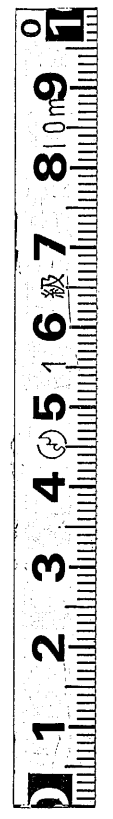


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AN  
HISTORICAL VIEW  
OF THE  
SINKING FUND.

0424

AN  
HISTORICAL VIEW

OF THE

*Sinking Fund;*

IN A

LETTER

ADDRESSED

TO THE EARL OF CARNARVON.

BY

PHILIP PUSEY, ESQ.

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LONDON:

PRINTED FOR JAMES RIDGWAY, PICCADILLY.

1828.

A  
LETTER,

&c. &c.

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MY DEAR LORD CARNARVON;

SINCE I first ventured to submit to your view a few remarks on our present financial situation, the voice of one, who long commanded the attention of the senate, has issued from classic retirement once more to inform and advise, where a great interest of the country appeared to afford scope for its interposition. As Lord Grenville, in discussing the merits of the sinking fund, with an eloquence and public spirit which it would not become me to praise, has limited him-

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LONDON:  
PRINTED BY CHARLES WOOD AND SON,  
Poppin's Court, Fleet Street.

self to a theoretical view of that institution, it occurred to me that an attempt to estimate its practical influence on our financial welfare, during an existence of more than one hundred years, might not be uninteresting. In tracing this review I shall confine myself to the broader outlines; and shall, I hope, be able to avoid those minute arithmetical details with which I must lately have wearied your attention.

The history of a nation being assumed to consist of equable alternate periods of peace and war, it is obvious, that if the capital of that nation be in itself stationary, unless the debt of each war be fully paid off in each succeeding peace, the national incumbrances will gain ground on the national income, until, if faith be kept with the national creditor, they finally absorb it altogether.

In theory it will be advisable for such a nation to maintain through peace and

war one constant level of taxation: so that the surplus, which will thus arise in the years of repose, may be applied to the total discharge of the debt contracted during previous hostilities. In practice this level of public receipts will seldom if ever be attainable, since a heavy taxation is submitted to with much greater cheerfulness under the excitement of war, than a much lighter annual burthen amid the apathy of peace. Nor is it indeed absolutely necessary that every debt should be paid off: a certain amount of charge may be rendered permanent, and the annual taxation be thus permanently augmented. But when this accumulation of debt has been once allowed to take place, the state will be more imperatively bound to prevent its recurrence, since the point of national bankruptcy will be so much the nearer.

It appears then, that where national ca-

pital is in itself stationary, it will soon be no longer a matter of choice but a law of strict necessity, that the individuals of whom that state is composed, shall be obliged, by compulsory payments made from their incomes, to reduce in each period of peace the debt of the preceding war.

For the sake of simplicity, national capital has been assumed to be in itself stationary. It does, however, rarely remain in this dormant state, though the degree of its increase at any given point is extremely difficult to calculate even by approximation. Spain, perhaps, among European communities, furnishes the only existing example of a retrograde movement in its capital. The wealth of Portugal, Holland, and Poland, can be now making little progress. But in the United States it is calculated, that while population has been doubled in one and twenty years, capital has been probably within the same

period quadrupled. Now if this estimate be well founded, it is obvious, that a debt of eighty millions would not at present press more heavily on the American nation, than did one of twenty millions one and twenty years ago: nay, it would probably fall lighter on that people. For there are two modes in which the capital of a country may increase, namely, (1.) by an addition of population under a stationary average of individual wealth, or (2.) by an increase of individual wealth with a stationary population.

(1.) If the wealth of a country be augmented by an addition of new citizens, equally rich on the whole with its previous population, the national debt may clearly be increased in the same proportion, without any consequent aggravation of its pressure. If an individual possessing an income of one hundred pounds, and owing an annuity of ten pounds, be able to meet with a partner whose fortune unincum-

bered equals his own, their common debt may be doubled without any accession of charge on the original debtor. (2.) Again: the capital of a state may have been doubled, by an increase in the average wealth of its component members, unaccompanied by any addition to their number. Now if an individual possessing an income of one hundred pounds, and owing an annuity of ten pounds, obtain an addition of one hundred pounds to that income, it is certain, that even if the whole of his new revenue be absorbed by new debt, the sum which he may annually apply to his current expenses will not have been diminished. Though his debt increase from ten to one hundred and ten pounds per annum, or in the ratio of eleven to one, while his capital increases only in the ratio of two to one, his pecuniary situation will not have been altered. But this arithmetical reasoning can by no means be applied to public finance. In com-

paring the progress of national debt and of national capital, we must not look to the point of absorption, of absolute equality (which can never be attained by the former), but to the point of extreme pressure, to that point where the public debtor is galled by the annual burthen beyond the measure of his endurance.

Now the public debtor will not be found in the main to estimate his grievance by the residue of income which the tax-gatherer leaves him, but by the per centage of imposts, roughly conjectured perhaps as they bear upon his nominal revenue.

We are then entitled to assume the following propositions:—

1. When national wealth is in itself stationary, national debt must at a certain point become stationary also.
2. When national wealth is progressive, national incumbrances may be allowed also to increase in the same proportion.

Thus if a national debt of ten millions be borne without inconvenience by a state possessing one hundred millions of capital, when fifty millions, or fifty per cent., are added to that capital, five millions, or fifty per cent., may be also added to the former debt. By this rule of proportion, the new debt incurred will of course be the same part or fraction of the new capital created, as was the old debt of the previously existing capital.

