities on behalf of the Reserve should be made, if the state of the Home Treasury admits, in order to make good amounts withdrawn in India; for, when investments of this nature are made in England, the Treasury bills can be bought so that if, at the time of their maturity, the Government of India are prepared to restore the silver in the Gold Standard Reserve to its former amount, the Home Treasury balances can at once be replenished without the risk of loss of capital value. He, therefore, requested them to inform him in good time whenever they contemplated a transfer of silver from the Reserve to their Treasury balances, in order that he might consider on each occasion whether to make an investment in England in respect of the whole or a part of the withdrawal.

The Reserve during the Years 1906—1908.—The next two years were marked by a radical modification in the original conception of the object of the Gold Standard Reserve. In December 1906 the Secretary of State sold Telegraphic Transfers freely, to convenience trade, and advised the Government of India to meet these by borrowing silver from the Gold Standard Reserve. The Government stated clearly that they will not be able to meet his drawings without limit. They could not meet them to an extent of more than 4 crores in December, besides paying all the transfers and bills already drawn by him, even if they completely used up the silver in the

Gold Standard Reserve. The Secretary of State for India wished to avoid addition of gold to the Currency Reserve in London, as it would have entailed diminution of Reserve of Bank of England, and by its effect on discount rates in London would have interfered with arrangements for renewing debentures of Guaranteed Railways maturing in December. The Government were unwilling to borrow from the silver branch, as they considered it most essential to treat the Reserve as a fund which may be drawn upon for the specific purposes for which it was established, and for no other. They added, "It would be in full accord with the declared objects of the reserve that you should draw on its gold branch to support your treasury in the event of any material fall in the exchange; or that we should draw on its silver branch when threatened by a shortage in our stock of rupees in India. In the former event we should recoup the reserve by paying silver into it in India, pending a suitable opportunity for an equivalent remittance of gold to England. To employ the reserve, however, for any other purpose than those indicated above is, in our opinion, to be deprecated as a variation from our currency policy which may seriously weaken it and would certainly be liable to general misconstruction." They pointed out that the Gold Standard Reserve is their first line of defence against fall in exchange. So long as it is adequately maintained, the exact amount of gold in the currency chest is a matter of relatively minor importance; for the public know that the currency gold in London is ear-marked for a particular purpose, that it is part of a fund reserved by law to ensure the

convertibility of the note issue, and consequently that it is liable to considerable fluctuations. The Gold Standard Reserve, on the other hand, exists solely for the purpose of maintaining exchange, and is universally identified with that part of the currency policy. The Secretary of State replied, stating his reasons for his unusual request.

The Condition of the London Money Market in December 1906.—The London money market was at that time suffering from severe stringency, and it was a matter of direct and immediate importance to India that this should not be increased, since guaranteed debenture bonds amounting to 1,795,100*l.* were to fall due between 31st December 1906 and 18th February 1907, of which it was very desirable that 1,374,600*l.* should be renewed. The chance of the renewals being effected on favourable terms depended on the state of money market, and it would have been prejudiced if the market had been disturbed by a transfer of gold from the reserve of the Bank of England to the Paper Currency Reserve. The advantage of avoiding such a transfer was therefore considerable; and it appeared to him that the only counterbalancing disadvantage was that mentioned in his Despatch No. 135 of the 16th November 1906, *viz.*, that in the published accounts of the reserve its assets would for a time be shown as consisting partly of a debt due from your Government; neither your resources nor the conditions affecting Indian trade could in any way be unfavourably affected. After careful consideration, I came to the conclusion that the advantage of taking a loan was far more important than the one disadvantage." He pointed out that the original object of the reserve was

to provide for a reduction, temporary or permanent, of the amount of rupee currency in circulation, when this should be required to prevent a fall in exchange. There was, moreover, no justification for the apprehension of the Government of India that a variation from their policy with regard to the Gold Standard Reserve would be liable to general misconstruction, for the Government had already introduced important changes without impairing the stability of their policy. The first change was made when it was decided, in 1906, to hold a portion of the fund in silver, to be used for an entirely different purpose, *viz.*, for rapidly increasing the rupee circulation at times of trade activity. It was then intended that the reserve, whenever a withdrawal took place from the silver portion, should be simultaneously replenished by the transfer of gold from the Paper Currency Reserve, and the procedure that was contemplated was in accordance with this intention. A second change was made when it was decided, in November 1906, in accordance with a recommendation made by them, that in case of need a loan should be taken from the silver portion. This necessarily involved a modification of the procedure mentioned in their letter of 26th April 1906. The decision arrived at in May 1906, might have been represented as affecting the stability of the currency system, since one result of it was the temporary suspension of the accumulation of the sterling fund which is kept up for the support of exchange. The Secretary of State was unable, after the most careful consideration, to understand how the stability of the currency could be regarded as having been threatened by the further

decision to use the silver portion of the reserve, at a time of great demand for rupees, in a manner which left absolutely unaffected the existing safeguards against a fall in exchange. With regard to the practical recommendations for the future, that loans shall not be taken from the Gold Standard Reserve except at a time when the Home Treasury balances are so low that it is impossible for the Secretary of State to transfer gold to the Currency Reserve, he promised to "bear their wishes in mind on any occasions when the method of replenishing their balances has to be decided;" but, he was "unable to accept the suggested restriction as one which should be invariably followed." He concluded "I am of opinion that the choice between 'ear-marking' gold and borrowing from the Gold Standard Reserve must in each case depend on the circumstances of the time."

The Committee on Indian Railway Finance, 1907.—The Secretary of State appointed in 1907 a Committee of five, of which Lord Incheape was Chairman and Sir David Barbour, Sir Lionel Abrahams, Messrs. W. R. Lawrence and F. O. Schuster, members, to consider a letter from the Government of India, dated April 25, 1907, proposing the formation of a central reserve of wagons for use on railways in India. They proposed that in addition to the expenditures provided for in the Railway Programme, a sum of £3 million should be spent within the next two or three years, in the purchase by the State of 12,000 wagons to be held as a reserve from which the loan of vehicles to any railway requiring additional stock could be made. They stated that the Indian railways were unable to

carry traffic which was offered, that it would be some time before each railway could be fully equipped to meet normal demands, and that it was moreover desirable to provide extraordinary demands for wagons, which may always be expected to arise at different seasons. Enquiries made by the Committee confirmed the conclusion of the Government of India that the equipment of Indian railways was inadequate, and the Committee considered it essential that efforts should be made to improve the position as rapidly as possible. There was complete unanimity between the Secretary of State, the Government of India, and the mercantile community in India, that £1,000,000 worth of rolling stock ought to be got as soon as possible. It was impossible to buy it out of the balances of the Secretary of State; nor was it deemed advisable to raise the money by means of a loan. The India stock could not be issued, because an issue had recently been made, and the objections to issuing India bills were held to be very strong. The general opinion was that the exchange was in a very strong position, that the resources available for its support were quite adequate for that purpose, and that it would be on balance very much to the advantage of India to reduce the rate at which the Gold Standard Reserve was being accumulated, and to allot £1,000,000 for the purchase of rolling stock.

The Committees Recommendations.—The Committee rejected the proposal of the Government of India on the ground that a central reserve of wagons would be a new departure; they thought that the Railway Companies would prefer that any extra fund which can be made

available for railway purposes should be allotted to the railway administrations, in accordance with their requirements.

The Committee recommended that the sanctioned capital outlay for 1907-08 be increased by an additional 1,000,000*l.* to be spent on rolling stock and open line improvements, subject to the following conditions:—

(1) That this extra grant is not used to form a reserve of wagons, but allotted to railway administrations, as this course will enable stock to be brought more expeditiously into use, and will be more acceptable to companies.

(2) That the money is provided from the profit on coinage in 1907-08, the amount being shown among other balances of the Gold Standard Reserve.

The Strength of the Reserve in 1907.—The only method whereby they could secure the necessary amount was by drawing upon the Gold Standard Reserve. The reserve consisted at that time of sterling securities of the market value of £12,310,629 together with a sum of six crores of rupees (equivalent to £4,000,000) which is held in silver in India to meet any sudden demand for coinage. In addition to the Gold Standard Reserve, a large amount of gold (£11,066,000 of which £7,705,000 was held in London and £3,361,000 in India) was held in the Paper Currency Reserve, which could be applied to the same object. Apart, therefore, from the six crores of rupees in silver, there was in 1907 a fund of upwards of £23,000,000 in sterling securities and gold bullion which could be drawn upon in case of necessity.

The interest received on investments on account of the Gold Standard Reserve up to 5th January 1908 was estimated at about 270,000*l.* while the profit on the coinage of silver up to the 31st December, 1907, was provisionally estimated at £1,850,000. The addition to the reserve by the beginning of next year would, therefore, in ordinary course amount to considerably over £2,000,000 bringing up the total amount of gold and sterling securities held in the Gold Standard Reserve and the Paper Currency Reserve to more than £25,000,000.

The View of the Government of India.—The Government of India were wholly opposed to any diversion of the profits on coinage from their one essential object, *viz.*, the building up of the Gold Standard Reserve until it was sufficiently large to be a reasonably certain protection against the danger of a fall in exchange. Security of currency policy is of far more importance and should on no account be sacrificed even to the necessity of the railway programme. But the Secretary of State thought otherwise. He pointed out that it was impracticable to continue further borrowing, as investors who had purchased India's stock in May 1907, would be affected by a second issue in the financial year and such issue would prejudice their opportunity of borrowing sufficient for his needs in the following year. The India Bills could not afford any relief, owing to the condition of the London investment market, and its consequence in compelling the British Government to postpone certain loans which they had in contemplation. "In regard to the limit of borrowing in London, I must ask you to accept my views, just as I

accept yours regarding the amount of borrowing to be undertaken in India. Unless further capital, as to the urgency for which I agree with Your Excellency, can be provided from the Gold Standard Reserve, additional expenditure must be abandoned." The Government replied, meekly accepting this decision, although some members entertained doubts as to its expediency, and although "we should all have preferred if it had been possible to give the commercial community in India an opportunity of stating their opinion regarding the diversion of coinage profits before final orders were issued."

The Significance of this Discussion.—The controversy brought out strikingly the difference between the views of the Government of India and the Secretary of State. There was no difference of principle, and both were agreed upon the necessity of maintaining the Reserve for the specific purpose of stabilising the gold value of the rupee, but there was a difference of detail, and it is in the determination of the mechanism of the Reserve that their importance consists. The Government of India were perfectly justified in insisting on the necessity of stability in their currency policy. The question was one which ought to have been decided without reference to the need of the Railways and with reference solely to the sufficiency of the gold reserve for the purpose for which it was formed. The Gold Standard Reserve was instituted for the maintenance of the exchange value of the rupee; and unless this object is constantly kept in view there is no possibility of fostering the confidence of the public in the currency policy of the Government of India. Sir

David Barbour defended this policy on the ground[1] that it makes practically no difference whether you reduce the borrowing by using a portion of the gold reserve for capital expenditure on railways, or maintaining a borrowing at its full amount, and invest the whole of the gold reserve in gold securities. "In the former case you can borrow in case of need up to the amount which has been used to reduce borrowing and still be in quite as good a position as if the whole of the gold reserve had been invested. The reduction of the amount borrowed in London strengthened the Indian Exchange."

The Telegram of the Secretary of State, on July 2, 1907.—The crisis of 1907-08 justified the policy of the Government of India and gold reserve was for the first time employed in fulfilment of the object for which it was established. The Secretary of State telegraphed on 2nd July 1907 that "the danger, which you (Government) allege, of a fall in the rate of exchange, I regard as illusory, having regard to the present conditions of trade." This telegram has been generally misunderstood. It did not mean that the Secretary of State committed himself to the view that there was no danger of the occurrence of unfavourable trade conditions such as in the absence of special support would lead to a fall in exchange. What he really intended to convey was that the existing supports for exchange were adequate, and that the danger that they would be inadequate if £1,000,000 were spent on the railways was illusory. That view was

[1] The Standard of Value, page 13.

justified by the events of the crisis which occurred four months later.[1]

Divergence from the Recommendation of the Fowler Committee.—The Fowler Committee spoke in very generous terms of Mr. Lindsay, who was the advocate of the policy that was followed in 1907-08; but they very faintly praised his scheme of the Government undertaking to sell exchange on London at a time of adverse trade, and they spoke with equally faint praise of a similar scheme that was put forward by Mr. Henry Raphael. So that in 1907-08 when the Government did sell sterling exchange, they were not only departing from their previous policy but also from the ideas that bulked very largely in the following report. It is interesting to notice the divergence from the recommendation of the Fowler Committee. The Government were insensibly diverted from carrying them out literally by the difficulty of getting gold and the possibility of employing it in a different manner from that which the Committee contemplated. They obviously thought that the problems of exchange and of internal currency were indissolubly connected. But the policy which was developed by the force of circumstances emphasised the importance of distinction between the media of internal and external circulation. According to this theory liability to find gold depends upon the balance of international obligations; it is sufficiently and promptly met by reserves when the internal currency is treated solely with regard to the requirements of the internal media of exchange.

[1] The crisis has been described in section VII of Chapter II, pp. 577—590.

Lord Meston informed the Chamberlain Commission that "Up to the time of crisis, whatever the outside world may have thought, it is, I believe, beyond question, that the Secretary of State or the Government of India never went beyond a justification of the Gold Standard Reserve for any other purpose than the purpose of meeting the Secretary of State's home charges." "In 1908-09 we committed ourselves what appeared to us to be a new confession of faith. We had faith all the time, but we had not confessed it in public. What we did then was to commit ourselves to *contra mundum* instead of *contra home* charges, so to speak. The consequence is that we really do not feel that we know enough of what that liability implies. I personally quite admit that the liability to maintain our standard has been somewhat unwisely overstated in certain quarters. I think, for instance, the statement that we ought to have enough to convert every rupee in India into gold is nonsense; to have enough gold to convert even 25 per cent. of all the rupees in India is probably sufficient." This is borne out by the correspondence of the Government of India. Their conception of the *object* of the reserve was hazy, though their conviction of its importance was strong, and their subsequent policy was moulded by the ideal of a limitless reserve. They stood very firmly on the sentiment, on the conviction that there can be no finality about the size, and wished to see the Gold Standard Reserve built up without reference practically to any definite arrangement. As their representative informed the Chamberlain Commission "If a maximum were called for at the moment, we should be glad to see 30,000,000, but

that can only be with reference to present conditions, and we should be very sorry to say that five or ten years hence a certain figure will be adequate." The intervention of the Government in the crisis 1907-08 committed them in the eyes of the public to a line of action which, though essential for the success of their policy, was not always clearly foreseen, and the further development which placed their gold reserve at the disposal of the private remitter was a definite pledge of their active support of the Gold Standard Reserve. Any failure to fulfil that pledge either through the exhaustion of the reserve or for other causes, would have shaken public confidence in their currency policy to a degree which it should be difficult to estimate.

The Policy of the Government of India in 1909.— The Government were strongly disposed to regard 5,000,000 as the minimum of safety in the Gold Standard Reserve, apart from the gold in the Currency Reserve and the other Treasuries. In their despatch, dated April 1st, 1909, they requested the Secretary of State (1) to reconsider his decision that half the coinage of rupees should be *consistently* diverted from the Reserve to be utilised on Railway Capital Expenditure, and (2) to hold a substantial part of the reserve in a liquid form. They argued that their strength in combating a low exchange depended largely on their ability to reduce the supply of rupees and to augment the supply of gold ; if they can do both simultaneously, their intervention is sooner effected, but if gold is locked up in investments, that cannot be realised in a short time, it will hamper their action, and frustrate the object of the Reserve.

The Reply of the Secretary of State.—The Secretary of State consented to suspend the diversion of the coinage profits to Railway construction until such time as the stock of gold in the Gold Standard Reserve and Paper Currency Department should reach the figure of £25,000,000. He was guided in this policy by the idea that it is wasteful to accumulate a sum largely in excess of what is required to meet all difficulties against which it is reasonable to provide, since an excessive accumulation involves the locking up of funds which might be used for the industrial development of India. With regard to the second proposal of the Government, he pointed out that he held a considerable portion of the reserve in the form of high-class securities with a near date of redemption, because cash can always be obtained at the shortest notice, by sale or loan for such securities in the event of their realisation before maturity becoming necessary. The experience of 1908 proved conclusively the soundness of this policy. The India Office found no difficulty in providing from the reserve the £8,058,000 which was required to meet the London Bills drawn by the Government of India, and the further sum of £934,000 which was temporarily applied from the same source towards defraying the home charges; he had also made arrangements for realising, if necessary, a considerable additional amount. In view of these facts it is difficult to attach any importance to the apprehension of the Government of India that "the free employment of the reserve might be seriously hampered by the form in which it is now held." Nor could the financial gain resulting from investments be ignored, for, during the

first eight years of its history, the net gain to the Gold Standard Reserve amounted to £1,371,063. The currency position of the Government resembled that of an army exposed to sudden attack on either flank, and they had to provide for the drain upon their silver no less than upon their gold. The Secretary of State ignored the possibility of reduction in the stock of rupees in the silver branch of the Gold Standard Reserve; nor did he guard against the danger of a run on the rupee on a large scale.

The problem of the amount of rupees to be held in the Paper Currency Reserve and the Gold Standard Reserve was exhaustively discussed in a memorandum by the Secretary of State. The Government of India were of the opinion (1) that the silver branch of the Gold Standard Reserve should not be allowed to fall below six crores, (2) that they could not safely hold less than half of the metallic portion of the Paper Currency Reserve in rupees and (3) that they should have a minimum of eighteen crores, at the beginning of the busy season. These suggestions did not really discriminate between the requirements of the different periods of the year, and if they had been carried out, the stock of rupees in the Paper Currency Department would have been much higher during a part of the year than had been found necessary. According to a Memorandum of the Secretary of State the purchase of silver should be regulated by following considerations.