3. When the rate at which public debt increases exceeds the rate at which public wealth grows, a point of extreme pressure must at last be reached, at which national bankruptcy will ensue.

There is however one important point of distinction between the two cases of a stationary and of a progressive capital.

A state whose capital is dormant, whose members do not lay by any savings from their incomes, if it allow the debt of each

war to accumulate in peace, may indeed by diminishing the number of its wars retard the hour of bankruptcy, but cannot escape it. Therefore, by the law of self-preservation, such a state will be bound to compel its members, during each interval of peace, to deposit in the exchequer so much of their incomes as will discharge the debt of the preceding war.

But a state whose capital is of a growing nature, whose members spontaneously accumulate wealth, will have another alternative. We have seen, that if its debt accumulate at the rate of ten per cent. in ten years of war, and its capital at the rate of ten per cent. in twenty years, the alternating equal periods of war and peace may be safely continued. Now if, by some augmentation of expense, the debt should increase at the rate of fifteen per cent. during the ten years of war, while capital continues to increase at the rate of

ten per cent. in twenty years, this state will have two alternatives.

Adhering to the former average proportion of war, it may pay off five per cent. of the previous debt during the period of peace; or, if it can prolong the average duration of peace to twenty years, its capital will have increased fifteen per cent. at the end of that period, and will have kept pace with the growth of the debt.

In adopting however the latter alternative, there are two circumstances to be considered, the possibility of avoiding war, and the certainty of a steady growth of capital. But who shall calculate with confidence the future progress of national wealth, or how can the purpose to avoid war ensure at all times so desirable an object? If then this remedy be not relied on, recourse must be had to the former alternative, a compulsory payment during peace of the excessive proportion of debt

incurred in war; and this payment can be effected in one way only, namely, by a yearly surplus of public revenue over public expenditure.

This yearly surplus of taxation may be paid by the subject from three sources.

1. From capital. But that state is in a very desperate case, whose subjects are so poor or so reckless as to meet the annual demands of the tax-gatherer by the reduction of their private capitals. This source of surplus may therefore be passed over.

2. From income, which, if not demanded by the government, would have been by individual economy spontaneously added to private capital.

3. From income which would otherwise have been expended as such by its owner.

The difference of the advantage accruing to the public by a sinking fund derived



from the one or the other of these two latter sources is not so great as it may at first appear.

It has indeed been often objected to the process of creating a surplus for the reduction of debt, that the money so taken from the purses of individuals would otherwise have been by them converted into capital, and would have fructified in their hands to greater advantage for the public. But will individual foresight indeed thus religiously forbid the immediate and annual enjoyment of the sums set free from the grasp of the tax-gatherer? A numerical comparison of those individuals whose expenditure falls much within their income, and of those who enjoy their fortune to its full extent, would, I think, scarcely warrant the assertion.

But besides this gratuitous assumption, the objection above stated involves a material misconception, which, having my-

self also fallen into it, I am the more desirous to point out to you.

It has been often asserted, that whether any portion of private income be converted into private capital, or whether it be applied to the reduction of public debt, the common benefit will be the same.

Now it is certain, that in the case of an individual, reduction of debt and creation of capital will be often convertible terms. If a private gentleman, on whose property there exists a mortgage of ten thousand pounds, lay by out of his income a sum, which at the end of ten years equals that amount, his means will have been equally increased by this economy, whether he employ the accumulated surplus in paying off his own mortgage, or in purchasing another mortgage to the same amount and at the same rate of interest.

It is also certain that the redemption of public debt, and the creation of public

capital, that is, of capital belonging to the treasury, are in like manner convertible terms. But is it so clear that the creation of private capital is equivalent to the redemption of public debt? This is a very different case.

It being assumed that national debt may conveniently amount to one-tenth of national capital, it has been shown, that when an addition of twenty millions is made to that capital, an addition equal to one-tenth thereof, or to two millions, may be also made to the debt.

Now those who would dispense with the extinction of an old debt, which we will state at one hundred pounds, do in fact thereby create a new debt to that amount. But what do they hold out to the public as a compensation? Not the creation of new capital to the amount of one thousand pounds, but of one hundred only. Now the fairness of this proffered equivalent

may be brought to an easy test by a simple example. If the proposed advantage be indeed a compensation for the loss, then it must be true, that whether a foreigner pay one hundred thousand pounds into our sinking fund, or whether he bring with him hither that amount of capital for the purpose of private investment, he will have conferred on our treasury an equal benefit.

But in the former case, if interest be at five per cent., he will have released the nation from an annual payment of five thousand pounds. Whereas if he retain his money for his own benefit, the public debt being assumed as one-tenth of the public capital, he ought to contribute only five hundred a year on that score to the public treasure; perhaps he may also pay as much more on account of current expenditure.

But it is evident, that unless the whole of his income be absorbed by tax-

ation, this introduction of capital will be no compensation for the loss of a reduction of debt to the same amount. This example, which I have adduced in order to show that the creation of private capital is not equivalent to the reduction of public debt, will equally serve to illustrate the position, to which we thus return, that the increase of national debt ought not to exceed the growth of national wealth. We have seen that there are two modes in which a tendency to this excess of increase may be repressed, a diminution of the periods of war, or a redemption of debt in peace. If the former of these depend upon precarious anticipations of future prosperity and repose, it must be extremely desirable that the financial stability of a country should rest, at least in part, upon the more tangible assurance which an annual surplus affords.

Such seems to me to be the naked

theory of national debt, as it bears upon the establishment of a sinking fund. But in attempting to appreciate the real value of that institution we need not limit ourselves to bare speculation, since it has already for more than a century formed a part of our financial system. If it have worked well during that period, its arithmetical promise will be guaranteed by a practical pledge. As I know that you take the metal of theory most readily when it has been stamped at the mint of experience, I now propose to lead you into this historical inquiry, avoiding however those minute items of account, which indeed for the most part, remoteness of time, and my own want of access to original documents, would alike forbid me to detail.

Since Mr. Pitt remodelled the sinking fund, his name has been so intimately united with that institution, that its pre-

vious existence has almost escaped from public remembrance. But the sinking fund which Sir Robert Walpole founded in 1716, was in principle the same with Mr. Pitt's, nor did its birth excite less sanguine hopes than its revival. We have then a large field for induction.

You are well aware that our system of funded debt came with the house of Orange: the plan by which it was hoped to extinguish this debt with the line of Brunswick. Under William and his successor, indeed, each loan when first raised was charged on some specific tax, presumed to be sufficient, not only for the payment of the accruing interest, but for the speedy liquidation of the principal also. Such was the theory of public debt in these early days: but this speedy honesty too little suited ministerial convenience. Accordingly, before the appropriated taxes had performed half their task, the

interest of fresh loans was charged upon them, and that substitution of incumbrances took place, with which we are now so well acquainted. Already, at the close of the seventeenth century, Dr. Davenant thus reprobated this breach of public faith.

“A sufficient provision is not made against diverting the public treasure, and against breaking into appropriated funds. The laws have not made this criminal enough. The exchequer should be fenced about with all possible skill. Stopping the principal, though the payments of interest are continued, may prove fatal.”

Often do these forcible words find a recurring application in the subsequent pages of our financial history.

In the year 1713, when peace was concluded at Utrecht, the total of our debt, funded and unfunded, is estimated by Dr. Hamilton to have been fifty-two mil-

lions\* sterling; which amount was increased by another million† in the ensuing year of peace. Its amount, therefore, in 1716, was about fifty-three millions‡.

In that year, Sir Robert Walpole, at the suggestion of Lord Stanhope, established the first sinking fund. The taxes, on which former loans had been separately charged, were rendered permanent, and distributed into three funds, the South Sea, the Aggregate, and the General, whose joint annual surplus, directed to be employed in the redemption of debt, constituted the sinking fund. The binding words of the enactment, by which this application of the surplus was ratified, are these: "The surplusses of the three funds shall be appropriated, reserved, and

\* 52,145,363*l.*

† 1,078,000*l.*

‡ 53,224,363*l.*

employed, to and for the discharge of the principal and interest of such national debts as were incurred before the 25th December, 1716, and to and for no other purpose whatever."

The debates of the House of Commons were in those days so imperfectly reported, that in them I can find no notice of the reception which met this measure on its first proposal. But the speeches delivered from the throne in subsequent sessions sufficiently show the lively expectation then entertained of its success. Indeed the sinking fund occupied much more of public attention, I will not say than it does now, for spendthrifts always fear to look their debt in the face, but than it did in the more provident days, when it was restored by the voice of Mr. Pitt.

Thus in the king's speech of January 9, 1724, we find the following passage:—

"I must in a particular manner recom-

mend to your care the public debts of this kingdom, as the most national concern you can possibly take into consideration. I am persuaded it must be a great satisfaction to all my loving subjects to see the sinking fund improved."

The sacred appropriation of the sinking fund to the redemption of debt was indeed then, as in later times, so strictly adhered to, that for seventeen years that process was not discontinued, even when the real or supposed wants of the country required a concurrent creation of debt, by loans newly raised.

Thus in 1727, when strong apprehensions were entertained of war, the king was made to say—

"Let all who wish well to the peace and quiet of my government, have the satisfaction to see that our present necessities shall make no interruption in the progress of that desirable work of gra-

dually discharging the national debt. I hope, therefore, that you will make provision for the immediate application of the produce of the sinking fund to the uses for which it was so wisely contrived."

But in a few years after the delivery of this speech, during the continuance of profound peace, the resolution of the government failed; and it is singular, that the very parent of the measure was the first who raised his arm against it. Sir Robert Walpole, however, was anxious to conciliate the favour of the country gentlemen by a reduction of one shilling in the pound on the land tax; and having vainly tried in the preceding year to substitute the salt tax, had recourse to his own sinking fund for the half million thus required.

This suicidal measure was not however carried without strong remonstrance from the leaders of opposition, who rallied round

the ensign of public credit when it fell from the hands of the minister. Thus Mr. Pulteney said—

“The sinking fund, that sacred deposit for extinguishing the debts and abolishing the taxes, which lie so heavy on the trade and the people of this nation, ought never to be touched; no consideration whatever ought to prevail with us to convert that fund to any use but that for which it was originally designed. It has of late been too often robbed—I beg pardon, sir, robbing is a harsh word, I will not say robbed—but I must say, that upon several occasions there have been considerable sums nipped away from it, &c.”

The following spirited declaration of your ancestor, Sir William Windham, shows conclusively, that even in those days the sentiments of Mr. Pitt were not unknown.

“The sinking fund is a fund I have

always had the greatest veneration for. I look upon it as a sacred fund appropriated to the relieving the nation from that load of debts and taxes it now groans under. I take it to be so absolutely appropriated to that use, that if upon any pressing and unlooked for emergency we should be necessarily obliged to borrow a little from it, the same with interest ought to be repaid with some tax to be raised within the year\*.”