How should the Purchase of Silver be regulated?—The Memorandum suggested that the purchase of silver

for coinage in India should be regulated by the following considerations.

(1) Not less than 24 crores of rupees should be held in India on the 1st of October in each year in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve, 6 being held, if possible, with silver branch of the Gold Standard Reserve, and 18 in the Paper Currency Reserve. Silver bullion in the Paper Currency Reserve will be regarded as the equivalent of rupees at the rate of one tola = 1 rupee.

(2) During the six months from October to March silver should be bought and coined to the extent estimated to be sufficient to prevent the stock of rupees in the two Reserves from falling below 17½ crores on 31st March.

(3) During the six months from April to September silver should be bought and coined as far as appears necessary in order that the reserve of 24 crores mentioned in (1) above may be attained by 1st October; but the purchase of silver will proceed gradually so that it may be discontinued if, during the six months, rupees return from circulation to such an extent as to render it probable that the level prescribed for the 1st October will be obtained without further coinage.

(4) If it appears likely that the stock of rupees in the Paper Currency Reserve will, owing to the return of rupees from circulation, exceed 18 crores on 1st October, or 11½ crores on 31st March, but that the stock in the silver branch of the Gold Standard Reserve will be less than 6 crores, silver should not be purchased beyond

what appears necessary in order to provide the combined reserve of 24 crores on the former date or 17½ on the latter; and any deficiency in the silver branch of the Gold Standard Reserve will be made good in due course either (*a*) by a transfer of rupees from the Paper Currency Reserve against either the cancellation of notes in the Treasury balances or the "ear-marking" of gold in England, or (*b*) by an addition to the sterling branch of the Gold Standard Reserve in England.

The Purchase of Gold.—The problem of gold was more complex. Gold held by the Government of India may be issued for export, or to be used as currency, or to be hoarded, or to be converted into ornaments. So far as it is issued for export, it may be regarded as fully effective for the support of exchange. So far as it is used as currency it may be regarded as available wholly or in part for supporting exchange when the rate of exchange falls as below as gold export point, since it is probable that in such conditions a part at least of the amount in circulation would be exported; but when the rate falls, not as low as to gold export point, but to a figure at which it is desirable to suspend the sale of Council Bills, the gold in circulation is likely to be of little or no use for supporting exchange, at any rate immediately, since it would probably not be exported, and would obviously not be available towards defraying the Home Charges of the Secretary of State. Gold that is hoarded or converted into ornaments can scarcely be regarded as available at all for the support of exchange.

On the other hand gold held in England is available for supporting exchange not only when the rate

falls to gold export point (when it can be used for meeting bills on London sold in India), but also at the earlier stage when the rate has fallen only to the point at which the suspension of Council Bills is desirable (when it can be used towards defraying the Home Charges) The stock is not liable to be depleted by any cause corresponding to the disappearance into hoards of gold in India. When the demand for remittance is strong, gold in England is available for any purchase of silver that may become necessary.

Thus the stocks of gold held in the two countries serve somewhat different purposes, and the practical conclusion is that it is desirable to hold, if possible, a substantial amount in each country. The Secretary of State was therefore unwilling to commit himself to a postponement of any increase of the stock in England for the comparatively long period that may be required for raising the stock in India to two-thirds of the possible total holding in the Paper Currency Reserve. As the stock of gold held by the Government exceeded 5,000,000*l.*, he proposed to revive the arrangements which had been in force in 1905, 1906 and 1907 for the purchase of gold in transit to England.

How the Estimate of the Requirements of the Government of India is framed?—The Memorandum presented convenient formulæ for discussing the theory of purchase of silver; but, as the writer admitted, a practical decision at any given point of time must vary with the circumstances of the moment. The Government review the stocks of silver and gold in their reserves; examine the absorption of rupees at the

corresponding periods of previous years; estimate, on the basis of prices and outturn, the requirements of the particular crops—jute, rice, cotton or wheat—which are on the eve of coming to the market; and endeavour, with the advice of local expert knowledge, to forecast in this way the probable demands of currency during the ensuing quarter. It is upon these considerations of the actual trade condition of the moment that the amount of silver necessary during the coming three months is determined. The Government of India were in general accord with the conclusions of the Memorandum and welcomed the view that their silver stock of rupees should ordinarily include six crores in the silver branch of the Gold Standard Reserve. They regarded their Gold Standard silver as the bulwark against hasty coining. It supplemented their general stock of rupees; it gave them time to buy silver at discretion, and enabled them to carry through without fresh coining until the return of rupees from circulation.

Lord Morley's Despatches.—The perusal of Lord Morley's Despatches leaves one with the impression that he did not grasp the significance of the Gold Standard Reserve. It is an indispensable link in the chain of Indian currency arrangements; and upon it depends the success or failure of the currency policy of the country. But Lord Morley neither understood all the implications of the recommendations of the Fowler Committee; nor did he understand the principles underlying the Gold Exchange Standard. His cryptic references in June 1907, to the possibility of a fall in exchange, his contemptuous treatment of some of the soundest proposals of the Government

of India, and the dictatorial tone which he adopted in many of his Despatches, must have sorely tried the patience of the Government of India. The new reformer was but an old bureaucrat writ large. The controversy was waged with all the skill and force which their resources supplied, and there were considerable reiterations, frequent digressions, and constant complaints. The Government of India carried the war into the enemy's camp. No quarter was given, as no injury was forgotten. If one Secretary of State rejected their proposals, they were not disheartened, but waited patiently for their opportunity, cogitated over the possibility of improvement, and immediately on the accession of a new Secretary of State, presented the old proposals with all the force and vigour which their resources of intellect and experience commanded. They were not dismayed either by Lord Morley's dictatorial rulings, or by the polished indifference of a Brodrick, a Hamilton, or a Crewe. And their policy ultimately triumphed. The controversy over the silver portion of the Gold Standard Reserve, and the decision of the Chamberlain Commission, may appear to be an exception; but a deeper view of the function of the silver in the Reserve leads one to the conclusion that the fundamental principle remained untouched.

The Recommendations of the Chamberlain Commission.—The recommendation of the Chamberlain Commission with regard to the silver portion dealt with the technique, rather than the principle, of the silver portion of the Reserve. Lord Morley had already accepted their view that the stock of rupees should ordinarily include six crores in the silver branch of the

Gold Standard Reserve. With a view to regulating its employment on a definite plan they thought that at the beginning of the busy season they ought to have six crores of rupees in the Gold Standard Reserve and at least eighteen crores in the Paper Currency Reserve. This would enable them to make the best possible forecast for the season as a whole, and to regulate their employment of silver in the Gold Standard Reserve according to the progress of the season. In October to December quarter, when there is always a large absorption of rupees, they should aim at keeping the Currency Reserve of silver up to eighteen crores, and the Gold Standard Reserve of silver "would be treated strictly as a Reserve, to be drawn upon only in the event of some abnormal demand falsifying our estimate." From January, however, as their revenue begins to come in and their position grows clearer, their caution could be relaxed, and they would be justified in drawing freely upon the silver of Gold Standard Reserve so far as it might be necessary and effective to keep the silver of the Currency Reserve up to fifteen crores as the minimum, provided that their total stock of rupees in the two Reserves did not fall below seventeen and a half crores on the 31st of March.

All the rupees thus drawn from the Gold Standard Reserve would be transferred to the Currency Reserve in exchange for gold, which they should remove from the Currency Reserve in India and deposit in the Gold Standard Reserve. When the busy season closed, the process would be reversed, and they would transfer gold from the Gold Standard Reserve in India to the Paper Currency Department; take rupees from the latter in

exchange; and with them build up the silver branch of the Gold Standard Reserve to its accepted figure of six crores. In this way they should ensure the correct use of the silver branch and its restoration each year to its proper strength. There would be a minimum of interference with the gold market in London. This would avoid on the one hand, the artifice of borrowing from the Gold Standard Reserve for Treasury purposes in India and paying interest on the loan; and on the other hand, the anomalous position in which the silver branch was placed during the years 1910-12. The Government of India could however have removed the deficiency of rupees in the Paper Currency Reserve with greater directness and simplicity by raising the standard of rupees to be held in the Paper Currency Reserve. The strongest argument for the maintenance of the silver branch of the Gold Standard Reserve was the necessity of meeting the Bills and Transfers sold by the Secretary of State from the rupees in the silver branch of the Gold Standard Reserve.

How the Trade demand for Councils is met?—Usually the trade demand for the Council Bills and Transfers in London is met from their Treasury balances; and in times of exceptional trade activities, the Secretary of State responds to the demand by selling Bills and Transfers. He transfers the proceeds of his sales in sovereigns to the portion of the Paper Currency Reserve held in England, or "ear-marks" sovereigns, and thus enables the Government of India to place themselves in funds for meeting the Bills and Transfers either by the issue of additional notes

against the "ear-marked" gold or by withdrawal of a corresponding amount in rupees from the portion of the Paper Currency Reserve held in India. Indian interests would be liable to be injured if this procedure were followed, either at a time when the Secretary of State has in hand an operation (such as the issue of a loan or the renewal of a large block of debenture bonds) of which the success might be prejudiced by sudden stringency in the London money market, or at a time when stringency already exists, and an increase of it is likely to react on trade generally, including Indian trade. And this liability to injury would not be avoided, as might at first seem possible, if the Secretary of State had recourse to the simple expedient of refusing to sell Bills and Transfers, since such action would probably lead to large shipments of gold by the Exchange Banks from England to India, with an effect on the money market similar to that produced by "ear-marking." In circumstances such as these, Bills and Transfers sold by the Secretary of State are met by the Government of India from the rupees in the Indian Branch of the Gold Standard Reserve; the proceeds of the sale are temporarily added by the Secretary of State to the London Branch, and disturbance of the London money market is avoided.

The Objections to the Silver Branch of the Reserve.—This was the only justification for the maintenance of a silver branch of the Gold Standard Reserve. But the objections to a separate branch were so weighty, and the amount of criticism which its management aroused was so large that its abolition was rendered necessary. The Chamberlain Commission formulated proposals for a

closer working of the two reserves. They rejected the suggestion that the Gold Standard and Paper Currency Reserves should be amalgamated, and recommended that the six crores of rupees in the Indian branch of the Gold Standard Reserve should be handed over to the Paper Currency Reserve, which is the more natural place for keeping the reserve of rupees. The minimum figures of 24 crores on the 1st November and 18 crores on the 1st May for the stock of coined rupees in reserve will be unaffected, but in future this stock will be entirely within the Paper Currency Reserve. 4,000,000 sovereigns should concurrently be transferred from the Paper Currency Reserve in India to the Gold Standard Reserve. The Commission showed that a very conservative treatment of the Gold Standard Reserve may, however, in certain circumstances strengthen the position of the Paper Currency Reserve. A drain on the Gold Standard Reserve for the support of exchange alters, not its volume, but only its form; and when rupees have accumulated in this Reserve, as a result of providing gold for payments abroad, these rupees are available, if necessary, for transfer to the Paper Currency Reserve in exchange for sterling securities. Such a transfer would be financially sound from the point of view of both Reserves; and provided that the rupees were only issued from the Paper Currency Reserve in exchange for notes previously circulating, the total reduction of currency would be no less than before. In the consideration of the Paper Currency Reserve, therefore, the increase of strength which would accrue to the Gold Standard Reserve ought not to be entirely overlooked. The

Government of India adhered to the view that a large holding of liquid gold, strictly reserved for use in emergencies, would strengthen exchange to a much greater extent than an equivalent holding of securities which it would be difficult to realise in a crisis. They pressed this view on Lord Morley, but failed to convince him. But they stuck to their guns, and returned to the charge in the beginning of 1912. Lord Crewe was more conciliatory, and as there was a limited supply of suitable securities with a fixed and near date of repayment, he arrived at the conclusion that a portion of the Reserve may be held in gold, and decided to set aside from time to time, but at least once every six months, and to hold at the Bank of England, an amount equivalent to the interest on investments and profits on coinage hereafter received, except profits retained in India for building up the silver branch of the Reserve, until the amount so held reaches 5,000,000*l.*

The Amount of the Reserve.—This conciliatory policy was reflected in the treatment of another problem of vital importance. The Government of India had insisted on the necessity of raising the strength of the Gold Standard Reserve gradually to 25 million pounds, on the ground that it would be generally accepted as a conclusive proof of their determination and ability to maintain a stable exchange. As usual, Lord Morley emasculated the project by deciding that 25 million pounds should be the standard for *the gold in the Gold Standard Reserve and the Paper Currency Department combined.*

This fell far short of what the Government believed to be desirable and was regarded by the public with

suspicion and dissatisfaction. But the gold in the Paper Currency Department is affected by causes over which the Government have no control. It is liable to flow out for the demand of ordinary circulation; it is liable to disappear into hoards; and it is liable to be rapidly spent in the purchase of silver. There is no calculation or stability about it; and it fails to impart the confidence in the position of the Government which is secured by adequate strength in the separate Reserve established solely for maintaining exchange and incapable of being used for any other purpose. There was no ground for Lord Morley's apprehension that the building up of the Reserve to 25 million pounds will either divert funds from the industrial development of India, or have an unfavourable effect on the Indian Trade balance, for the profits on coinage and the interest accruing on the sums already invested are used either in loans to the London market or in the purchase of securities from that market. In another case the total amount of gold on the market is in no way diminished; and the gold cannot be described as locked up. The policy of the Government with regard to the amount of the Reserve was clearly explained in their letter, dated 29th February 1912. "We believe that it is a mistake to complicate the issue by any appeal to our resources. To declare a definite figure for the Gold Standard Reserve alone will clear the air and inspire confidence. What that figure ought to be, is a matter of opinion; but after the experiences of 1907-08 we believe that 25,000,000*l.* is advisable, as well as moderate and practicable. The Reserve now holds over 17,500,000*l.*

and it fructifies at the rate of 500,000*l.* a year even if it gains only the slow accretion of its own interest. Should fresh coinage become necessary, the profits thereon would probably bring the reserve easily and rapidly to the figure which we advise."

The Policy of the Government of India.—The total amount up to which the reserve should be accumulated has been a much canvassed question in the outset; and the problem has been discussed at various times in the last sixteen years. The views of the Government of India were expressed unambiguously before the Chamberlain Commission. "We still stand very firmly on the sentiment—it is more than sentiment—on the certainty, on the conviction, that there can be no finality about the size of the Gold Standard Reserve. If a maximum were called for at the moment, we should probably say we should be glad to see 30 millions, but that can only be with reference to present conditions, and we should be very sorry to say that five or ten years hence a certain figure would be adequate." The main object of the reserve is not to secure the convertibility on demand of the whole of the rupees in circulation but only to provide a fund sufficient to convert into sterling such amount of rupees as may at any moment seek export; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling. Consequently it will depend not so much upon the amount of rupees at any time in circulation—the reserve is not required to provide for the conversion into sovereigns of the rupees in circulation in India—as upon the growth of Indian trade and the extent of the deficiency which

adverse seasons or circumstances may at any time produce in the country's power to liquidate immediately upon its foreign obligations. In this view the representatives both of the Government of India and India Office concurred. Lord Meston thought that "the ultimate drain on the reserve will never bear any very large relation to the total circulation of rupees in India. I do think, whatever the theory may be, in practice it will be related more to the demand of international trade, that is, to the balance of trade, than to the actual amount of uncovered rupees, and consequently I would not go quite so far as your statement of the case." Sir Lionel Abrahams regarded the amount of drain that may come on the sterling resources as a function not "of a certain quantum of currency but of a certain balance of trade. I have always taken the balance of trade as the proper measure of the possible liabilities that would have to be met in a period of exchange crisis, and I have disregarded the quantum of currency altogether."

Should the Amount be based upon the Balance of trade, or the Amount of Currency in Circulation?—These views should be contrasted with the proposal of Mr. H. M. Ross. He based his argument to a great extent on the view that the amount of rupees in circulation is the primary factor in the determination of the amount of the reserve. He rejected the balance of trade as the proper measure on the ground that it is a "puzzling expression." The size of the Gold Standard Reserve might be fixed on a basis of experience, or of analogy and comparison. In the former case we could go upon the actual loss of gold in the crisis of 1907-08. The

scheme proposed by other witnesses need not detain us here. The majority thought that no limit should be fixed to the amount of the Reserve, and in this view the Chamberlain Commission concurred. They thought that the point was not capable of exact definition, as the growth of Indian trade and industry carries with it a continual increase in the possible demands on the reserve fund in adverse times. The larger the trade, the greater will the adverse balance which the failure of crops and the consequent falling in the volume of exports may create. In time the balance would restore itself, but in the meantime exchange would have collapsed. It is to maintain exchange in the interval before the balance of trade can right itself that the Reserve exists, and its resources must be sufficiently liquid to be used at once, and sufficiently large to meet the most prolonged strain to which it may reasonably be anticipated that they might be exposed. But there is no need to accumulate the Reserve beyond the point at which it will be sufficient, together with other sterling resources to meet all reasonably probable requirements in a time of adverse trade.