I have the rather introduced these passages, because I am anxious to show that even in those early days the experiment of the sinking fund was really made. But on this occasion, the reduction of one shilling on the land tax was a bait too strong for the patriotism of the country gentlemen; and the half million was nipped by the minister from his own sacred fund.

\* Historical Register, vol. xviii, p. 228.

In the ensuing year, 1,200,000*l.* were in like manner taken from it; and in 1735, it is said to have been anticipated and mortgaged. Dr. Price, however, no prejudiced witness in favour of the first sinking fund, asserts, that in the two succeeding years it paid off three millions of debt.

I now propose, in pursuance of our inquiry, to estimate the total amount of this fund during the twenty-three years of peace (a most auspicious epoch of commencement) which followed its first institution; and assuming that amount as the quantum of reduction proposed by parliament when they sanctioned the measure, to compare therewith the diminution of debt which took place within that period.

According to Dr. Hamilton, the medium annual produce of the sinking fund\*

\* See Dr. Hamilton's admirable Inquiry concerning the Rise and Progress of the National Debt, p. 138.

	£.
From 1717 to 1726 both inclusive was	577,614
1727 ... 1736 .....	1,132,251
1737 ... 1746 .....	1,062,170

Its amount then, during the twenty-three years of peace which followed its institution in 1716, may be estimated as follows:—

	£.
From 1717 to 1726 at 577,614 .....	5,776,140
1727 ... 1736 ... 1,132,251 .....	11,322,510
1737 ... 1739 ... 1,062,170 .....	3,186,510
	£. 20,285,160

It is true that these twenty millions do not fairly represent the whole intended amount of the sinking fund, since the interest of some later loans had been charged on one or other of the three funds whose aggregate surplus constituted its supply. Let us, however, compare



even with this diminished amount, the debt which was actually reduced within the period.

	£.
The total of debt was in 1716.....	53,224,363
Ditto .....1739.....	47,954,629
Reduction of debt effected in twenty-three years of peace.....	5,269,734

Thus it appears, that the surplus of taxation granted by the House of Commons for the reduction of debt in twenty-three years of peace, was twenty millions, and the debt extinguished five millions; so that if even the whole of this reduction be attributed to that provision, only one quarter of the original grant was applied to its intended purpose. Such was the very unsatisfactory result of an experiment which had so strongly excited national hope. During the ensuing war, the sinking fund was entirely applied to extraordinary expenses.

*Second period of Peace, from 1748 to 1756.*

At the termination of hostilities in 1748, the total of the national debt is stated at 79,293,713*l*. I have been able to find little notice of the sinking fund during this or the succeeding peace, and must therefore confine myself in each to a bare comparison of intended with effected reduction. The average annual amount of that fund, from 1748 to 1755, was 1,356,758*l*. Its total amount, therefore, in the seven years of repose, between the peace of Aix la Chapelle and the commencement of the seven years war, may be stated at 9,477,306*l*. The diminution effected in our debt within the period was about five millions, but of this sum, Dr. Price states, that three only can be attributed to the operations of the sinking fund; so that the result attained was in fact little more than one-third of that which had been provided for.

*Third period of Peace, from 1763 to 1785.*

At the conclusion of the seven years war in 1763, to which we are now come, we find the total of public debt to have been 138,865,430*l.*, or nearly double its former amount.

The average annual amount of the sinking fund was from

	<i>£.</i>
1757 to 1765.....	2,059,406
1766 - 1769.....	2,234,780
1770 - 1774.....	2,610,750

Following then the same rough method as before, we may estimate its total amount in the present peace as follows:—

For the	<i>£.</i>	<i>£.</i>
Two years 1764, 1765, at	2,059,306	4,118,812
Four years 1766-7-8-9 ...	2,234,780	8,939,120
Five years 1770-1-2-3-4...	2,610,750	13,053,795
		<hr/>
		<i>£.26,311,737</i>

According to Dr. Hamilton, the total of our debt was diminished during this peace

by ten millions (10,281,795*l.*); but here again Dr. Price states, that only two and a half of these ten millions reduced, can be attributed to the operations of that fund whose efficacy we are attempting to appreciate. Not having been able to procure the latest edition of that work in which I suppose that Dr. Price made this statement, I am unable to verify its accuracy, but feel little hesitation in adopting it upon his authority. If the doctor's assertion be correct, the reduction of debt effected in this peace will have been about one-tenth of the surplus provided for that purpose.

We have now reached the close of Sir Robert Walpole's sinking fund, and have seen, that a House of Commons deliberating in 1775, on the imposition of taxes designed for the annual reduction of debt, would have been entitled by experience to anticipate the application to the proposed

object, of one quarter, one third, or one tenth of the surplus money voted, as after the peace of Utrecht, of Aix la Chapelle, or of Paris.

In the ensuing colonial war the funds suffered a strain more severe than any which they had hitherto undergone. The doubtful policy, which to the sums actually borrowed by loan superadds a large artificial capital, was now finally established; and at the close of that disastrous struggle, the nominal amount of our debt was nearly doubled, having been increased from one hundred and twenty-eight\* to two hundred and fifty millions†. The inefficacy of the old sinking fund had been long fully felt, but since the year 1772, Dr. Price had not ceased zealously to urge on government and the nation a more vigorous application of its principle. It is foreign to my present

\* 128,583,635*l.*

† 249,851,628*l.*

purpose, which is purely practical, to examine the beatific visions of accumulating millions, which that expert calculator, standing on the prophetic heights of compound interest, saw, and imparted to the imagination of an admiring people. They have been moreover so ably analyzed by Dr. Hamilton\* and by Mr. Ricardo†, that I shall do far better by referring you to the works of those eminent writers. All Dr. Price's positions with regard to the accelerated payment of debt, which would result from his system, were I believe perfectly correct. But in the application of these principles to the sinking fund, he overlooked two palpable truths, of which one is theoretical, the other practical. He forgot, that with a given sum to be

\* Inquiry into the Rise and Progress of the National Debt.

† See an excellent article on the funding system in the Supplement of the Encyclopedia Britannica.

paid, and with given times for the payment of that sum, no variation in the theory of the transaction can in the slightest degree affect the result. Secondly, when he looked forward to the payment of large annual sums, steadily increasing until they finally equalled and thus annihilated the annual charge of debt, he expected a firmness and forbearance from ministers and parliaments yet unborn, which the shorter experience even of his own days distinctly forbade him to assume.

Urged by the zeal of Dr. Price, and by his own sense of the present financial distress, Mr. Pitt sought a remedy for that embarrassment in the establishment of a sinking fund, which at first differed little from its predecessor except in technical arrangement. At its foundation in 1786, one annual million constituted its whole endowment; but the dividends which it set free by periodical redemption were

also to be included in its annual revenue until that reached four millions, which amount was not to be exceeded. In 1792, another annual sum of two hundred thousand was added, and at the same time the new sinking fund acquired its distinguishing feature by the important enactment, that for the future, whenever any loan was contracted, not only the interest thereon should be provided by a new tax, but also an additional sum of one per cent. on the nominal capital created; this additional amount of taxation was destined to form a new reinforcement to the sinking fund, and thus it was hoped that each fresh debt would carry from its birth the seeds of its own destruction. The advantage of this regulation is I think great; for it is much to be apprehended, that a finance minister, if left entirely to his own discretion, will scarcely face the unpopularity of proposing in each year of war new taxes, sufficient to cover the

interest of newly created debt. But this desirable object has been more than accomplished by the wholesome enactment of 1792. Thus when two hundred 3 per cents were given by government for a loan of one hundred in money, the minister was bound by this law to impose a new tax, not of six pounds merely but of eight pounds. Now since under a given amount of expenditure, the more you raise by immediate taxation the less will be the ultimate accumulation of your debt, it is evident that the effect of this extra taxation, as far as it went, was most beneficial\*.

There was indeed one evil to be appre-

\* The additional one per cent. of taxation was taken, not on the money raised but on the capital debt created. If it be disadvantageous to create a nominal capital larger than the sum borrowed, which point however has not been proved, the regulation must be also useful in discouraging this practice, by raising proportionably the annual charge on the lower denominations of stock.

hended from the continuance of the sinking fund in war, that government being then both purchaser and seller, would buy at a dearer rate than it would sell. Against this danger however Mr. Fox provided, by the clause which authorised the subscription of the sinking fund itself to each new loan. Had that wise clause been acted upon, the only disadvantage would have vanished. Whenever the sinking fund disappears from our statute book, I trust, that instead of one per cent., our legislature may decree that two or even three per cent. on the nominal capital of each new loan shall be provided by fresh taxation. This new resource, applied to the discharge of necessary expenditure, would indeed have a powerful effect in checking that fatal procrastination of payment which leads to accumulation of debt.

Such was the sinking fund which

Mr. Pitt proposed to found in 1786, building upon it his hopes of fame for himself and of salvation for his country. A financier however could not fail to observe how little the performance of this institution had hitherto corresponded with its promise. None indeed saw more clearly the frail tenure of its existence than Dr. Price, its enthusiastic patron.

“There is one objection,” says the Doctor in his original appeal to the public\*, “which has probably been offering itself to every reader, and which though I cannot answer it I may mention. Suppose, it will be said, such a fund established as has been here described, or, which is the same thing, suppose the sinking fund restored, what security can be obtained for the faithful and inviolable application of it? Were I to propose, in answer to this inquiry, guarding the sinking fund by pains

\* Page 47.

and penalties, and making all encroachments on it no *less treason than an attempt to kill the king*, I should be conscious of making a very vain proposal. For such a security would be only the security of law, and this has been already given without effect. Parliament can give no defence against themselves.”

But Mr. Pitt guarded this weak point of the scheme with singular labour. We shall presently see the success of that great man's matured precautions. The annual surplus which bore the name of a sinking fund, had hitherto remained with the treasury, under the nominal protection of Parliament, a guardian, whose complaisance on this subject no minister had tried in vain. But the first lord of the treasury proposed to deliver the new fund from himself, from his successors, and even from Parliament, by vesting it in official trustees of eminent station, whose claims

upon its annual store would, he hoped, be endued with the sanctity of private property.

In opening the measure to the House of Commons, he thus reveals his fears and details his precautions on this delicate point\*.

“Care must be taken that this fund be not broken in upon. This has hitherto been the bane of this country. For if the original sinking fund had been properly preserved, it is easy to be proved, that our debts at this moment would not have been very burdensome. This has hitherto been in vain endeavoured to be prevented by act of parliament. The minister has uniformly, when it suited his convenience, gotten hold of this sum, which ought to have been considered as most sacred. What then is the way of preventing this? The plan I mean to propose is this: that

\* Mr. Pitt's Speech, March 29, 1786.

this sum be vested in certain commissioners, to be by them applied quarterly, to buy up stock. By this means no sum so great will ever lie ready to be seized on any occasion, and the fund will go on without interruption. By this manner of paying 250,000*l.* quarterly into the hands of commissioners, it would make it impossible to take it by stealth. A minister could not have the confidence to come to this House, and desire the repeal of so beneficial a law.”