Why the Crisis of 1907-08 cannot be regarded as a Measure of Maximum Demand on the Reserves?—The crisis of 1907-08 cannot be regarded as a measure of maximum demand on the Reserve; for the famine was not the worst experienced in India, the failure of the monsoon was for one season only, and the storm centre of the world-wide crisis was in New York and not in London. A second failure of the monsoon in the following year would have added to the burden, even

though the check upon imports and the effect upon prices resulting from the previous year's crisis would have done something to mitigate its evil consequences, whilst, if the storm centre of the crisis had been in London, the difficulty of realising large quantities of securities in which the Reserve was then held might have been considerable. But another reason for setting no limit to the accumulation of the Gold Standard Reserve, so far as this is due to the profits on the coinage of rupees, was the fear that otherwise Government may be tempted to provide themselves with as much money as they liked for internal expenditure by coining rupees without limit.

The Recommendation of the Chamberlain Commission.—The Chamberlain Commission thought that reliance ought to be placed on gold in the Paper Currency Reserve for the support of exchange only in so far and so long as the Gold Standard Reserve is not yet adequate to support the burden by itself. They recommended that the whole profits of the silver coinage, together with any interest accruing from investments or loans made from the Gold Standard Reserve, should for the present continue to be placed to the credit of that Reserve; that no diversion similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows of a much more accurate definition of the calls which the Reserve may have to meet than is at present possible. They were of opinion that, even if an allowance is made for the " ear-marked " gold in the Paper Currency Reserve, the suggested total of 25 million pounds was insufficient.

The Location of the Reserve.—Until 1906 the whole of the Gold Standard Reserve was normally held in sterling securities in London; there were some temporary holdings of gold in India pending remittance to London. In 1906 the policy of holding a portion in silver was adopted and finally of holding it in coin rupees. The next change took place when it was decided in 1909 to hold about a million in cash at short notice, that is to say, money lent for a few weeks at a time on securities so as to be called in very rapidly. The final change was made in 1912 when the Secretary of State decided to accumulate a certain amount in gold in London.[1]

Objections to its location in India.—There are substantial reasons for locating it in London. London is the clearing house of the world, India's chief customer is the United Kingdom, and London is the place where money is required both for the expenditure of the Secretary of State on India's behalf and for payment of India's commercial obligations to this country and the world in general. If the Reserve were kept in India it would have to be shipped to London to be used. Again such portion of the Reserve that might be held in sterling form in India could not be held either in securities or in loans or deposits repayable in sterling. It would therefore be held in gold. Since India is to a very small extent a gold producing country, the greater part, if not the whole, of any gold held in India in the Reserve would be imported and would in all probability reach India

[1] A full account of its development is given in the preceding section.

either from England or from Australia. This would entail the expense of sending England to India gold which is intended ex-hypothesi to be used only for the purpose of being re-exported from India to England.

The Possibility of the Fund being frittered away.—A far more important consideration was the possibility of the gold located in India being spent on a different purpose. During the crisis of 1907-08 the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,394,000*l.*, of which 215,000*l.* represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000*l.*) issues to the public in India. The export on private account during the same period amounted to 249,942*l.*; that is to say, 6 per cent. of the total amount issued by the Government to the public in India during this adverse period was exported and so served the primary purpose for which, in the opinion of the Fowler Committee, reserves should be held, while 94 per cent. was used for other purposes.

It is clear, moreover, that if sovereigns are given at the 1*s.* 4*d.* rate, as they were actually given during the crisis, the rate at which they are to be issued must not be more unfavourable to the recipient than the established rate. At such a time the price in India of sovereigns other than those issued from Government reserves would be in excess of Rs. 15 each, the price corresponding to an exchange rate of 1*s.* $3\frac{31}{32}$*d.* per Rupee being 15 rupees and $1\frac{1}{2}$ annas per sovereign. It would consequently be profitable to any one in India who desired sovereigns for use in

India, to get them from Government treasuries rather than from any other source, and the whole internal demand would be met by drawing on Government treasuries and reserves, so that, up to the limit of that demand, sovereigns issued from the Gold Standard Reserve would pass into use in India for circulation, melting, or hoarding, instead of being exported to pay foreign obligations.

Arguments for its location in India.—Other objections to the location of the Reserve in India need not be detailed here. There would obviously be a serious loss of interest. No doubt, a part of the amount could be invested in securities, and there is no reason why the Indian securities approved by the Government of India should not be utilised for the purpose. The chief danger lies in the money being locked up in long-dated securities. But this is not an insuperable difficulty. Much more forcible is the objection urged by Sir Lionel Abrahams that, when a moment arrived for using in London gold held in India, a delay of about three weeks would occur while it was being shipped to India. This might prove disadvantageous in critical times, and the credit of the Government might receive a severe shock. Even this, however, is not so serious an obstacle, for the India Office ought to be able to arrive at some arrangement with the Bank of England, whereby the latter could render aid during a period of suspense and anxiety. There is, moreover, the danger of the Reserve being diverted from its original purpose, and used for the convenience of the London money market. The mere fact of its being ear-marked at

the Bank of England would not prevent it from being unear-marked, in a time of crisis. This happened once during the crisis of 1907-08 when, to meet his own needs, the Secretary of State unear-marked a certain amount of gold. The amount was no doubt used for the very purpose for which the Reserve is maintained, and no objection can be taken to the exercise of his judgment in this particular respect. Even so, it is conceivable that a crisis in London might seriously affect the safety of the Reserve, and shake the credit of the Government. London has not always been free from commercial crises, and her past history affords ample grounds for believing that the system is not incapable of being dislocated in times of panic. As a matter of fact, oscillations of trade depression and business activity have followed so regularly that Jevons built up an imposing theory on the periodicity of crises. He divided the crises of the nineteenth century by almost exact intervals of ten years—1816, 1825, 1837, 1847, 1857, 1866, 1873, 1882, and 1890. Panics are not so rare as has been generally believed; and the English money market is no less subject to the influence of psychic factors than the American market.

How the problem has undergone modification.—The problem of the location of the Reserve is moreover different from those which have previously come under authoritative examination by the various committees and commissions which have investigated the subject. The earlier inquirers were concerned mainly with the possibility of maintaining the exchange value of the rupee at 1*s.* 4*d.* They did not contemplate the rise in the value of the silver content of the rupee above its face value on

a basis of 1*s.* 4*d.* rate of exchange. A marked rise in the price of silver will necessitate a reconsideration of the whole position and a consequent raising of the exchange value of the rupee. The fixation of the exchange value at 2*s.* must lead to an increase in the resources ultimately required for ensuring the maintenance of the standard, and the amount of the reserve must be increased if it is to serve the purpose for which it is designed.

This will necessitate a modification of the arrangements whereby the Gold Standard Reserve is located in London. Though the restrictions on the movements of the precious metals have been removed, the demand on the Government of India for Councils has been much greater. This is by far the weightiest argument in favour of the location of a part, if not the whole, of the Reserve in India. The Government's resources would be supplemented by the resources of the Gold Standard Reserve, and even in periods of interruption in communications it can be employed with little, if any, less effectively in India than in London.

How some of the difficulties can be avoided.—Mr. Howard suggested that, apart from actual shipment, the Government could, if necessary, ear-mark it on behalf of the Bank of England against delivery to them of funds in London, or they could transfer it to the Paper Currency Reserve against a corresponding release of investments from the Paper Currency Reserve in London against which Reverse Councils could be sold. The location of a part of the Reserve in India does not exclude the possibility of the

transfer of a portion of the Reserve from London to India as part of the measures necessary for maintaining exchange. The policy to be actually followed must be governed by the necessities of the case. The Government will be able to borrow temporarily from the Reserve in the case of a temporary heavy demand for Councils at a time of low treasury balances or in connection with their ways and means arrangements in other respects; they may require some assistance in times of great monetary exigencies, or may, while floating a loan, desire to ease market conditions by increasing their balances with the Presidency Banks; they may even use it in conversion of funding operations in connection with their loans. As Mr. Howard has pointed out, "with the heavy maturities of temporary debt which we have to meet in the next few years, we may from time to time experience some embarrassment in raising enough by loan for our ordinary capital programme concurrently with the discharge of our maturing liabilities, and the possibility of indenting for a time on the Paper Currency Reserve within the limits allowed might prove very helpful and enable us to attack these operations with much greater confidence." He advocates the exercise of these powers in connection with the Paper Currency Reserve, but there is no reason why the Gold Standard Reserve should not be utilised for the purpose. As Sir William Meyer pointed out, the present danger is in respect of drain of the specie, and not *qua* maintenance of an artificial exchange value for the rupee. He thought that half the gold only should be located in India, "so as to assist in

meeting a grave absorption of rupees there pending the acquisition of fresh specie and to deal with the temporary difficulties referred to by Mr. Howard," and suggested that the Gold Standard Reserve should be much more closely linked hereafter with the Paper Currency. Both these suggestions are valuable, and the time has now arrived for a serious consideration of the proposal for the amalgamation of the Paper Currency with the Gold Standard Reserve.

Should the two Reserves be amalgamated?—The problem of linking the two Reserves closely bristles with difficulties, but the obstacle is not insurmountable, and the experience of the war ought to prepare us for a certain modification of the original design. Mr. F. C. Harrison advocated the amalgamation of the two Reserves on the ground that the amount of Gold Standard Reserve is conditioned by the amount of total money in circulation in India and by the course of the Indian trade. He thought that the Gold Standard Reserve should be regulated on the same principle on which the stock of gold which is of help for the encashment of the bank notes is held. He regarded the rupee as a note printed in silver, and treated the question of the redemption of the rupee on the same basis as the redemption of notes; and for every rupee issued a certain proportion of gold will be kept; and looked forward to a time when the Government could undertake the obligation to redeem the notes in gold and at the same time maintain its present obligation to redeem them in silver as well. The proposal was supported by Sir Alexander McRobert and Mr. LeMarchant.

Its defects.—The mixing up of the Paper Currency Reserve which serves one purpose and the Gold Standard Reserve which is designed for a different purpose altogether, would have been liable to misconstruction in India; while the amalgamation of the two would have obscured the real object for which the two Reserves were originally established. The Paper Currency Reserve is meant to flow out gold in good times, while the Gold Standard Reserve gold is to be held as a reserve until bad time comes. It will no doubt simplify matters greatly if both the Reserves were thrown together, but under present circumstances it is impossible, owing to the limited use of notes in India. The note circulation is not large enough to enable the Government to hold both sufficient securities and sufficient gold. It is possible that in the ultimate resort, and always assuming that there is a large leaven of gold, the two Reserves might be combined. At the present time, however, there is no prospect of the realisation of this dream. The Chamberlain Commission thought it possible "that an amalgamation may be found desirable in the future." Even if it be impossible at the present time, there is no reason why the work of the two should not be co-ordinated. A closer linking of the two Reserves would relieve the pressure on the rupee, inspire confidence among the public, simplify the management, effect considerable economies in the management of both the Reserves, and facilitate the location of a large part of the fund in India. The Babington Smith Committee recommended the location of a part of the Reserve on the ground that "in currency matters the possession of public confidence is

an asset of great value, and we therefore think it advisable to comply with the Indian demand, so far as this can be done without detracting from the utility of the fund for the purposes for which it exists." They recommended "that a portion of the gold in the Gold Standard Reserve should be held in India; but the gold so held should not exceed one-half of the total, and steps should be taken to ensure that it is not made available to the public except for the purpose of export."

The Problem of the Composition of the Reserve: The Policy of the Government of India.—The Government of India have always insisted on the necessity of holding a substantial part of the Reserve in a liquid form; and they expressed this view with characteristic pertinacity in a number of their statutes to the Secretary of State. Their requests were not granted, and though Lord Morley accepted full responsibility for converting into liquid gold as much of the securities as would ever be required for the purposes of the reserve, it was not till after Lord Crewe's accession to office that the India Office yielded to their arguments and agreed to hold 1,005,664*l.* in loans at short notice, and a sum of 1,620,000*l.* in gold, ear-marked at the Bank of England, this sum being the beginnings of a total sum of 5,000,000*l.* which was to accumulate in this form. As the Chamberlain Commission pointed out, the realisation in a crisis of securities in large quantities, and even the calling in of sums lent out at short notice, are likely to cause some stringency in the London market, and if the exchange crisis in India which renders such realisation necessary is accompanied, or directly caused, by a financial crisis in London,

the difficulty of realisation may be accentuated, and the possibility of loss to India cannot be ignored. India should, in this respect, be as far as possible independent of London.

Reasons for holding a large part in liquid gold.—Just as London must look to its own resources in such a crisis, and does not and cannot count on help from Indian Reserves, so India should be in a position to defend its own financial position without undue recourse to the gold reserves of London. The Gold Standard Reserve is built up out of the fruits of the economy of gold. It is a necessary condition of such economy that an adequate reserve should be held against an exchange crisis, and it is right that such reserve should be sufficient in itself to meet the crisis and should not be dependant on conditions which India cannot control, or on resources accumulated by another country to meet its own liabilities. It is not possible to fix an amount of gold which will hold for all time, as it will depend upon a consideration of conditions which are constantly changing. The balance of trade must no doubt be the determinant factor in all our calculations, but we must also take into consideration the effect of the influence of International Exchange. Crises are always possible, and even in the London money market the finest securities, such as Consols, cannot be regarded as identical with cash. Their realisation might involve such a loss in capital value as to make the holding of more than a comparatively moderate proportion of such stocks undesirable in the case of the Gold Standard Reserve. Short-term securities, such as Treasury bills,

Exchequer bonds, and similar securities, have this advantage over Consols, that the chance of any big loss of capital on realisation is less; but they may not be always realisable in large amounts quite so quickly or readily as Consols, and their enforced realisation at a particular moment might, under certain circumstances, so aggravate an adverse situation in London as to increase India's difficulties and so injure Indian interests.

Reason against the holding of a large part of the Reserve in liquid gold.—We need not go to the other extreme, and insist on the necessity of investing the whole fund in gold. This would be both unnecessary and wasteful. Lord Morley was perfectly correct in alluding to the disadvantages of locking up funds which might be profitably employed for the industrial development of India, and history during the last seven years has proved conclusively that its importance was greatly exaggerated. It is no doubt essential that the rupee should be backed by a substantial amount of gold, as it is a source of great strength to the stability of the exchange, and imparts a certain elasticity to the operations of the Government. As Mr. Howard points out, "if we had a holding of the kind during the war, this would have enabled us, instead of taking powers to expand our currency investment in the way in which we have done, to avoid this by a transfer of actual gold from the Gold Standard Reserve to the Paper Currency Reserve in London, the securities in question being placed in the Gold Standard Reserve instead of in the Paper Currency Reserve." It is doubtful, however, whether the Government will be able to secure the necessary amount

of gold at this juncture. The loss to the revenue must also be taken into account. The advantage of holding a portion of the reserve in securities and on loans is that, given an allowance to the securities, the profit is very large. Up to the 31st March 1913 the total interest on the amount invested in securities amounted to 3,421,894*l.*, and the loss on the sale of securities and on the depreciation of those still held was 1,121,269*l.*, so that the net profit was 2,300,625*l.* Taking the figure on the 31st March 1913, the total amount of the Gold Standard Reserve was—

	£
Securities at market value ...	15,945,669
Money lent at short notice ...	1,005,664
	16,951,333
Gold deposited at the Bank of England	1,620,000
Silver in the Indian Branch: 6 crores at 1s. 4*d.*	4,000,000
Total ...	£22,571,333

The Recommendation of the Chamberlain Commission.—In the opinion of the Chamberlain Commission not less than one-half of the fund should be held in actual gold when the total fund exceeds 30,000,000*l.*, and a minimum amount of 15,000,000*l.* should be accumulated as rapidly as possible. If this rule is followed and a sum of not less than 5,000,000*l.* is usually kept in gold in London as a part of the

Paper Currency Reserve, it will be possible for India, in a time of exchange crisis, to release in actual gold an amount equal to the amount of securities which it may be desired to realise, and at the same time to have a final reserve of gold left. So soon as circumstances render recourse to the Gold Standard Reserve necessary, the policy of the authorities should be to use both the securities and the gold, advantage being taken of the release of gold to facilitate the realisation of securities.

The Composition of the Reserve at the present time.—The Chamberlain Commission were too cautious in their proposals, and did not take into consideration numerous facilities for investment in short-term securities. They relied to a great extent on the experience of 1907 and 1908, and made their recommendation mainly upon that basis. At the present time, however, there is no reason why a large portion should not be held in short-dated securities. The balance of the Gold Standard Reserve on the 30th November, 1920, in England amounted to £35,835,906 and was held in the following form:—

	£
Gold in India ...	...
Cash at the Bank of England ...	217
British Government securities (value as on 30th September last) ...	16,610,477
British Government securities since purchased ...	19,225,212
Total ...	35,835,906

The constitution of the Reserve on 30th November 1919 was as follows:—

	£
British Treasury Bills, maturing between December 1919 and March 1920 ...	8,219,000
Exchequer Bonds, redeemable between February 1920 and October 1921 ...	16,199,300
National War Bonds, redeemable on 1st October 1922 ...	7,500,000
Five per cent. War Loan, 1929-47 ...	3,762,181
Local Loans, 3 per cent. Stock ...	200,000
Irish Land Stock, $2\frac{3}{4}$ per cent. ...	438,720
Transvaal Government 3 per cent. Guaranteed Stock, 1923-53 ...	1,092,023
	37,411,224
Cash ...	27,093
Total ...	37,438,317

Proposals for the Reform of the Reserve.—The problems both of the composition and the location of the Reserve must be considered in the light of the experience of the war. The events of the war demonstrated that so far from there being a demand for homeward remittance, for which the Gold Standard Reserve is primarily designed, there has been a strong demand for remittance in the other direction. Sir Lionel Abrahams stated

before the recent Committee "we have been accumulating money here to a greater extent than was really comfortable."