Between the horns of this dilemma Mr. Pitt deemed that he had securely lodged his infant fund; but these two alternatives of impossibility have been long familiarized to us as easy realities; and it is singular enough, that the minister who uttered these words, did himself, almost in the first outset of the operation, bring the former danger to pass.

If we were to compare, as before, the

amounts of public debt which existed at the commencement, and at the conclusion of this period of peace, we should find from Dr. Hamilton, that the funded debt had been reduced by ten millions 3 per cents. which the commissioners purchased within the time. This stock, at the average price of those years, which was eighty, represents eight millions in money. In turning to the unfunded debt we should find from the same authority, that the increase on that score had been 6,400,000*l.* within the same period, which would leave the balance in our favour extremely small. But as Dr. Hamilton is not certain of one of his numbers, we will if you please rest our practical estimate of the efficacy of Mr. Pitt's fund on a report of his own committee, made in 1791, in which this very point, the comparison of the expected and of the actual effect of the sinking fund, is made an object of investigation. The

following is the result at which the committee arrived.

“ In the period which has elapsed since the creation of the sinking fund, there has been applied to the payment of funded debt 5,424,592*l.*, against which sum the committee state the following items:—

	£.
“ Loan raised by annuities .....	1,002,140
Increase of outstanding navy debt .....	457,950
Increase of deficiency in grants between 1785 and 1790 .....	80,590
Increase of ordnance debt .....	61,909
Add (not included by the committee) part of a loan of 187,000 <i>l.</i> .....	153,000
	£.1,755,589

Even by this estimate, which is I suspect taken too favourably, it appears, that within five years from the restoration of the sinking fund, one-third of that fund had been indirectly subtracted by the very



hand from which its stores had been received. For it is clearly the same thing whether a sum due to the commissioners be withheld from them, or whether the minister create debt while they redeem it.

War, however, supervened before this fallacy was discovered, and during the long period of expense which ensued, the original scheme was, with a few exceptions, steadily adhered to. It was the business and the pleasure of each finance minister to ascertain the exact year of our era, generally some early date in the present century, in which the accumulated income of the sinking fund would overtake the annual charge of debt, and both would disappear together. Even in the year 1813, the chancellor of the exchequer held this flattering language. The only sinister consideration which came across this vision of joy, was a serious fear lest the sudden

stoppage of the national hæmorrhage should kill the patient with plethora.

But the present peace arrived, and that alarm was soon shown to be groundless. The nominal amount of the sinking fund for the first year of this peace may be stated at fourteen millions. If it was intended now to adhere to Mr. Pitt's plan, it was of course necessary to provide a free surplus of income to that amount. On this point the ministry hesitated; but when the House of Commons rejected a temporising proposal for a partial prolongation of the income tax, they threw up the malt duty of nearly three millions, and left themselves a revenue which did not suffice to cover their yearly expenditure.

Thus fell Mr. Pitt's sinking fund in 1816, almost before it had been called into action. It so happened, however, that there remained over at this time a large amount of supplies from the preced-

ing year. By the aid of these, and of an enormous issue of exchequer bills, the fund staggered on until the year 1819. But the reports of the finance committees which sat during these three years opened the eyes of the public.

The essence of these reports is contained in the following extract from Mr. Vansittart's speech\*, which I have the rather transcribed, as while it depicts the decay of the old sinking fund, it announces the birth of a new one.

“ By the reports of the finance committee it appears, that in the first year of peace a very considerable deficiency existed in the revenue, as compared with the expenditure. The expenditure for the year ending 5th January 1817, was 54,200,000*l.* while the income amounted only to 51,300,000*l.*, leaving a deficiency of 2,900,000*l.*

\* June 9, 1819.

“ In the next year, namely, that ending on the 5th January 1818, the improving prosperity of the country was evinced by an augmentation of revenue, the expenditure being 52,956,000*l.*, and the revenue 52,302,000*l.*, leaving a deficiency of only 654,000*l.*

“ In the next year it appears that the deficiency was changed into a surplus; for in the year ending 5th January 1819, the income was 54,000,000*l.*, while the expenditure was only 52,370,152*l.*, exhibiting a surplus of 1,683,785*l.*”

I must here detain you for a moment to observe, that the chancellor of the exchequer considerably understated the serious balance against us on the accounts of the three years: for in 1816 the exchequers of Great Britain and of Ireland were not yet united; but by a pardonable error the finance minister took from the Fourth Report of the Finance Committee, not the

balance of the United Kingdom, given in by them at 6,210,350*l.*, but that part of it only which belonged to Great Britain, namely, 2,900,000*l.*\*; through which oversight the unpleasant statement became, in fact, better by three millions than it was entitled to be.

After such a disclosure, drawn from so authentic a source as a Finance Committee, it were futile to seek the amount of debt reduced by the sinking fund in the three first years of the present peace. We may pass therefore to Lord Bexley's annunciation of the third sinking fund, which he now proposed to establish. After assuming a probable surplus of two millions for the current year 1819, he thus proceeds:—  
“ The question for the Committee now to consider is, whether with so small a surplus Parliament can perform its duty to the

\* See Fourth Report of Finance Committee, 1817.

public creditor, by holding out any prospect of an actual redemption of the public debt. The first consideration is, what is due to the public creditor on the subject. I know no duty more solemnly and imperiously called for. In 1793, on the proposition of Mr. Pitt, when that series of loans was commenced which now forms the greater part of the national debt, it was provided that a sinking fund of one per cent. should be provided for the gradual reduction of every loan. It is impossible that Mr. Pitt can have had in contemplation the great drain that that would occasion on the country: at the same time no obligation can be more sacred than our obligation to provide for the payment of the debt. The present surplus income of two millions is certainly insufficient for its reduction: my plan therefore is to raise that sum to five millions. In my opinion, *a real and effective surplus* to that amount

is *necessary*, and will be sufficient to improve public credit in a way that will discharge the obligation due to the public creditor."