Mr. Howard's Proposals.—Mr. Howard proposed that the Reserve should be built up to a figure of not less than £40 million. He declared that, apart from the suggestion of the extension of its function, the liabilities of the Government continue to grow, and the resources ultimately required for maintaining exchange at 1*s.* 6*d.* are likely to be more rather than less with a 1*s.* 4*d.* rate. "The question of the addition to the Reserve of the profits on rupee coinage is at present unfortunately academic. It will, however, continue to grow by accretions of interest. Possibly after a figure of £40 million has been reached, half of any subsequent accretions could profitably be diverted to capital expenditure; while, when a £50 million figure is attained, it would, in my view, be safe to utilise for capital expenditure all the receipts which would otherwise accrue to the reserve." It is doubtful whether gold coinage will be obtainable for some years, and in the present state of note issue such gold as the Government of India can obtain should be added to the Paper Currency Reserve rather than to the Gold Standard Reserve. So long as there is ample holding of securities with early dates of maturities, there need be no fear with regard to its realisation in emergencies. This condition is secured under the present scheme of investment, and with the exception of £5½ million, the securities in the reserve are redeemable by October 1922 at the latest. The Babington Smith Currency Committee recommended that the amount of

securities with a maturity exceeding three years should not be increased, and the authorities should aim at holding all the invested portion of the reserve in securities issued by Governments within the British Empire (other than the Government of India), and having a fixed date of maturity of not more than 12 months.

SECTION IV.—THE GOLD STANDARD RESERVE.

Summary.

The Object of the Reserve.—(*a*) The Gold Standard Reserve is established for the purpose of maintaining the exchange value of the rupee, and is issued when owing to an adverse balance of trade, the exchange value of the rupee should fall. The Secretary of State can for a time stop these sales of Council drafts from India and can utilise the Home Exchequer by drawing on this fund. The Government of India support exchange by selling sterling bills at London (which are met from the reserve), and by drawing rupees, the receipts of these bills, from circulation. (*b*) The other object of the reserve is the liquidation of an unfavourable balance of trade to the extent necessary to prevent exchange from falling below specie point. It is not intended to provide for the conversion into sovereigns of all the rupees in circulation in India. Gold is world's money, and India, like other great countries, needs gold less for internal circulation than for the settlement of external obligations when the balance of trade is insufficient to meet them. Consequently the aggregate amount of rupees in circulation has only an indirect bearing on the question of the Gold Standard

Reserve. Its object is not to insure the convertibility on demand of the whole of the rupees in circulation but only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export.

The Rate of Telegraphic Transfer, etc.—Before the rise in exchange in August 1917, the rate for the telegraphic transfers was 1*s.* 1*d.* On August 28th it was raised to 1*s.* 5*d.*; on the 12th April 1918 it went up to 1*s.* 6*d.* This rate was maintained until the 30th May 1919, when the removal of the American control over the export of silver led to a rise in the price of the metal and necessitated a further rise to 1*s.* 8*d.* The rate was raised successively to 1*s.* 10*d.* on 12th August 1919, to 2*s.* on the 15th September 1919, and to 2*s.* 4*d.* on the 12th December 1919. The Secretary of State announced on the same day that he will sell reverse immediate telegraphic transfers at the rate of 2*s.* 3$\frac{31}{32}$*d.* if the demand for them should arise. As remarked above, the Gold Standard Reserve was established for the purpose of preventing a fall in exchange and not a rise, and many of the problems with which the recent Committee dealt were consequently different from those which had occupied the attention of the earlier investigators.

The Amount of the Reserve.—The Gold Standard Reserve is built up out of the proceeds of coinage, the interest on the securities invested in the reserve, and the profit or loss arising from the remittance of the funds for the reserve.

The amount to be held depends not upon the amount of currency in circulation in India but upon the volume of the trade. The larger the volume of trade, the larger the amount of possible variation from year to year in the net balance in favour of or against India. The crisis of 1907-08 cannot be regarded as a measure of maximum demand on the reserve, as a second failure of monsoon in the following year would have added to the crisis, whilst, if the storm centre had been in London, the difficulty of realising large quantities of securities in which the reserve was then held might have been considerable. The recent Currency Committee and the Chamberlain Commission held that no limit could be fixed to the amount up to which the Gold Standard Reserve should be accumulated, and advised that the profits on coinage of rupees should continue to be credited exclusively to the Reserve. During the war the circumstances were abnormal and they thought it advisable to await the return of normal conditions before fixing any maximum figure for the reserve. They believed that as long as prices throughout the world remained at or above the present level, India will maintain a prosperous export trade, and the present strength of Gold Standard Reserve, assisted by the other resources at the disposal of the Secretary of State, will suffice to maintain the exchange value of the rupee at the point we suggest. But if there were a sudden fall in world prices it is possible that the normal current of Indian trade might be affected for a period, and a heavier call might be made on the resources for supporting exchange than has occurred in the past. Accordingly they recommended that when

profits again accrue on the coinage of rupees they should be credited in their entirety to the reserve.

The Composition of the Reserve.—The Government of India have held consistently that the reserve should to a large extent be kept in gold, stored away until required to support exchange. When securities alone are held in the reserve, as is the case at the present time, there is merely a transfer of gold or credit from one party to another in the city, and this does not always increase the supply of gold in the London market. If, however, the reserve is held in short-dated securities, as the Treasury bills, etc., it serves the same purpose as gold. The Chamberlain Commission were of opinion that a considerable portion of the reserve should be held in gold, and suggested that the total gold holding should be raised as opportunity offered to £15 million, and the authorities should thereafter aim at keeping one-half of the total reserve in actual gold. But the recent Committee thought that in the present state of the note issue, such gold as the Government of India can obtain should be added to the Paper Currency Reserve rather than to the Gold Standard Reserve. They recommended that the reserve should be kept as liquid as possible by an ample holding of securities with early days of maturity. This condition is secured under the present scheme of investment. From the statement given above [1] it would be seen that, with the exception of about £5½ million, the securities in the reserve are redeemable by October 1922 at the latest.

[1] See pages 728-9.

The Location of the Gold Standard Reserve.—The reserve is kept in London, as it is the place where money is required both for the expenditure of the Secretary of State on India's behalf, and for payment of commercial obligations to England and the world in general. The Chamberlain Commission defended it on the ground that London is the clearing house of the world, and if it were kept in India, it would have to be sent to England for use there. This would involve delay at a moment when prompt action is essential. But in two respects the problem is fundamentally different from those which have been previously investigated. Firstly, the main object of prevent the measures devised in the past was to exchange value of the rupee from falling below 1*s.* 4*d.* Secondly, the possibility of a rise in the value of the silver content of the rupee above its face value on a basis of 1*s.* 4*d.* rate of exchange was not contemplated. Mr. Howard has formulated valuable proposals for the modification of the existing arrangements. During the war the Government had to meet the danger not merely of a falling exchange but also of a rising exchange, and the demands for meeting Councils will prove more embarrassing than they have been in the past. He thought it desirable that a substantial part should be held in India. He was supported in his proposal by a number of witnesses. The Currency Committee lent a favourable ear to these suggestions and advised that a portion of the gold in the Gold Standard Reserve should be held in India; but the gold so held should not exceed one-half of the total, and steps should be taken to ensure that it is not made available to the public except for the purpose of

export. The sterling investments of the Gold Standard Reserve (including cash on deposit) should, as in the past, continue to be held in London.

The Statutory Reserve.—The Karachi Chamber of Commerce suggested in 1911, that the objects and management of the Gold Standard Reserve should be defined by a statute. The Government of India did not object to a statutory description, but they thought that the only general principle which should be laid down under the authority of the Crown is that the reserve is to be, until it reaches a certain figure, exclusively used for the purpose of supporting exchange, and not to be turned aside for buying rolling stocks or the like. The other statutory provisions would define the powers of the Secretary of State for making rules for his own guidance. They desired to guard against the possibility of the reserve being devoted to any other object by clearly, emphatically, and authoritatively stating the object of the reserve in a statute. It was claimed that its transfer to the care of a bank or to a special department created by a statute, with strictly defined powers, would be greatly preferable to leaving its use dependant upon the will or whim of the Secretary of State for the time being, or of his financial advisers. It was thought that this will be the best means of gaining the confidence of the merchants. The disadvantages of restricting the freedom of Government are obvious, and their approval was confined to the principle as they were doubtful with regard to its application to the varied problems of Indian Currency. A statutory regulation may inspire the confidence of the public, and prevent such inroads on the

fund as the Committee of Indian Currency and finance authorised in 1907. There are, however, insuperable objections to a statutory regulation of the reserve. It will tie the hands of the Government of India in a time of crisis, and stereotype the disposition and amount of the reserve. The Chamberlian Commission did not approve of the proposal, but they advised that the Government should make a public notification of their intentions to sell bills in India or London at the rate of 1*s.* $\frac{32}{32}$*d.* whenever they are asked to do so, to the full extent of the resources. The knowledge that such an exchange can be purchased will by itself inspire confidence, reduce the actual demand for drafts on London, and prevent that feeling of panic which accompanies periods of financial strain.

SECTION V.—THE GOLD EXCHANGE STANDARD IN FOREIGN COUNTRIES.

The Principle of the Gold Exchange Standard.—The Gold Exchange Standard represents a monetary system consciously constructed upon a sound basis, adapted to conditions and fully guarded in its actual operations. It differs from the single metallic standard in the fact that it contemplates the coinage in circulation of little or none of the standard metal, but provides facilities for keeping token coins of cheaper metal at a fixed value in the standard money. In the Gold Exchange Standard no gold is necessarily required in the country itself where the system is in operation. It is only nominally a redemption system, for it involves the manipulation of the silver currency in such a manner as to prevent its value

from diverging from foreign gold by more than the usual premium on exchange in those countries. The Gold Exchange Standard may be regarded as a kind of limping standard with the added feature of partial redemption. The limping standard came into operation in the country as a natural result of the wide departure of the relative bullion value of silver and gold from the official ratio fixed by law. Various causes compelled the members of the London Union to prevent the loss of gold and their descent to the silver basis. They could not, however, dispose of the entire mass of silver at bullion price, as it would have been produced serious effects. If the annual gold production of the world had remained stationary, or if the International Monetary Conferences had arrived at some agreement with regard to the ratio between gold and silver, the history of currency policy would have been different. The failure of these conferences led to the development of the limping standard. It was impossible for the countries of the Latin Union and the United States to substitute gold currency for the silver coinage in use, as it would have produced an economic upheaval, and wrought incalculable harm. The only way whereby the monetary system could be rescued from financial disaster was by taking under Government control the output of silver coins, and thereby withholding the premium offered to gold and silver bullion to flood the country with their product through the mints. France led the way. The free coinage of five-franc pieces was suspended, and the maximum of coinage to be allowed for each country was fixed by agreement.

Finally, in 1878, the free coinage of five-franc pieces was absolutely suspended, and the issue of the token coins of silver was strictly limited by various conventions of the States of the Union. The five-franc pieces already coined remained legal tender without limit; but gold was henceforth the standard. The silver coins were kept at par with the standard, in spite of the steady downward course of their bullion value, by limitation of their quantity and the fact that they were received at par for public dues. The experiment of bimetallism in France was thus abandoned after partial enforcement for seventy years, by the deliberate closure of the mints to silver. In the United States also at nearly the same date the free coinage of silver ceased to be, and the repeal of the Sherman Act sounded the death knell of local bimetallism.

The Limping Standard.—The limping standard has become since 1873 the standard of the several leading commercial nations of the world. Its most prominent advocates are France and the United States. Such a system comes about when in the system of bimetallism before either metal can wholly expel the other, the mint is closed to the cheaper of them, but the coinage that has been accomplished up to date is not recalled. If silver be the metal thus excluded, any money already coined in that metal and in circulation is kept in circulation at par with gold. The parity may continue even if *limited* additional amounts of silver be coined from time to time. As a result there is a divergence in value between the silver bullion and the silver coin, the silver coin being overvalued. On the other hand, new

supplies of gold continue to affect the value of currency, and if more gold flows into the money reservoir it raises the currency level. Should this level become higher than the level of the silver bullion reservoir, silver will flow from the silver reservoir into bullion reservoir. So long, however, as the currency level is below the silver level, *e.g.*, so long as the silver coin is worth more than the uncoined silver, there will be no flow of silver in either direction. The legal prohibition affects the flow in one direction, and the laws of relative levels prevent its flow in the other, with the result that the value of the coined silver is kept equal to the value of gold at the legal ratio. The same principle applies in the case of any money, paper or metallic. So long as a note has the distinctive characteristic of money—in general, acceptability at its legal value—and is limited in quantity, its value will ordinarily be equal to that of its legal equivalent in gold. Consequently the paper money is too small to displace gold completely; gold will continue in circulation; and its value will not fall below that of gold. The parity between silver coin and gold under the "limping" standard is, therefore, not necessarily dependant on any redeemability in gold, but may result merely from limitation in the amount of silver coinage. Even redeemable paper money may circulate at par with other money, if limited in quantity and not too unpopular. If it is gradually increased in amount it will drive out all metallic money and be left in undisputed possession of the field. [1]

[1] See Purchasing Power of Money, Irving Fisher, Ch. VII.

The difference between the Limping Standard and the Gold Exchange Standard.—The Gold Exchange Standard may, from one point of view, be regarded as a development of this system of partial redeemability. By this system the Government, while not redeeming its currency in gold, redeems it on gold abroad. It differs from the limping standard in that the latter may at any time break down without the gold exchange attachment, if the silver should become so redundant relatively to trade, as completely to displace it. As soon as gold is driven abroad, parity with gold ceases. The Gold Exchange Standard avoids this catastrophe, for the willingness of the Government to sell foreign exchange at a fixed price and to lock up the silver it receives thereby, takes that much of currency out of circulation just as effectively as though the equivalent of gold had been exported. The Indian Currency affords an interesting example of the functioning of this principle. In a Gold Exchange Standard, and in the mechanism by which it is supported, India is in the forefront of monetary progress. The necessary condition of such a system is Government control of the coinage. It is this which differentiates the Standard from free coinage, and permits a value to be given to coined money which is different from its value as bullion, because of the specific demand for coined money as a medium of exchange, and in the execution of legal tender contracts. The importance of this principle, that limitation of the quantity of a commodity in the face of a given demand will raise the value of the commodity, has too often escaped the attention of the advocates of unlimited issues of silver and of

Government paper. Just so much currency as is needed for use at its current value will be absorbed by the community without depreciation in its value. In the case of money, when the quantity exceeds this complex demand, depreciation in value sets in—first, in the rate paid for the rental of money, which draws the surplus abroad to earn higher returns if the money is of a sort accepted everywhere; and second, in the depreciation of its exchange value, if the excessive quantity continues to confront only a limited demand. Government control of the tools of exchange involves dangers which are not to be lightly put aside; but under such a system as is here proposed, there would be no temptation to issue token coins in excess of the demand, because the profit would not be large, and the penalty would be swift in coming, and glaringly plain to the public, in the flight of gold and the imminent risk that the par of exchange would be broken with other commercial nations.

Lord Goschen on the conservation of Gold in a Central Reserve.—The new system was at first regarded with great suspicion, and its advocates scarcely claimed for it any other advantage than that of a practical makeshift, affording as it did a means of easy transition from the previously existing system to the gold standard, without shock of introducing an unfamiliar coinage. It may well be asked whether those who devised the Gold Exchange Standard did not build better than they knew. The Fowler Committee deliberately rejected the Lindsay scheme, and advocated a gold standard for India. They had no intention of introducing

Gold Exchange Standard and probably heard the phrase for the first time from Sir John Lubbock.

The Lindsay scheme based upon Ricardo's theory.—Lindsay's whole scheme was based upon Ricardo's conception, and he derived his weightiest arguments from the study of his work. The theory was built up into a consistent whole by John Stuart Mill, and applied with wonderful success by Lord Goschen. Mill[1] argued that "gold wanted for exportation is almost invariably drawn from the reserves of banks, and is never likely to be taken from the outside circulation while the banks remain solvent;" while Goschen spoke as follows in 1891, before the London Chamber of Commerce:—"We only have as an effective circulation that which is required for the daily wants of the people. You cannot tap that to any extent so as to increase your central stock of gold. You may raise your rate of interest to 6 per cent. or 8 per cent., but the bulk of the people will not carry less gold in their pockets than they did before, and I doubt whether, from other quarters, you would be able to get much addition to your central store." The costly gold circulation is one of the first luxuries we should economise in times of stringency. But the concentration of gold is not merely an economy of expense. It is an immense increase of economic resources. One pound in the central reserve, Lord Goschen used to say, is worth £5 in the pockets of the people, for gold in the people's pockets is absolutely useless for the purposes for which currency reserve is held.

[1] Political Economy, Book 3, Ch. 22, S. 2.