These were the decisive terms which the chancellor of the exchequer employed in 1819, while laying the foundation stone of the third sinking fund. Three years had not passed away before these words were as decisively contradicted by the actions of the same minister. But they had now power to obtain from the House of Commons the following resolution:—

"That to provide for the exigencies of the public service—to make such progressive reduction of the national debt as may adequately support public credit, and to afford to the country a prospect of future relief from a part of its present burthens, it is *absolutely necessary* that there should be a clear surplus of the income of the country, beyond the expenditure, of not

less than five millions; and that with a view to the attainment of this most important object, it is expedient now to increase the income of the country by the imposition of taxes to the amount of three millions per annum."

Such was the solemn vote of the House: in pursuance of which three millions of taxes were imposed, and the third sinking fund established, moderate in its amount, still more moderate in the proportion which it bore to the sum of existing debt.

But in the autumn of the same year a political economist dared to foretel its destiny in these words:—

"After all our experience we are again toiling to raise a sinking fund; and in the last session of parliament three millions of new taxes were voted for the avowed object of raising the remnant of our sinking fund, now reduced to two millions, to five millions. Is it rash to

prognosticate that this sinking fund will share the fate of all those which have preceded it? Probably it will accumulate for a few years, till we are engaged in some new contest; when ministers, finding it difficult to raise taxes for the interest of loans, will *silently encroach* on this fund; and we shall be fortunate, if, in their next arrangement, we shall be able to preserve out of its wreck an amount so large as two millions."

Three years had not elapsed when Mr. Ricardo's prophecy was accomplished. War indeed did not arrive; but in profound peace the father of the third sinking fund, like the parent of the first, raised an unnatural arm against his offspring. The silent encroachment which Mr. Ricardo foresaw, was made in 1822 under the cover of the well-known dead weight operation.

The ministry were then strongly urged by the sufferings of the agriculturists to

attempt some remission of the taxes which appeared to weigh most upon them. This reduction was however incompatible with the preservation of the real surplus. If the deficit had arisen from a temporary cause, it might have been filled up as usual by an issue of exchequer bills. But this ordinary resource was here precluded, for taxes to the amount of three millions were permanently taken off, and no hopes were then entertained of a corresponding improvement in the revenue. Here then was another difficulty; the deception must be permanent also; but I need not now unravel the successful intricacies by which, when three millions had been lent, and five borrowed, two of these latter were finally deposited in that sacred fund, whose stores are destined for the annual redemption of our incumbrances.

By the commencement of the succeeding year (1823) the spontaneous growth

of our revenue fully replaced the loss which it had suffered, and the sinking fund, but for that delusory operation, by which it had been permanently rifled, might at once have recovered its original size; but while two fictitious millions made up its complement, three real millions of surplus taxation were now repealed. Such indeed was then the preternatural increase of public receipts, that again in 1824 nearly two, and in 1825 three more millions of taxes were surrendered by Lord Goderich. But the fatal revolution came in the ensuing autumn; and in each of the last two years, notwithstanding the new tax of the late session, which brought eight hundred thousand pounds into the treasury, there has been a balance against us on the annual account, and of course we have had no sinking fund whatever.

It only remains for us, having thus

witnessed the disappearance of the third sinking fund, to estimate the degree of efficacy with which it was once endued. The House of Commons in 1819 voted for its support a surplus of five millions, which, in the nine years since elapsed, should have amounted to forty-five millions. It was therefore their intention in 1819, that in this interval forty-five millions, with compound interest thereon (at least since 1823), should be applied to the reduction of our debt. As the new taxes, however, could not come into operation in the first of those years, we will omit the simple and compound interest as a compensation for that loss, and state the intended amount of reduction at forty-five millions only.

The official statements of debt at the two dates are as follows:—

	Funded Debt.	Unfunded Debt.	Balances in the Exchequer.	Unfunded debt after deduction of balances.
	£.	£.	£.	£.
* 5th Jan. 1819...	797,401,119	51,992,095	10,673,613	41,319,482
5th Jan. 1820...	777,476,892	34,770,850	4,228,753	30,542,097
Decrease....	19,924,327			10,777,385

Against the diminution of nearly eleven millions on the head of unfunded debt, there exists a set off of twelve millions, being the present value of the dead weight annuity sold to the Bank; so that there will be one million excess of set off to be carried against the account of the funded debt. The apparent decrease of this other debt is about twenty millions of stock, or, at eighty per cent. the average price of three per cents.

\* These items are all extracted from the parliamentary accounts, with the exception of the balances in the Exchequer on the 5th January 1819, taken from a work entitled Statistical Illustrations, &c., p. 137, 3d edition.

for the last nine years, sixteen millions in money. Did I attempt to ascertain the real diminution which has taken place within the same period, I should uselessly detain you with a most intricate comparison of conflicting transmutations of debt, with which, as the nature of our inquiry does not require so much nicety, I will forbear to weary your attention. Such indeed is the obscurity in which the subject is enveloped, that if six men accustomed to accounts, whether persons in business or members of the finance committee, applied themselves separately to the investigation of this point, no two of the six, I am perfectly convinced, would arrive at the same conclusion. As far as I can see into the matter, a deduction of about two and a half millions ought to be taken from the apparent decrease; but in order to be thoroughly safe, we will assume that the real deduction effected in our debt since 1819 has been fifteen mil-

lions. But the reduction then declared by the House of Commons to be "absolutely necessary," and provided for accordingly, was not less than forty-five millions. They determined to reduce our debt at an increasing rate of five millions per annum. If as much as fifteen millions have been indeed paid off in the nine years since elapsed, our incumbrances have been diminished by their provision at a rate of more than one and a half millions per annum. The House has attained one-third of the object of that enactment.