How far have advanced European Nations embodied its essential features? Austria-Hungary.—In Austria-Hungary, from 1879-92, when the law for the introduction of Gold Standard was passed, the currency practically possessed an artificial value, inasmuch as its circulation among the inhabitants was based on the confidence reposed in the Austrian and Hungarian Governments that the prohibition of free coinage of silver would not be withdrawn, and that neither of the two Governments would undertake the coinage of silver in larger quantities than was absolutely necessary to back the notes in circulation among the community. In 1892, the law for the adoption of a Gold Standard was passed. It empowered the Government of both halves of the monarchy to gradually substitute for the florin currency then in circulation gold crown currency. At the same time it was expressly stipulated that, until the completion of the reforms, the florin currency should maintain in every respect its former position as legal tender, and should be interchangeable at the rate of two to one, that is to say, one florin in silver or paper for two silver crowns. The relation between the old silver currency and the new gold currency was fixed at $18\frac{2}{9}$ to 1. In due course, the Austro-Hungarian Bank commenced operations by extensive purchases of gold coin and bullion on the domestic and foreign markets, whilst the Government authorities in both halves of the monarchy proceeded to obtain the necessary supply of that metal by the issue of a series of State Rentes. These operations, however, were not carried out without frequent interruptions occasioned by

the recurrence of an agio or premium on gold, rendering the import or purchase of that metal unprofitable. The authorities put into circulation the total sum of two hundred million florins in gold coin and called in all bank notes of less than twenty-five million florins denomination. But the Government was unable to retain the gold in circulation; and all attempts to popularise it failed, as they failed in India in 1900. The Bank now keeps all the gold in the central reserve, and its example has been followed by other countries.

The Central Reserve in Germany.—In Germany the Acts of 1871, 1873, 1875, the Supplemental Act of 1899, and the Act of 1910 completely modified the old system of currency. The Act of 1873 formally completed the organization of the German currency system. It was recognised more and more that, in order to give effect to the gold standard, which for the time being existed merely on paper, and to regulate and supervise the entire currency circulation, the establishment of a Central Bank was an absolute necessity. This consideration finally led to the establishment of the Reichsbank, which came into being on January 1, 1876, absorbing at the same time the Bank of Prussia. The Bank Act of March 14, 1875, realized the principle of the Central Bank as far as it could be reconciled with the rights of the existing 32 private note banks. For it must constantly be borne in mind that the German Empire was not a unitary state, but a mere federation of states, and it is because of this federal character of the Empire that every institution newly created by the Imperial Government always had and still has to take

into account conditions and institutions as they existed in the different federated states. The predominance of the Reichsbank over the private note banks was secured through its considerably larger capital, further through the volume of its tax-free note contingent, which exceeded considerably the amount of all the other contingents, and which subsequently was to increase still more through the accretion of the contingents of the note banks which might renounce their rights of issue. The note circulation is subject to the limitations of the so-called indirect contingent. It must not exceed three times the cash reserve (bullion and specie, imperial treasury notes). Within this limit the issue of notes is not restricted. A note tax of 5 per cent. per annum must, however, be paid to the Imperial treasury on that part of the note circulation which exceeds the amount of cash reserve (bullion and specie, imperial treasury notes, and notes of other banks) plus the tax-free note contingent.

The combination of private capital and State management was found to work so well that the Government offered decided opposition to all efforts towards nationalising the Reichsbank through the acquisition of share capital by the Empire. But in view of the experiences of the past decade and the progressive economic development of the country, it was deemed advisable to strengthen the given structure by increasing the operating funds of the bank and to devise means of rendering more effective its discount policy as against that of the private banks of issue.

The Supplemental Bank Act imposed various restrictions upon private note banks. They were not permitted

to discount below the official rate of the Reichsbank whenever it reached or exceeded 4 per cent., and their rate must not be more than one-fourth per cent. below that of the Reichsbank whenever this rate is less than 4 per cent. The discount is the most important and efficient means whereby Reichsbank encourages imports and discourages export of gold.

The Policy of the Reichsbank.—When the Reichsbank was established not quite half of the German money circulation consisted of gold, the standard metal. Accordingly the bank had to assist in the general reform of the German currency, and it aimed at attracting from abroad the largest possible quantities of gold. The extraordinary money stringency during 1907 led to the appointment of an extensive bank enquiry in 1908. The commission found that a large quantity of gold coins was melted every year for use in the arts, and this led to a strain upon the reserves of the Reichsbank. The policy of 1875 was deliberately reversed by the revision of the Bank Act, and 15 and 20 mark notes were issued with the deliberate object of keeping as much gold as possible in circulation. This policy has been developed during recent years. The President of the Reichsbank declared in 1913 that they must, in the interest of sane policy, increase the issue of notes and thus hold a larger quantity of gold in their reserves. Germany had largely effected this by the concentration of all her available gold at the centre and after the outbreak of the war, every other belligerent country increased its central hold in gold to the fullest extent of its capacity. For more than a generation past some of the ablest governors of the Bank of England

had steadily advocated a similar policy in England, and their opposition to the rejected £1 note was due to the fact that if such an issue had been made on the ordinary lines a large part of the coin replaced would never have been held in the reserve, but would have left the country.

The Russian Currency.—The problem of currency reform in Russia was complicated by the fact that there were no less than four different standards of value, all of which were in circulation. Her currency consisted of the gold rouble, the metallic silver rouble, and the bank note rouble. The value of the gold rouble was 37·97*d.*; the value of the metallic silver rouble and of the paper rouble continually fluctuated; and the latter, besides its daily actual and weighing exchange value, had an arbitrary value, fixed periodically for the purpose of Government accounting. After the complete disappearance of both gold and silver coinage as circulating media, gold became the real standard of value, through the influence of very large exchange operations, in connection with the payment of interest on foreign loans, and the settlement of exportation and importation accounts; but gold currency was found to be impossible and the Government reverted to a policy of conservation of gold.

France and Holland.—Both France and Holland have pursued the same policy. In Holland the mint has been permanently closed for the coinage of silver since 1875. By the Act of 6th June, 1875, only the coinage of gold is permitted, on the basis of 6·048 gram fine=fl. 10. By the Act of 27th April, 1884, the Dutch Minister of Finance is directed (or rather empowered) to sell silver to

the amount of fl. 25,000,000 in case of redundancy, but the necessity for availing himself of this permission has never arisen. There is one peculiarity in the Dutch system of currency which explains why till now it has worked well. In France the bank supplies gold freely for the internal circulation, but not for exportation. The Dutch bank does quite the opposite. Whenever the rates of exchange rise above par, gold is given (and no premium exacted), as much as is wanted; for the internal circulation gold is issued only in small quantities; for that purpose silver and notes serve just as well.

Transition to the Gold Exchange Standard.—The principles underlying the currency system of the above countries emphasise the necessity of the conservation of gold in the central reserve. The Bank of England attains this object by raising its bank rate, but in countries where the money market is not so highly developed, the Central Bank adopts a more effective policy. The dependence of their Central Banks on holdings of foreign bills and on foreign credits, their willingness to permit a premium on gold, and the inadequacy of their bank reserves taken by themselves, are instrumental in directing the flow of precious metals. The Gold Exchange Standard is the logical development of the above policy. In essentials the currency of India is not really different from those of Mexico, Philippines, or Panama. It is simply a more regularised form of the same system, and carries somewhat further the currency arrangements which several European countries have evolved during the last 30 years.

The Methods employed by the Scotch Banks during the latter half of XVIIth Century.—A system closely resembling the Gold Exchange Standard had been in operation in Scotland for 40 years, and had been recommended for adoption in Ireland by a strong Parliamentary Committee in 1804. After the Peace of Versailles in 1763, a great scarcity of gold was experienced in Scotland, and speculators took to "bearing" exchange very much after the fashion adopted at present by bullion speculators in Bombay. Exchange with London fluctuated 5 or 6 per cent., and in order to fix exchange and to frustrate the attempts of speculators, the Scotch Banks established a gold fund in the Bank of England; by offering drafts on London at ½ to 1 per cent. over the speculator's rate, they gradually brought the exchange to par, and with the aid of this conversion fund exchange was maintained at this level up to 1804, and until gold coins were again used.

The Commission on International Exchange.—The germs of the new doctrine are to be found in the Report of the Commission on International Exchange and International Monetary Conferences. At the Conference of 1881 Mr. Broch, the Delegate of Norway, arguing strongly in favour of the gold standard among the civilized countries of the west, declared that the true field for silver was to be found, "not by arbitrarily raising the value of this metal in Europe and America, but by encouraging its use in the countries of the Orient which still have a preference for it; in that vast Chinese Empire, scarcely yet opened to Europe, in that immense African continent, which is

to-day invaded from all sides, and where trade is still carried on under the primitive form of barter, but where it would be no doubt easy to introduce the use of silver money." Walras'[1] proposals anticipated some of the features of the new system. He suggested that whichever happened for the moment to be the cheaper metal should be treated as the token coin; its free coinage on private account should be suspended and the output regulated by the Government. Under this scheme silver could be coined by the Government whenever there appeared a scarcity of money, but such coinage would cease before the security of the currency was threatened by excessive exportation of the standard metal.

After the failure of the attempts to secure bimetallism by international agreement in 1897, the course of exchange between the gold countries and the silver countries was marked by violent fluctuations. Maximum and minimum quotations for silver bullion in the London market were as far apart in 1901 as $29\frac{9}{16}$ pence and $24\frac{15}{16}$ pence, or a variation of more than fifteen per cent. In 1902 the maximum quotation fell to $26\frac{1}{16}$ pence per ounce, and the minimum finally dropped in December to $21\frac{13}{16}$ pence per ounce, or about thirty per cent. below the maximum of the year 1900. It was keenly realized by the financiers and economists of the silver countries that their trade was being greatly hampered by these violent fluctuations. Accordingly, the Government of Mexico took the initiative in the autumn of 1902 in seeking the co-operation of the Imperial Government

[1] Theorie de la Monnaie, 1886.

of China and the Government of the United States in a new method of steadying the exchanges. The American Commission, together with the Mexican Commission, went to Europe and consulted the Commissions appointed by the Governments of Great Britain, Holland, Germany and Russia. The American and Mexican Commissions favoured the Gold Exchange Standard for countries about to give up the silver standard, and upon the validity of their general proposition in favour of the Gold Exchange Standard "there was universal agreement by every European capital represented." All the countries except Russia favoured the adoption of a relative and uniform ratio of about 32 : 1 in the currency systems to be established in the east by those countries and dependencies which were considering a change in their existing systems.

The Mexican Currency.—The method decided upon by the Mexican Government for remedying the evils of fluctuating exchange was substantially the adoption of the Gold Exchange Standard. The majority report of the Fifth Sub-commission on Mexican currency contained many features of unusual interest to students of Indian currency. It was round the establishment of a substantial Gold Reserve that the battle raged. The plan of the majority was in its essential features the same as that of the Indian Government. They recommended that as soon as the Government should have in readiness enough of the new coins to begin putting them in circulation, it should direct that they be given out in exchange for such

of the old coins as were legally circulating in the country. The exchange was to be effected at par at as large a number of places as possible so as to accomplish the conversion in the shortest possible time and to minimise public inconvenience; while the Government was to put into circulation only such an amount of the new pesos as should be necessary for the redemption of the old money; and care was to be taken to prevent any excessive issue of fractional money. "When the exchange shall have been effected, the Government shall not place in circulation any additional silver pesos, without receiving in Mexico or abroad the equivalent in gold bars or gold coin at the established ratio, plus an additional amount sufficient to cover transportation, insurance, and other expenses, if the delivery is made outside the Republic."

While recommending the Government to begin to accumulate a reserve out of surpluses and profits accruing from the minting of the new coins, the majority were opposed to its incurring any obligation whatever for the redemption of the new money in gold. Their plan was the Indian plan of relative contraction, whereby they hoped to raise the gold value of the peso from bullion value to the new gold par; *i.e.*, from an equivalent of $43\frac{1}{3}$ cents United States currency on December 11, 1903, when their report was published, to 50 cents, or an increase of $15\frac{1}{2}$ per cent.

The Mexican "Regulator Fund".—It is interesting to compare the mechanism of the Gold Standard Reserve with the Regulator Fund established in Mexico by the Monetary Decree of March 25, 1905. It was divided into two parts, one to be kept in

Mexico and the other abroad. The former was to consist of metallic money and of gold or silver bars destined for coinage, to be held as a confidential deposit in the National Bank of Mexico or in some other establishment of first rank. The other part was to be deposited abroad in foreign banks or banking houses of high standing. It was to be a trust fund and was to be obtained from the following sources: (1) An initial contribution of P. 10,000,000 from the public treasury which might be raised to P. 15,000,000 in case the Finance Minister should consider such an increase necessary. (2) Certain sums which the budget of expenditure would designate to cover losses from abrasion of coins as shown by the re-coinage. (3) Seigniorage profits, of which at the beginning the most important would be those arising from the re-coinage of a certain number of peso pieces into fractional coins. (4) Profits from foreign exchange operations. (5) Net profits on the coinage of pesos for exportation. (6) Other profits incidental to the regulation and maintenance of the Fund. In essentials the system is the same as the Indian currency system, and though there are differences of detail, the principles underlying the monetary policy of both the countries lay stress on the same aspect. The plan seems to have worked well. The Gold Exchange Standard was put in operation in Mexico in May, 1905; and the mere announcement of its adoption produced decisive effects. Exchange went down, and the new parity of 2: 1 in American gold was brought about with comparative facility.

The Introduction of the Gold Exchange Standard in the Philippines.—The Government of the United States

took action before the departure of American Commission for Europe by enactment of a law for the establishment of the Gold Exchange Standard in the Philippines. The Philippine currency is perhaps the clearest expression of the principle, and the scheme probably never been attempted elsewhere on such a large and systematically worked out plan. The Gold Standard Fund was to be composed of the proceeds of the certificates of indebtedness, seigniorage profits, and all profits from the sale of exchange, etc., and was used exclusively for the maintenance of the parity of the new currency and the expenses incident thereto, including the purchase of bullion for new coinage and its transportation, mintage, etc. Part of the fund was to be held in Manilla and part in New York. For the maintenance of the parity three forms of redemption were provided in the law, the principal one being mandatory on the part of the Government, and the other two incidental and optional. All the money presented to the treasury for redemption or for the purpose of exchange on New York is immediately withdrawn from circulation and not paid out again except in response to similar counter-demands.

The Straits Currency.—The basic principle of the Gold Exchange Standard was embodied in the amendments to the Currency Note Ordinance of 1899, December 2, 1908. The amendments provided that the proportion of gold to silver in the coin portion of the reserve fund should be raised to 2 : 1, and that apart of the coin portion of the fund as well as the invested portion might be kept with the Agent for the Colonies in London. Straits' dollars, 50 cent. pieces, and currency

notes were made receivable by the Commissioner in Singapore in payment of such drafts. The Indian plan of withdrawing from circulation all the money received in payment of drafts was followed here as elsewhere. Moreover, dollars, 50 cent. pieces, and notes were made payable in the Colony in exchange for sovereigns paid into the reserve fund with the Crown Agents for the Colonies in London, sufficient premium being charged to cover the cost of shipping sovereigns from London. It is instructive to notice that the principle of the Gold Exchange Standard was rejected at first and was adopted only gradually in the Colony. The standard has, however, become popular now as the country is well supplied with notes, silver coins, and banks.

The Gold Exchange Standard in other countries.— The standard was established in Panama and in the Canal Zone in 1904; the Government of Ceylon have adopted it and the French have introduced it in Indo-China; while its essential features are reproduced in currency system of the West African Colonies. Something similar has existed in Java under Dutch influences for many years. The Japanese system is substantially the same. The law substituting the gold standard for the silver standard came into force in 1897. Though it allowed withdrawal of gold from circulation, every possible method was adopted to evade the obligation under the new Act to redeem the silver *yen* in gold. The gold standard was facilitated by the fact that Japanese people have for the past 50 years used bank notes and small subsidiary coins, silver, nickel and copper in making payments, and the habit has become so

ingrained in them that there is no likelihood of a drain on gold. The Government conserved gold supply by every possible means and placed a sum equivalent to 32 million gold *yen* on deposit in London. China is the only country that has not adopted this standard. The main causes are the lack of a uniform monetary system (or even the use of coin money in certain parts of China), the lack of a strong central Government and the opposition of powerful banking interests.

Conclusion.—The Gold Exchange Standard has then become the prevailing monetary system of silver using countries. Looking back on the events in the light of this experience it is possible now to see that Indian currency is closely related to those of the great European countries. The germs of the doctrine are found in Plato.[1] But the conscious construction of the system upon a sound basis was not possible until the end of the nineteenth century. The Indian Government itself did not have a clear idea of the final object to be attained,

[1] "Laws" Book V "(The Citizens of the Ideal State) will require a currency for the purpose of everyday exchange; this is practically indispensable for workers of all kinds and for such purposes as the payment of wages to wage-earners. To meet these requirements, the citizens will possess a currency which will pass for value among themselves but will not be accepted outside their own boundaries. But a stock of some currency common to the Hellenic world generally (*i.e.*, of international currency) will at all times be kept by the State for military expeditions or official missions abroad such as embassies, and for any other necessary purposes of State If a private citizen has occasion to go abroad, he will make his application to the Government and go, and on his return, if he has any foreign currency left over in his possession, he will hand it over to the State, receiving in exchange the equivalent in local currency."

the principle was not conceived as a consistent and coherent whole, and it was not till the crisis of 1907-08 that the divergence from the plan of the Fowler Committee was perceived. The advantages of the Gold Exchange Standard under intelligent direction may be thus summed up. (1) Diminution of the pressure upon the world's gold supply; (2) maintenance of par of exchange between Asiatic and European countries; (3) adaptation to poor or undeveloped countries; and (4) the opening of markets for silver with the result of steadying its value.

CHAPTER IV.

Exchange Fluctuations.

SECTION I.—THE MECHANISM OF FOREIGN EXCHANGE.

Exchange Fluctuations, December 18, 1919 to December 28, 1920.

Dates.	December 1919.	January 1920.	February 1920.	March 1920.	April 1920.	May 1920.	June 1920.	July 1920.	August 1920.	September 1920.	October 1920.	November 1920.	December 1920.
1st ...	...	...	...	31	28	27½	25¼	20¾	...	22	21	19¼	18¼
2nd ...	27	...	31½	31	...	...	25¼	20⅝	22½	22	21	19¼	18
3rd ...	26¾	27⅞	31½	31	...	27¼	25	20¾	22½	21¾	...	19⅜	17½
4th ...	27	...	32¾	31	...	27	25	...	22½	...	21	19⅜	17¼
5th ...	27	27⅞	32	31	...	26¾	...	21	22½	...	20⅝	19⅜	...
6th ...	...	27⅞	31½	31	28	25	..	21¼	22½	...	20	20	17
7th ...	...	27¾	32	...	28	24½	24¾	21½	22½	21½	20	...	17
8th ...	...	27¾	...	30⅜	27½	24½	24¾	21½	...	21⅞	19	19⅞	16¾
9th ...	27⅛	...	32½	30¼	27½	..	...	21⅜	22½	21⅞	18	...	16¾
10th ...	...	27 5/16	32½	29¼	27½	25	24¼	21¾	22½	21⅞	...	19⅞	16¾
11th ...	...	...	33	29¼	...	25	23⅞	...	22½	21⅞	...	19⅞	16¾
12th ...	...	27 5/16	33	29	27½	25	23½	21¾	22½	...	19	19⅞	...
13th ...	...	...	33	28½	...	25	...	21¾	22½	22	19½	19⅞	16¾
14th ...	...	...	32	...	27½	25	23¼	22	22½	22⅜	19½	...	17
15th ...	...	27¾	...	28¼	27½	25	21	22	...	22⅜	19¼	19⅞	17
16th ...	...	27¾	31	...	27½	...	20⅝	21¾	22½	...	19¼	19⅝	16¾
17th ...	...	27⅝	30½	28	27½	25	21½	21¾	22½	22⅜	...	19⅛	16¾
18th ...	28	27¾	...	28	...	25	...	...	22½	22⅜	18⅛	18⅞	16¾
19th ...	28	27¾	31	...	27½	25	21½	21¾	22¼	...	18½	18⅜	...
20th ...	28¼	27¾	31¼	...	27½	25	...	22	22¼	22	18⅛	18⅜	16¾
21st ...	...	27¾	31¼	28	27½	25	22	22	22¼	21¾	...	...	...
22nd ...	28½	27⅜	...	28	27½	25	22¼	22¼	...	21¾	18¾	18¾	16¾
23rd ...	28½	27¾	31	28	27½	...	22¼	22¼	22¼	21⅜	18⅜	18¾	16¾
24th ...	...	27¾	31	28¼	27½	...	22¼	22½	22¼	...	...	...	16¾
25th ...	28½	...	31	29	...	25	22	...	...	21	18¾	18¼	...
26th ...	...	27¾	31	29	27½	25	21¾	22½	22¼	...	18⅞	18¼	...
27th ...	...	27¾	31	28⅝	27½	25	...	22¾	22¼	22	18⅞	18¼	16¾
28th ...	...	27⅝	31	...	27½	25	21¼	23	...	22⅛	18⅛	...	...
29th ...	...	27¾	...	28	27½	25¼	...	23	...	...	19¼	18¼	...
30th ...	...	27¾	...	27½	27½	...	20¾	22¾	...	...	19¼	...	...
31st ...	...	28¼	...	27¾	...	25¼	...	22½	22¼	...	...	...	...

The Principles underlying variations in Exchange rates.—Foreign Exchange is the system whereby the indebtedness of different nations is discharged. Goschen, the author of the first classic work on foreign exchanges, defines it thus: "That which forms the subject of Exchange is a debt owing by a foreigner and payable in his own country, which is transferred by the creditor or claimant for a certain sum of money to a third person, who desires to receive money in that foreign country, probably in order to assign it over to a fourth person in the same place, to whom he in his turn may be indebted." It is a matter of charging off obligations of persons in different nations to one another, just as banking credits are means of clearing such obligations at home, in such a manner as to reduce to a minimum the transfer of actual money. As the shipments of gold would be wasteful and unnecessary the bill of exchange came into use as a means of transferring titles to money without the physical delivery. Bills of exchange being a substitute for money in the settlement of international balances, are subject to the law of supply and demand. If they are plentiful in relation to the demand for them, their price falls; if scarce, it rises. An excessive supply of bills may depress the price obtained for them to such a point that a man having a debt due from abroad will prefer to pay the cost of having gold shipped to him; while a deficient supply of bills, after raising their price to the same amount as the cost of shipping gold may compel the actual shipment of gold to meet the obligation. Between two *gold standard* countries, these limits are fixed by the cost of gold shipments, and the par of exchange expresses

the relations between the mint rates of the standard coin. The limit to exchange fluctuations in either directions is fixed by the cost of the passage of the specie. Briefly put, the upper limit of exchange operations is *par*, plus the cost of transmitting specie; the lower limit *par* minus the cost of transmitting specie; so that twice the cost of sending specie is the whole space within which fluctuations ordinarily take place. Each of the limits is known in technical language as a specie point; and thus we may say, that the specie points are the limits to exchange fluctuations, while the position of equilibrium is *par*. Within these limits, however, the movements are incessant, and are affected by all the conditions already mentioned. The "fluctuations which take place in the foreign exchanges," says Viscount Goschen, "are at once the necessary result and the certain index of the inequalities which exist in the indebtedness of different countries—inequalities either in the amount of their liabilities, or in the time within which payment must be made, or in the relation of the currency of one country to that of another." Under normal conditions exchange cannot fall below the cost of importing gold nor rise above the cost of exporting it. Exceptional circumstances may, however, raise the usual rates, and the price of foreign bills may go above specie point. Export of bullion is always preceded by a rise and import by a fall in the rates of foreign exchanges. One of the limits must have been reached or at any rate approached if bullion is to be exported.

How the "balance of payments" is determined: Four causes (1) *Changes in the relative value of gold and silver.*—The *balance of payments* is the term usually

employed to express the sum-total of a country's obligations.

In countries having different monetary standards the rates of exchange are influenced by every perceptible change in the relation of value between gold and silver. In the years from 1847 to 1873, when Holland had the single silver standard, the limits of the Dutch exchange for bills in London, when silver stood at 60*d.* per ounce in the London market, were 11·98 and 12·23 florins per pound sterling; but with silver at 62*d.*, the limits were 11·59 and 11·84 florins. Thus, it was not possible for the exchange on London to remain at the same point when silver rose from 60 to 62*d.*, or fell from 62 to 60*d.* per ounce. The Indian rupee furnishes an excellent example of the effect of variations in the price of silver upon currency; but the intensity of recent fluctuations is paralleled by the periodicity of instability during the years 1890-94.

A rise in the price of silver may either mean that silver has become scarce, or that gold has become redundant.—A rise in the price of silver may mean either of two things. It may mean that silver has become scarce, or that gold has become redundant. A slight rise in the price may produce no effect on the Indian rupee, for bullion and coin are two distinct things; and though a rise in the former may bring about a rise in the latter a certain time must elapse before it can do this. The exchange will, however, fluctuate, and the rise will exercise an adverse influence upon the export trade of the country. Those who send goods to England will receive

as many pounds sterling for them as they did before, but each pound will fetch less rupees owing to the fall in the silver price of gold. A strong stimulus on the other hand will be imparted to imports of merchandise, since considerably less has to be paid in rupees for every pound sterling than before. From this decrease of exports and increase of imports there will gradually result a decline in prices in India, to which the reduction in the exports of bullion will contribute materially, as it will cause a scarcity of money.

The effects of redundancy of gold.—We now come to the second cause of the rise in the price of silver, *viz.*, the redundancy of gold in England. Relatively to gold, all things in England—not only silver, but labour and goods of all sorts as well—have risen, and thus no force is operating which should encourage the export of silver to England. More gold, it is true, could be obtained now for silver, say from China, but then the quantity of goods obtainable for that gold would not be so great as it was before ; the purchasing power of the rupee would not rise, consequently there would be no reason to expect any change in the Indian balance of payments. But equilibrium between the imports and exports will be able to establish itself. When everything has become dearer in England, the Indian exporter can no longer continue to import on the usual terms, unless a proportionate decline takes place in the price of the bills of exchange with which he has to pay for his imports. Less money is, therefore, offered for such bills. But this will not cause any reduction in their supply, for exporters of goods will,

owing to the rise in prices abroad, be able to accept a lower price and yet secure their usual profit. Consequently equilibrium between supply and demand in bills of exchange will be established, just as well now at the lower price as it did before at the higher.

The Effect of these Changes on the Export and Import trade of a country.—We may conclude that a change in the ratio of exchange between gold and silver, though necessarily causing a rise or fall in the rates of exchange between countries having different standards of currency, does not in every case produce the same results. When it signifies a change in the value of silver, it causes a change in the balance of payments of silver standard countries. This change in value may consist either in a rise or in a fall. If it consist in a rise, imports of goods will increase, exports will decline, and bullion will be exported. If, however, there is a fall, the reverse of this will happen. ***But none of these effects will be produced in silver standard countries where the change in the relation of value between gold and silver is due to causes resident in the gold.***

Second Cause : Increase or Decrease in the demand for bullion.—The quantity of specie or bullion needed by a country depends upon inland trade, and upon the extent to which it is able to economise in the use of metallic money by having recourse to instruments of credit. Here at once we have two great causes—increase or decrease in the demand for metallic money. The volume of inland trade may change, so also may the extent of the economy

practised in the use of metallic money. Commerce may increase or decline, but so also may the uncovered circulation, while the country's demand for money remains the same. If there be expansion of trade, it may be temporary or permanent; if temporary, no change in the balance of payments need ensue where banking is well developed.

Third Cause: *Exceptional demand for remittance of capital to foreign countries.*—This may originate in various ways. Crops may fail and it may become necessary to import large quantities of grain; a foreign power may contract a large loan, the proceeds of which have to be sent to it within a limited time; a merchant may order goods from abroad, not knowing the extent to which goods of the same kind have been ordered by others. In this way the market may get overstocked, but as he must pay for what he has bought, there arises an exceptional demand for remittance to foreign countries.

Fourth Cause: *Alterations in the ratio of exchange to foreign countries.*—The rates of exchange with foreign countries are just like barometrical readings. They inform us as to the state of balance of indebtedness. The exchange will be determined mainly by the balance of indebtedness, and their fall or rise will depend ultimately upon the interaction of the factors described above.

Illustrations from the American and English Currencies.—Though, in general, the value of bills can only vary within the narrow limits set by the specie points, there are some cases on record where these bounds have been passed, and where much larger rates

of discount and higher premiums have been obtained. When there is a stringent money market, even a favourable rate for bills of exchange may not tempt the owners of money to invest in bills. One of these occasions was at the outbreak of the Civil War in the United States in 1861, when political conditions produced such a desire for money on the part of dealers in bills that they were willing to sell the bills at a sacrifice rather than wait for their maturity and payment in England. The probability of war had led to the reduction of imports into the United States, and this had brought more bills into the market than there were buyers with obligations to settle abroad. The combined effect of the large net offerings of bills and the desire for money, was to depress the price of bills momentarily below the cost of importing gold.[1]

The Exchanges during the first week of August, 1914.—The changes produced by the Civil War were only temporary and equilibrium was soon restored. They pale into insignificance in comparison with the revolutionary changes produced by the war. It is not too much to say that the entire system of modern credit was uprooted by the Armageddon. On Friday, July 24, Austria sent its ultimatum to Servia ; on Saturday, July 25, there was something very like panic on the London Stock Exchange and the Continental Bourses. At the beginning of the next week the foreign exchanges began a series of erratic and unprecedented movements which ended in breakdown. On

[1] I have used the term balance of payments in the sense of equilibrium or equality of exports and imports,

Thursday, July 30, the Bank of England's rate was raised from 3 per cent. to 4 per cent., and on July 31 it was multiplied by 2, jumping from 4 per cent. to 8 per cent. On Saturday morning the city was practically in a state of collapse and the bank rate went up to 10 per cent. Just at this time America was heavily indebted to London as it, like the continent, had been buying securities in London and had to meet these payments. Thus America like the continent was requiring to remit unusually large amounts to London, and the rush to obtain remittances on London became unprecedented. Exchange was practically unobtainable, and only by the sale of goods or gold could bills on London be produced. The London-New York Exchange followed a most extraordinary course during the week preceding the war. On July 6, it stood at 4·88; on July 30-31, it went up to 6·35; while on August 3, it reached 6·75.

What are the causes of recent fluctuations?—The Report of Delegates for India to the International Financial Conference at Brussels, 1920, throws a searching light on the elements fermenting beneath. The Government expenditure of belligerent countries has increased in proportions which vary between 500 and 1,500 per cent., the present figures amounting to between 20 and 40 per cent. of the total income; while the total external debt of the European belligerents converted into dollars at par amounts to about 155 milliard dollars, compared with about 17 milliard dollars in 1913, which, when allowance is made for the depreciation of money, represents a tremendous burden in proportion to the total

national income of the belligerent countries. The external debt amounting to about 11 milliard dollars due to the United States, and $1\frac{3}{4}$ milliard pounds sterling due to Great Britain, presents an even more difficult financial problem, as it nearly every case it is payable in a currency which is less depreciated than that of the country concerned.

How Inflation of Currency has disorganised Industry and Trade: Its effect on price.—In every country the purchasing power of natural currency has diminished, and the cost of living in terms of that country has increased. With few exceptions, neutral as well as belligerent countries have suspended the gold basis of their currency; and even where the gold basis has been retained, the purchasing power of money has declined, as the value of gold itself in terms of commodities has diminished to about one half. The instability and depreciation of exchange of resulting from these and other causes have impeded the trade of both seller and buyer. Countries with unfavourable exchanges have found it difficult to buy raw materials, and those with favourable exchanges have found in them an obstacle to the sale of their exports. With half the world producing less than it consumes, and having insufficient exports to pay for its imports, credit alone can bridge the gulf between seller and buyer, but the whole system of credit has been rendered difficult by the very causes which produced it.

How the Neutral Countries have Fared.—The neutral countries, Denmark, Sweden, Holland, Luxemburg,

Norway, Spain and Switzerland, have also suffered. Their financial condition is no less serious. In some cases heavy expenditure was incurred by these countries directly in consequence of the war, and they have had largely to increase their national debt. But in most cases the Budget difficulties are due to the growth of Government expenditure, caused by the rise of prices and the provision of subsidies to prevent this rise pressing too heavily on the general population. During the war their trade balances were very favourable, owing to the demand for their products from the belligerent nations and the stoppage of their imports. The result was an accumulation of gold, which led to an expansion of currency and a rise of prices almost as serious as that which took place in the belligerent countries. Since the war their trade situation has been reversed as these countries have been importing the goods required to replenish their stocks, and, owing to the premium to which their exchange has risen, as compared with the depreciated currencies of the belligerent nations, the maintenance of their exports has become difficult.

Nearly all the new countries created as a result of the war have inherited the legacy of depreciated currencies. In many of them the printing press is still in operation, and their budget equilibrium has not been restored yet.

The countries outside Europe fared better, as they benefited by the ready disposal of their products to the nations of Europe. Their trade balances have been very favourable, while their exchanges have improved

relatively to those of European countries. This is particularly the case with regard to the United States, to which most of the countries of Europe are now heavily indebted. Their economic position is, however, vitally dependent upon the restoration of the purchasing of the European currencies, as the accumulation of gold has led to a rise in prices, and has rendered more difficult the maintenance of their exports. Every country has made vigorous efforts to introduce an orderly fiscal system into its state finance by the imposition of fresh taxation, and the ordinary revenues are in most cases now equal to or not far short of the ordinary expenditure. But, excepting the case of Great Britain, there is still a very large gap between the total income and expenditure.

The Financial condition of belligerent countries.—These countries have lost a very large proportion of their pre-war holding of gold and have enormously increased their paper currencies. This process of inflation, which has been reduced by Great Britain and checked by France, still continues in other countries. Except in the case of Germany and her Allies, whose imports were prevented by the blockade, all those countries have during the war had an enormous excess of imports over exports. The excess increased in some cases after the armistice, but is now diminishing. Indeed, in almost every case there is now a perceptible growth of exports. During the war the exchanges of these countries did not reflect their real economic position, as artificial measures were in most cases taken to stabilise them; but the exchanges rapidly deteriorated when these

measures were given up in 1919. The depreciation continued for 12 months. Since the spring of this year there have been appreciable variations, but on the balance the net movement has been towards improvement.

The Growth of Inflation. Its Causes.—One of the most important causes of the dislocation of the entire financial system of the world is the growth of inflation during the war. Resort to inflation, which puts the burden of the war on those with fixed money incomes, is at bottom a reversion to Colbert's idea of Government finance, "the art of plucking the goose with the least amount of squealing." War finance has proved a prolific source of inflation, and all forms, inflation of paper money, gold inflation and paper inflation, have been resorted to. Russia indulged in the simple inflation of paying Government bills by printing irredeemable paper. Before the Bolshevist regime her printing presses turned out, according to reports, a million roubles an hour, day in and day out, for over a year at a stretch. Under Bolshevism the output has been even greater, a total of eighty billion dollars having been issued, which is more than the money of the whole world put together. Germany allowed the people, when a new loan was floated, to deposit the bonds of the previous loans at certain banks, which were authorised to issue paper money to the depositor who then lent it to the Government. In the United States also, Liberty Bonds were to some extent used as collateral at banks which, in turn, deposited them with Federal Reserve Banks and received their notes. Another ingenious method was devised in England. Banks sometimes subscribed to Liberty loans simply by writing deposits on their books

to the credit of the Government, and individuals often lent to the Government by borrowing of the banks, the sums so borrowed being likewise created by the banks as deposits on their books. Deposits subject to cheque have increased greatly, and until the loans which gave them birth are paid off, they remain in circulation like money, being transferred by cheque from the bank's customer to the Government (as his subscription to bonds); then from the Government to munition makers, etc.; then from them to steel producers, and so on, indefinitely. Gold inflation was ultimately transformed into credit inflation, because gold was used as bank reserves, and every pound of reserve supported several pounds of deposits. In England, the introduction of "continuous borrowing," advocated by Mr. Drummond Fraser, which absorbed savings as rapidly as they could be made, and before they had a chance to be dissipated in personal gratification, immediately reduced deposits or credit inflation. It has been calculated that the money in circulation in the world outside of Russia increased during the war from fifteen billions to forty-five billions, and the bank deposits in fifteen principal countries from twenty-seven billions to seventy-five billions. That is, both money and deposits have trebled; and prices on the average have perhaps trebled also. In the United States the money in circulation rose from three and one-third billions in 1913 to five and a half billions in 1918, and bank deposits from thirteen to twenty-five billions, both approximately corresponding to the rise in prices.

The vicious circle of constantly rising prices and wages, and constantly increasing inflation.—The increase

of about thirty billions in the money of the world, remarks an American financier, "is more in its face value, than all the gold and all the silver turned out by all the mines of all the world in 427 years since the discovery of America." The effect of the inflation upon prices is so subtle and pervasive that it seems to come from nowhere in particular and everywhere in general. As Professor Irving Fisher remarks, the price of butter at the corner grocery is lifted on this tide without one being able to observe the connection of the rise with inflation, just as a fisherman's boat is lifted by the tides of the sea without his being able to connect the rise with the action of the moon. This game of ring-a-round-a-rosy and everybody following his neighbour goes merrily on. In this process, prices influence each other in endless chains or circles, and the initial step is inflation. The vicious circle thus formed will grow larger and larger unless a cure is found for this malady. The artificial extension of the currency has not added to the total real purchasing power in existence and has intensified the general rise in prices, so that a greater amount of such currency is needed to procure the accustomed supply of goods and services. As the recommendations of the International Conference put it, "there arose what has been called a 'vicious spiral' of constantly rising prices and wages, and constantly increasing inflation, with the resulting disorganisation of all business, dislocation of the exchange, a progressive increase in the cost of living, and consequent labour unrest." The Conference "deemed it highly desirable that the countries which have lapsed from an effective gold

standard should return thereto." The reversion to the establishment of an effective gold standard "by any means other than devaluation is fraught with serious danger." The disturbances to trade and credit might prove disastrous. The Conference did not "recommend any attempt to stabilise the value of gold," and gravely doubted whether "any such attempt could succeed." It believed that "neither an international currency nor an international unit of account would serve any useful purpose or remove any of the difficulties from which international exchange suffers to-day."

The effect of the war upon the economic position of America.—The recent fluctuations in exchange are the result of the above causes. As pointed out above, exchange is merely a barometer of the indebtedness of a country. The enormous quantity of munition and raw material which the allied powers took from America during the war was not balanced by the textile goods which used to be sent to her. America become the chief creditor, and repaid to England all the old debts, in the form of money and goods, which had accumulated against her for many years. She got back securities of all banks which Englishmen held in American concerns; and the Treasury mobilised securities in England with a view to their being sold in America or used as securities for loans raised there to pay for supplies. The American exchanges soon recovered from the pre-war prices and rapidly turned the other way against England, as the current of exports began to flow. The exchanges of all the neutral powers were against the Allies because they received more goods from them than

the allies could export to them at that time. On the other hand, all the exchanges between England and her allies were heavily in her favour, because the latter received far more from England than they could send her. The position of the other belligerent powers as regards their exchanges was practically the same. All the exchanges were against Germany to an infinitely greater extent than in the case of the allies. The fluctuations in exchange are simply an indication of the indebtedness of the European powers. The continual excess of Government expenditure leads to a further inflation of credits and currencies, of a further depreciation in the purchasing power of the national currency, and a still greater instability of foreign exchanges, and a further rise in prices.

SECTION II.—FLUCTUATIONS IN THE EXCHANGE VALUE OF THE RUPEE. CAUSES AND EFFECTS.

Its effects on the finances of India.—From a financial and economic point of view, India was not so seriously affected by the Great War as many of the European powers ; yet, though the war was waged outside her boundaries, she made large contributions in men, money and material for its prosecution in various theatres of warfare. While the demand for her products gave an impetus to her industrial development, the war imposed a great burden on the finances of the Government, necessitating large additions of taxation and substantial additions to India's borrowing. The great inflation of prices elsewhere was felt in every part of India, and the great rise in prices resulted in an abnormal increase in the cost of administration. Her gross revenue in the financial

year preceding the war amounted to £85 million, and the expenditure to about £83 million. The corresponding figures this year are £134 million and £132 million. India's loan obligations have greatly increased, with an outstanding sterling debt of £193 million, and an internal debt of 2,800 millions of rupees, the amount falling due for repayment within the 10 years up to 1930, inclusive, amounts to over 1,000 millions of rupees. To these figures must be added a floating debt of over 600 millions of rupees, which, as in other countries, is likely to prove a source of continuing embarrassment until it is possible to discharge or fund it. The imports of foreign merchandise in 1913-14 amounted to 122,000,000*l.* and the exports to 166,000,000*l.* These totals were not again reached during the war, and though they were passed in 1919-20 with totals of 139,000,000*l.* and 218,000,000*l.*, respectively, it must be realised that this is largely due to the great enhancement of values which has taken place. During the last few months the tendency has been for the balance of trade to move against India, since, on the one hand, she has been importing large quantities of manufactured goods not available during the war, while on the other, markets for her commodities are still limited by the restricted purchasing power of many countries, and at the same time it has been necessary to impose important restrictions on the export of food grains from India.[1]

[1] *The main cause of business depression at the present time. Sale of Reverse Councils.*—The statistics of Indian trade for the first seven months of the current financial year reveal an adverse balance against India in respect of merchandise and treasure of approximately

Fluctuations in exchange.—Out of the welter of confusing data which surround the inquirer on all sides, one broad fact emerges, and that is the fluctuations in the value of the rupee. The effects of these fluctuations are not confined to the export trade. The solution of the problem which the export merchants had to face would have been difficult at all times; the difficulties are intensified by the world-wide influence which the deficiency of precious metals has exercised on every class of society in Europe and America. And India could not remain unaffected. Her commerce with Europe advanced at a pace that was truly marvellous; her soldiers took as prominent a part as the soldiers of any other country in the world; while her internal trade was intimately connected with her external trade. It was not to be expected that the Gold Exchange Standard, which has been evolved out of a series of experiments, proposals, and hypotheses, would stand the strain. No doubt, the dislocation of trade, the lack of confidence in note issue, and the withdrawal of deposits from the Savings Banks, were merely

thirty-six crores of rupees. This is due mainly to the curtailment of Indian imports during the war years, the restriction on the export of food grains, owing to the shortage in India, and the reduction of the buying powers of European countries in consequence of the depreciation of their currencies. The exchange difficulties here, as elsewhere, have complicated the situation. In spite of the sale of sterling drafts to the extent of approximately £50 million, between 1st February and 30th September, 1920, it has not been found practicable to maintain the exchange at 2*s*. The sale of Reverse Councils was discontinued, in accordance with announcement issued on September 29, and the existing trade position does not suggest that the Government of India could advantageously resume the sales at the present time.

temporary. The machinery of the Gold Exchange Standard was brought into play, and the improvement that resulted from the efficient handling of the situation saved the country from the financial crisis of which such a sad exhibition had been given in some European capitals. During the course of the year 1916, it became evident that the price of silver was likely to exercise a deleterious effect, and the absorption of rupees on an unprecedented scale aggravated the problem. During the years 1916-17 it amounted to 3,381 lakhs; while the value of silver rose to phenomenal heights, and destroyed the foundation of the old theory that the current coin of the country would, with a fixed rate of exchange, remain a token coin. In August, 1917, the exchange value of the rupee was less than its silver content, and there was a premium on its export. If no change had been made in the exchange value of the rupee, the law called Gresham's law would have applied, and the rupees would have been melted down, for, by selling the silver that a rupee contains, a profit of one pence would have been derived by any one who was bold enough to contravene the law against melting of coins. Yet the Government knew as well as the economists that laws of this kind are absolutely futile, as no amount of legislation will prevent persons from melting the rupees which they possess. It was clear that the value of the rupee would have to be raised, and the actual facts of the silver market taken into consideration. The sale of Reverse Councils to the extent of £8,707,000 between 6th August and 28th January 1915; the revival of demand for Council Drafts in February, 1915, had eased the

situation somewhat; but three years of war in Europe added fresh difficulties of their own. The import trade could not be carried on the pre-war basis, as the energies of the European countries were concentrated on the manufacture of munitions of war; transport facilities were few and far between; while the demand for India's produce showed no signs of diminution. The Government of India are obliged to make heavy sterling payments in the United Kingdom, and the net amount of Home charges during the years 1910-14, averaged 25 million pounds. The average balance of trade during the years 1911-14 was about 53½ millions; during the last three, *viz.*, 1916-19 it had risen to about 59½ million pounds.

Imports and exports of merchandise on private account.—

Years	Exports.	Exports.	Net Exports.
	£	£	£
1909–10 ...	125,253,000	78,040,000	47,213,000
1910–11 ...	139,921,300	86,236,000	53,685,300
1911–12 ...	151,896,100	92,383,200	59,512,900
1912–13 ...	164,364,800	107,343,900	57,020,900
1913–14 ...	165,919,200	122,165,300	43,753,900
Average for 5 years ...	149,470,900	97.233,700	52,232,200

Average for the last three years—£55,429,200.

Years	Exports.	Exports.	Net Exports.
	£	£	£
1916—17 ...	160,591,200	99,748,000	60,843,200
1917—18 ...	161,700,000	100,280,000	61,420,000
1918–19 ...	169,230,000	112,690,000	56,540,000

Average for the last three years—£59,601,100.

The effects of a large balance of trade indebtedness.—The large balance of trade indebtedness in India led

to heavy demands on Government for currency; while the disbursements on military operations in Mesopotamia, Persia, and East Africa exceeded 240 million pounds. The large balance of indebtedness, exceptional disbursements, and the financing of purchases in India on behalf of the Colonies and for provision of rupee credits, amounting to over 20 crores during the years 1917-19, for American importers of Indian produce, intensified the situation. It is likely that no violent changes in the exchange value of the rupee would have occurred if India had obtained a sufficient quantity of precious metals. But every European country conserved its gold supply, and severe restrictions on the export of gold were placed by all the belligerent Governments.

The gold production of the world. Decline in its production from 1915.—The gold production of the world has steadily increased from the year 1893, when its value was 32,000,000*l.* sterling, to the year 1915, when it reached the high water mark of 96,400,000*l.* Since then it has rapidly declined, until in the year 1919 the value of the total world output was reduced to 72,000,000*l.* sterling. Judging from the figures so far available for the current year, one is able, with fair accuracy, to estimate that the yield will probably not exceed a value of 69,000,000*l.* sterling, and a review of the position of gold mining generally points to the probability that the world's gold output will show a further decline in 1921, and that from then onwards the output will more or less steadily recede. It is interesting to note that the drop in output from 1915 to 1920 has been on an average 5,500,000*l.* sterling per annum. The estimate

leaves out of account the possibility of any outstanding new discovery of a gold field such as that of the Rand, in the Transvaal, which to-day yields 50 per cent. of the world's total annual production. It is hardly likely that the discovery of a new alluvial field even of the size of Klondyke would materially affect the position, as a radical change in gold production can only be expected if the discovery is of an outstanding character. Taking the years 1907-13, when the output of gold on an average amounted to 94·7 million sterling, the available data indicate that the amount has been absorbed to the extent of 22·6 millions (or 23·8 per cent.) for industrial purposes and for the arts in Europe and America, while the East, and especially India, has taken 17·7 millions sterling (or 18·7 per cent.) of the world's production, so that the world consumption of gold for purposes other than money has amounted to 40·3 millions (or 42·5 per cent.). The balance of 54·4 millions (or 57·5 per cent.) may be assumed to have been devoted to monetary purposes.

The imports of gold into India.—The net imports of gold and bullions into India during the years 1909-14 amounted to about £19¼ millions; during the year 1914-19 the total mounted up to £26 millions. The most important factor was the difficulty of obtaining gold, as every belligerent Government was desirous of maintaining the stock of the metal for war purposes, and India was able to obtain only limited quantities. The relatively high imports in 1917-18, mainly from Japan and the United States, were largely caused by the difficulty of obtaining rupee exchange when the sales

of Council Drafts were limited and controlled. The situation was relieved by the freeing of the Transvaal mines in July 1919, and large amount of gold was shipped to India and other countries. From that time down to 3rd September, 1919, India, the Straits Settlements, and coined gold re-shipped to South Africa to replace exports of specie from that country to the East, have accounted for no less than 59·9 per cent. of the gold production of the Transvaal, while 6·5 per cent. was used for industrial purposes in Europe, so that a total of 66·4 per cent. was devoted to purposes other than money (which compares with 42·5 per cent. for the period 1907-13), leaving for monetary purposes 33·6 per cent. (which compares with 57·5 per cent. for the period 1907-13). The rapidly diminishing world output of gold and the radical change which has taken place in the uses to which that metal is put at present have fundamentally altered the demand for silver.

Causes of increase in demand for silver.—The dearth of gold intensified India's demand for the white metal. As pointed out above, the balance of trade is determined by four important causes: (1) Changes in the relative value of gold and silver. (2) Increase or decrease in the demand for bullion. (3) Exceptional demand for capital for remittance to foreign countries. (4) Alterations in the ratio of exchange for foreign countries. The Indian exchange is consequently affected not only by factors common to gold-using countries, but also by the possibility of the rupture of gold and silver prices. It affects imports no less than exports; its influence on prices is as significant as its

effect on industrial development. I have traced the history of these fluctuations[1] and shown the effects of these changes on the trade of the country, during the years 1870-94. But these effects pale into insignificance when compared with the revolutionary changes which the white metal has exercised during the last three years. A glance at page 759 will reveal the extent of these changes. The price of silver broke all records, and completely upset the calculations of the trader, the producer, and the Government.

The silver production of the world.—Many of the difficulties from which India suffered would have been removed if silver had been procurable. India, after all, is a silver-using country, and there is no reason why the white metal should not perform the same function as gold. Before the establishment of the Gold Exchange Standard, the rupee was the sole legal tender, and if sufficient quantities had been imported, we should not have witnessed the dislocation of trade which is such a sad feature of the fluctuations of the present day. But silver was as difficult to procure as gold. The total output of silver from 1913 to 1918 has been 275 million ounces less than it would have been if production had continued at the 1912 level. Approximately three-quarters of the world's silver is mined in South America and Mexico. Owing, however, to political disturbances the production of silver from the Mexican mines fell from an average of about 74 million fine ounces for the years

[1] See Chapter II, Evolution of Indian Currency, Section III, pp. 481-92.

1910-13, to an average of about 30¼ million ounces for the years 1914-17, a reduction of 43·6 million ounces in the world's production. The yearly demand for silver is calculated as follows:—

	Million ounces.
Subsidiary Coinage ...	60
Arts	75
India	150
China	40
Africa	25
Total ...	350
Production	180
Shortage ...	170

Effects of the purchase and sale of silver by China.—There is a shortage of 170 million ounces; and the balance, 180 million ounces, has to serve the purpose of 350 millions. This decrease in supply was accompanied by an increase of demand. England required a larger amount, as gold was conserved as much as possible, and the British Empire absorbed nearly 108 million fine ounces of silver during the years 1915-18, as against 30·5 million fine ounces in the years 1910-13. China, too, is a very disturbing factor. She sold over 77 million ounces of silver during the years 1914-17; in 1918, however, she changed her role, and started buying the white metal on a large scale. The silver market has always looked on China as balancing factor. Any rise

which seemed abnormal used to affect her trade and she would become seller; in the same way, when it is thought there is going to be no possible buyer and the market looks very weak, China starts buying at a feverish pace, and thus acts as a brake in both directions. She is an extremely uncertain quantity, and constantly produces disorganization in trade. Since the decontrol of silver in England, in spite of its high price, China has been a very persistent buyer. From the year 1909-18 she imported silver to the extent of 395,671,677 taels, and exported the same metal to the value of 311,304,935 taels. It is not so much her capacity for absorbing silver and gold, as her frequent changes of position, that produces a *debacle* in its value. The silver market is liable to exchange instability, through the powerful influences arising from the speculations connected with the Chinese exchanges, and prices are constantly altered by this enervating influence. There is, at the present time, a collapse of the world prices; jettisoning of the stocks, specially in the United States, is a contributory cause, and there is no prospect of silver remaining immune from an almost universal *debacle* in value. The extent of the influence exercised by China may be perceived by the fact that the stock of silver at Shanghai, which with tael at 4*s.* totalled 19 million last year, has reached the enormous figure of 56 million ounces, with tael at 3*s.* 11½*d.* in December, 1920.

How the demand for rupee was met?—The heavy balance of trade in India's favour could be liquidated only by the importation of precious metals into India, and over 300 million ounces of silver were brought into the

market during the years 1916-19, and 200 million fine ounces were purchased from America. The effects of these large purchases, coupled with the decrease in production of silver and increase in its demand, produced startling effects on the exchange value of the rupee. The highest price of silver in London was $27\frac{1}{4}d.$ per standard ounce. In April, 1916, it had risen to $35\frac{1}{8}d.$, and in December it reached $37d.$ In August, 1917, it exceeded $43d.$, and immediately this point was reached, it became evident that the exchange value of the rupee could not be maintained; for there was no likelihood of any fall in the price, and if the price rose, and the exchange value of the rupee remained unaltered, the rupees would have been melted down or exported. The institution of control by several Governments over the price of silver led to the establishment of a certain amount of stability, but immediately after its removal there was a repetition of the familiar scenes. On December, 1917, its price stood at $78d.$ per standard ounce. The situation was complicated by several other factors. The exchange value of pound sterling was reduced from 4·866 dollars in the pre-war period to 3·83 in December, 1919. The effects of this difference in the exchange value of the sterling were visible in the purchase of silver by the Secretary of State.

Measures adopted by the Secretary of State.—The measures adopted by the Government need not be detailed here.[1] The attempt of the Secretary of State to control exchange, through various devices, *e.g.*, (*a*) the

[1] See Chapter II, pp. 603-620.

limitation of the sale of Council Bills; (*b*) the institution of an approved list; (*c*) the prohibition of the exports of silver coin and bullion from India; (*d*) the purchase of 200 million ounces from America; (*e*) the sale of a limited amount of gold; (*f*) the increase of paper currency notes; (*g*) restriction on facilities for encashment of notes; (*h*) the imposition of additional taxation, tended to relieve the difficult position in which the Government was placed.

Their effects.—It is not surprising that some of the measures were subjected to severe criticism, nor is it doubtful that the lack of a consistent policy intensified the evil. The one feature that strikes the student is the difference between the views of the Government of India and those of the Secretary of State on certain fundamental elements of the problem. The gulf seems so wide at times that the reader of the Babington Smith Currency Committee Report is tempted to ask whether some of the difficulties to which constant reference is made could not have been removed by free and frank interchange of opinion. The differences in the policy of the Government of India and the India Office are brought out specially in the measures proposed by the former. The first important point upon which the Committee were asked to advise had reference to the stability of exchange. Is it desirable to purchase stability at a heavy cost? Would there be a gain to India, as a whole, if stability were secured through the fixation of the exchange value of the rupee at 2*s.*? There is no question of the benefit which India has derived in the past from the old rate; upon this point there was a striking

unanimity of opinion. This does not, however, prove that the raising of exchange value to 2*s.* would also produce the same result.

The advantages of stability.—There is no doubt that a stable ratio between gold and rupee is extremely convenient. The Government of India can calculate its home charges with facility; it saves merchants from the risk of loss; it eliminates those uncertainties which destroy the foundations upon which commerce ultimately rests. But these variations in exchange can be avoided by certain banking arrangements.

How fluctuation in exchange can be avoided.—Before 1893, when there were violent fluctuations, a merchant in India, who bought Indian produce for rupees, and sold it for sterling, also contracted simultaneously with a bank to obtain Indian currency in exchange for sterling at a specified rate. The risks involved in the fluctuations in exchange were eliminated by this means, and the bank, in order to insure itself against a possible rise or fall in exchange, would include an allowance to cover the risk. There is sufficient evidence to believe that India's exports of merchandise on private account increased by 94 per cent. from 1873 to 1893. Banks would, as far as possible, follow the policy of "even keel," *i.e.*, of equating their homeward with their outward transactions; while the Secretary of State for India could make, either with the banks or with the remitters, contracts for forward exchange on India to sell usance drafts on India. His rates would include an insurance premium against the possibility of a rise in exchange. The

stability of exchange, to which such an importance is attached by the Government of India, is not an essential factor. As the Currency Committee point out, "There are many instances, including that of India herself before the closing of the mints, which show that trade has flourished and can flourish with fluctuating exchange." [1] According to the proposal, the fluctuations should be allowed to take their course unhindered. No artificial barriers should be set up, and rate of exchange would be raised with any appreciable rise in the price of silver, such variations being by steep stages, say one penny, until a stage is reached at which there need be no fear of the exchange value of the rupee being less than its bullion value. This arrangement would, of course, be merely temporary, and a form of sliding scale would be set up, whereby the exchange value would be varied with the variations in the price of silver. Other proposals for the reform of currency have already been mentioned.[2]

The search for an equitable rate of exchange.—The pivot round which the discussion on Indian Currency turned was the fixation of the value of the rupee. Various rates were suggested, but the problem was narrowed down to the question of raising the exchange value of the rupee to 2*s*.

This rate was suggested by the Government and supported by a number of prominent witnesses. The

[1] See also pages 629-34; for Sir Lionel Abrahams' ingenious scheme, refer to pages 635-40.

[2] See Section X, Chapter II, pp. 652-4.

problem bristles with difficulties, and it is impossible to dogmatise about the effect of this change on Indian trade. There are, however, certain fundamental points which it would be convenient to state here, before an attempt is made to assess the effects of this change on the various spheres of national life. It was admitted by nearly all witnesses that the raising of exchange value of rupees would encourage the import trade and depress the export trade. Mr. Gubbay, the representative of the Government of India, admitted that high exchange would curtail exports. It acts directly as a bounty on imports. One particular aspect of the ease is that India is now on the threshold of industrial development, and to place her industries at a handicap in competition with imported goods would probably be harmful to those new industries. This statement is important, as it disposes of the crude arguments which have been trotted about so often, to invalidate the conclusions at which nearly all witnesses arrived.

The effects of High Exchange on Prices.—(A) It would be convenient to trace the effects of a high exchange upon (A) Prices, (B) Indian industrial development, (C) Indian trade, and (D) Home charges. Prices in India have not yet risen in proportion either to world prices or sterling prices. They have been prevented from rising by various administrative measures which were necessitated, but which cannot be continued permanently without serious effects on industry and production. There is no likelihood of a fall of world prices outside India. Some of the administrative restrictions

imposed by the United States did no doubt reduce prices; but the effect of increased facilities for transport, increase of cultivation, and other benefits which has resulted from the termination of the war will be counteracted by other influences. For example, the belligerent countries imposed a variety of administrative measures whereby people were not permitted to pay for various commodities as much as they would be prepared to pay in a free market. Again, the inflation of currency has increased since the armistice, and there is no likelihood of a reduction in the amount of paper money in circulation in the near future. Consequently there is no prospect of a fall in world prices at the present time. The prevention of too high a level of prices in India may, from one point of view, be regarded as the determining factor in the fixation of the exchange value. The Government should aim at preventing the realisation in India of world prices, and the problem must be narrowed to the question of the effects of high prices on different classes of the community.

Comparison of the index numbers of prices in India with those in the United Kingdom.—The index number for the prices of selected articles in 1914, 1915-17 and 1918-19, based on the average wholesale prices for 1900-09, which may be taken as the equivalent of 100, were as follows:—

	1914.	1915-17.	1918-19.
Wheat	118	135	180
Country rice	126	122	139
Ghi	132	136	183
Jawar	123	103	136

	1914.	1915-17.	1918-19.
Bajra	130	123	249
Dal	125	130	166
Raw Sugar (gur) ...	101	134	148
Country salt	111	214	413
Cotton piecegoods (Indian made)	109	94	164
Cotton piecegoods (imported)	112	138	206

The following table exhibits the rise in Indian prices since 1910, this year being taken as the basic year for the preparation of the table :—

Year.	Special index Number for food grains (Retail prices) Col. 1.	Special index Number for imported articles (Wholesale prices) Col. 2.	Special index Number for articles exported (mostly Wholesale prices) Col. 3.	General index Number for the articles covered by Columns 2 and 3. Col. 4.
1910 ...	100	100	100	100
1911 ...	96	104	107	106
1912 ...	112	107	114	112
1913 ...	118	107	121	117
1914 ...	132	105	126	120
1915 ...	130	134	122	125
1916 ...	120	217	128	151
1917 ...	120	240	134	161
1918 ...	161	265	157	184

It is instructive to compare the above with the Index number of prices in the United Kingdom.

Year.	Index Number of prices in the United Kingdom.	General Index Number for Articles covered by Col. 4.
1910	100	100
1911	103	106
1912	110	112
1913	110	117
1914	110	120
1915	139	125
1916	176	151
1917	226	161
1918	249	184

A comparison of these index numbers brings out the interesting fact that the rise of prices in India has not been so great as the rise in the United Kingdom. There are various causes of this immunity from the malady, but the most important is the rise in the exchange value of the rupee. A rise in prices will produce varying effects on different classes of community.

Which class will gain by a rise in prices? Its effect on cultivators.—We may take the cultivators first, and assess the effects of a rise upon that class as a whole. This will depend on a comparison of the prices of the articles which the average producer consumes. So long

as the rise in the prices of those commodities is not greater than the rise in the prices of the commodities which he produces, it is an advantage; but when the price of the things which he consumes is higher than the price of the things which he produces, it s certainly a disadvantage. So long as he can purchase those things within his means, a rise in prices is beneficial. It is a mere comparison between the prices of things which he produces, and the prices of things which he purchases. As the cultivator as a rule consumes his own produce to a large extent, the price level would make no difference to him, excepting so far as it may mean that he has to pay more in producing it. He will have to pay more if he buys implements, or if there is a rise in revenue. As he gets the benefit of high prices on that part which he sells, and if the part of the produce is comparatively small, and the greater part of it is used in his own maintenance, the rise would benefit him only to a moderate extent, as that would be more than swallowed up if he has to pay a much higher price for his clothes, his cooking utensils, and so forth. Before the war, cultivators benefited by the rise in prices of articles mainly consumed by them, for instance, cloth, salt, sugar, copper, brass, etc. The effect of a high exchange on cultivators who have surplus produce for sale must be compared with the effects of the increase in the imported articles in this country. If the price of imported articles fall—and this would be the tendency of a high exchange—and the high exchange leads to the contraction of the export of Indian produce to foreign countries, the price of grains in India will fall, and

the cultivators who form 50 per cent. of the total population will suffer. On the other hand, the agricultural labourers, who form 13 per cent. of the total population would lose by the rise in prices; and a high exchange value of the rupee, by mitigating the rise, would be beneficial to that class.

Its effect on professional men, Government servants, and men with fixed incomes.—In the third class are included professional men, Government servants, etc., and a rise will seriously affect pensioners and others with fixed income. The effect of the recent rise in prices has been felt most directly by the poorer classes, and any increase in the price of necessaries of life will intensify the sufferings which this class have undergone. It may be said that a fall in prices would be beneficial to India, as a whole, and though some, but not all, classes of cultivators will suffer, the country as a whole would be the gainer. If it could be shown that a high rate of exchange has actually mitigated the rise, this will be one of the weightiest arguments in favour of a high exchange. There is some evidence to believe that prices in India have followed the course which the price movements in European countries have pursued. The index number of prices in India, furnished by Sir Lionel Abrahams, Permanent Under Secretary of State for India, shows that the price of food grains imported articles and articles exported to foreign countries in 1918 were 161, 261 and 161 respectively. If we compare this with that which the United Kingdom has witnessed a noticeable difference is perceptible. The general index number of Indian prices is calculated at 180; that of the

United Kingdom at 249. It is clear that the rise in Indian prices is not so great as that from which other European countries have suffered and are suffering at the present time. This is accounted for by the fact that the institution of control over the export of food grains checked the tendency to the rise in prices. One or two examples will suffice. The price of rice in London was recently 39 per cent., while the maximum controlled price for the most expensive quality was the equivalent of 11 per cent. in Rangoon. Again as much as £60 a ton was being paid for rice imported into Ceylon from Siam; whereas rice exported from Burma at controlled rate could at the time be landed in Ceylon at less than £14 a ton. Numerous other factors, such as freight difficulties, control of finance, etc., co-operated in the process.

Conclusion.—We may conclude our enquiry by saying that a fall in the prices of commodities would be beneficial to India, and a high rate of exchange would mitigate somewhat the enormous rise from which all classes, but especially the poor, are suffering severely.

(*B*) *The effect of a high exchange upon export trade: Trade per head in 1913 and 1919.*—Though India has made rapid strides in her trade in recent years, her industrial development is still in infancy, if regard be had to her natural resources. The volume of her external trade amounted in 1909 to £139 million of imports and 218 of exports; but her trade per head is very low as compared with those of other countries. The following figures bring out graphically the low stage of her commercial development.

Trade per head in 1913 and 1919 (in dollars).

	Imports.		Exports.	
	1913.	1919.	1913.	1919.
Japan ...	7	19	6	19
United Kingdom.	71	138	57	75
Holland ...	254	178	200	89
India ..	3	4	3	5

A high rate of exchange will curtail exports and stimulate imports. This was admitted by all the witnesses. It is more difficult to estimate the duration of this period of transition. Would it inflict permanent injury on the export trade of India? If the Indian merchant exports his goods to foreign countries, and is paid in sterling, he will bring in fewer rupees, and to that extent he will suffer. If the exchange value of the rupee is raised to 2*s.* will not the merchant be deprived of a large part of his profits? It would be best, in this connection, to take the principal articles of exports and trace the effects of a high exchange.

(1) *Jute.*—There is no likelihood of the jute industry being adversely affected by a high rate of exchange. Jute is likely to remain practically a monopoly of India, and therefore India can command her price for it. A rise in the exchange value of the rupee would not affect the industry, as the prices charged will be increased and there is no reason why India should not exact her own terms from the purchasers. The huge profits made by the jute mills during the war show that a high rate of exchange did not diminish the volume of trade with foreign countries. During the years 1914, 1915, 1916, 1917, and 1918, the ratio of net profits on jute mills

to paid up capital was 10, 58, 75, 49 and 113 per cent. respectively.

(2) *Food Grains.*—While India determines the world's price for jute, this is not the case with regard to wheat. The price of Indian wheat would be regulated by the movement of prices in America, and ultimately there would be an adjustment of prices in the two countries. A high rate of exchange is likely to curtail the export of food grains, and the producer will therefore suffer. But the consumer will benefit by the contraction of exports. There will be a fall in prices and the wages may also fall.

(3) *Tea.*—Indian tea is in competition with tea from China, Java and Sumatra. So far as China tea is concerned, there need be no fear of competition, for it has been virtually driven out of the market, and rise in exchange will produce no serious effect.

It is, however, from Java that the Indian tea planter fears the keenest competition. In 1895, the Java crop was only 11 million lbs.; it has now advanced to over 100 million, and is capable of tremendous development. The total capital invested in the joint-stock companies engaged in the production of tea is 22 million lbs., besides large investments out of reserves, private gardens, etc. The rise in exchange has already produced serious effects, and the cost of production has been increased by about $33\frac{1}{3}$ per cent. A high exchange does not suit a tea planter, as it means a high price to the consumer in Europe and America, and Indian tea industry is at a disadvantage as compared with Java and Sumatra, where the currency has not been dislocated by the rise in the price of silver.

(4) *Cotton industry.*—The Indian cotton industry is, to a large extent, in competition with the English cotton industry. A high exchange would be a serious handicap to it in its competition with England. But the Japanese competition is more to be feared than the competition of Manchester goods. At the end of 1917-18 there were in India 269 cotton mills containing 114,805 looms and 6,614,269 spindles. Of this number, 72 were exclusively spinning mills; 33 were exclusively weaving mills; one was a dyeing and bleaching mill; and in 163 mills both spinning and weaving were carried on. They employed a daily average number of 284,054 persons: 209,326 men, 48,282 women, and 26,446 children. The authorised capital of the mills is Rs. 24,66,31,966, including the sterling capital of £518,400; of the rupee capital Rs. 20,84,91,010 is paid up, and of the sterling capital £458,888 is paid up. There are, further, rupee debentures to the value of Rs. 2,95,57,100 issued by 39 companies. The aggregate of the authorised capital and debentures is thus arrived at nearly Rs. 28 crores, and of this Rs. 21 crores or £14 millions is paid up. The Bombay Presidency possesses 69 per cent. of the mills, 76 per cent. of the spindles and 78 per cent. of the looms. The spinning of yarn is in a large degree centred in Bombay, the mills of that province producing nearly 75 per cent. of the quantity produced in British India. The United Provinces and Madras produced about 6·6 per cent. and 6·9 per cent. respectively; while Bengal and the Central Provinces produced about 5·2 per cent. and 5·3 per cent. respectively. Elsewhere the production is as yet very limited.

Japanese competition.—During the year 1913-14 the imports from Japan amounted to Rs. 47,802. By 1918-19, they had risen to Rs. 3,35,228. Japan has been pouring into India her bounty-fed goods and seriously competing with cotton goods made in India. The rise in the exchange value of the rupee will aggravate the situation, so far as the cotton industry is concerned, and the opportunity will be realised to the fullest extent. No doubt the Indian millowners will be able to buy machinery at a much lower price, and wages may fall to a certain extent, as the cost of living will have gone down through contraction of exports. But these advantages will not compensate them for the serious fall in the volume of trade. The cotton industry is, therefore, likely to suffer severely from a high exchange.

(5) *Hides and Skins.*—India competes in buffalo hides with China, Java, and the Straits, and in cow hides with Africa. As far as goat skins are concerned, the position of Indian hide merchants is firmly established. This applies specially to America. A high rate of exchange will, however, place her at a disadvantage in foreign markets, and Java and the Straits, which are competing feverishly in tea, may be able to capture the market. The Indian hide merchants are experiencing great difficulty in disposing of their produce, and though the causes are various, high exchange has contributed to it to a certain extent.

(C) *Effects of high exchange on industrial development.*—High exchange results in lower priced imports and thus a stimulus is given to the imports from foreign