The following table contains the result of the long investigation into which I have led you. In arriving at this result, you will observe, that I abstain from stating the large nominal amount of the sinking fund during the first five of these last nine years, confining myself strictly to the quantum of surplus which was *bond fide* proposed to be established.

## SIR ROBERT WALPOLE'S SINKING FUND.

	Reduction of debt provided for about	Debt reduced by sinking fund about	Proportion of provision which was realized.
First Peace	£.	£.	
From 1716 to 1739 .....	20,205,160	5,269,734	$\frac{1}{4}$
Second Peace			
From 1748 to 1755 .....	10,854,064	3,000,000	$\frac{1}{3}$
Third Peace			
From 1763 to 1775 .....	26,111,737	2,500,000	$\frac{1}{10}$

## MR. PITT'S SINKING FUND.

Part of Fourth Peace	£.	£.	
From 1786 to 1792 .....	5,424,592	3,669,003	$\frac{2}{3}$
Part of Fifth Peace			
Three years 1816, 1817, 1818	Nil.	Nil.	Nil.

## MR. VANSITTART'S SINKING FUND.

Part of Fifth Peace	£.	£.	
Jan. 5, 1819, to Jan. 5, 1828...	45,000,000	15,000,000	$\frac{1}{3}$

Such is the plain story of our three sinking funds.

It is doubtless remarkable, that when parliament has so often voted a surplus of annual taxation for the payment of debt, and that surplus has in appearance at least been constantly raised for a series of



years, the reduction of debt should never have ensued but in a trifling proportion to the means provided. A suspicion must naturally arise that each successive ministry has been able to divert these sums to objects not contemplated by parliament, perhaps to the gratification of its own extravagant propensities. But obvious as this suspicion may be, upon mature examination I believe that it is not true, certainly that it is not the principal solution of the phenomenon.

When a balance is struck between the income and the expenditure of any year, and a surplus, being found or provided, is directed thenceforth to be applied to the reduction of debt, there are many ways in which this reduction may fail to take place. In considering these, it is of no consequence whether we suppose any part of the appropriated sum to be withheld from the commissioners, or whether,

while they apply that portion also to the redemption of stock, the treasury create other debt to the same amount.

The proposed surplus of income over expenditure will not be realized,—

If, whether by thoughtlessness or by necessity, the expenditure be increased while the revenue is stationary.

If in times of distress, as in 1822, the minister yield to the importunity of a suffering interest, and reduce a part of that taxation which yields the surplus.

If in prosperous years, as in 1824, 1825, buoyed up by a growing revenue, he assume these exuberant treasures as the average receipt of future years, and on this too sanguine estimate proceed to repeal taxation. When the income returns to its accustomed level, the surplus will of course be wanting.

To these three causes, the gradual increase of expenditure in a growing em-

pire, the difficulty of maintaining taxation through times of distress, and the natural desire to repeal imposts in the hour of prosperity, to these, and in some degree to a want of economy on the part of our rulers, we may, I think, attribute the failure of the last, and probably of all other sinking funds.

This impotence of a sinking fund for the reduction of debt has been, I believe, for some time really felt and tacitly admitted; while its utility has been upheld on different grounds. Official persons maintain, that the surplus arising thereby is a desirable resource for eventual war. But surely no firm minister engaging in just hostilities would require to interpose between the House of Commons and himself the shield of this palliative arrangement. Moreover, the argument presupposes what we have seen to be very equivocal, the existence of a surplus.

But again, persons conversant with our money market are generally of opinion, that the sinking fund, even when it does not accomplish the reduction of debt, renders us effectual service by keeping up the price of government securities; and it appears that there are two means by which it may effect this object.

If the public be persuaded that the sinking fund affords a speedy prospect of repayment to the national creditor, it will doubtless be the better inclined to subscribe to a new loan, and the stock will of course be disposed of on better terms. I am by no means disposed to deny that this moral influence was beneficially exerted by the sinking fund during the late war, when it was fashionable to fix the precise period at which all our incumbrances would be paid off. Yet now that this faith has vanished, can we hope that in any

future conflict the public mind will again receive so favourable an impression?

But it is also said by monied men, that, apart from any hope of repayment, the steady demand of the commissioners powerfully supports the price of the funds. Loose stock is taken off by their purchases: no one is obliged to force a sale: the market being rather underfed retains its briskness, and consols their elasticity. It must be remembered, however, that the nation derives no advantage from a high price of stocks in peace, except indeed when a reduction of interest is contemplated. As far as the redemption of capital is concerned, the higher its price the less can be purchased with a given surplus; so that, while peace endures, the commissioners appear to raise the market against themselves. This advantage then is to be obtained by a sinking fund in war,

that is, it must be obtained by selling stock with one hand, and buying back a part thereof with the other.

But into this mysterious circle I own that I fear to enter. I will therefore rather refer you to the report of one who has himself trod its mazes. "If by the adoption of this plan," says a sagacious capitalist, "a daily purchaser is added to the market, so also is a daily seller. The minister gives to one party ten millions of money to invest in stock, and to another party as much stock, as ten millions cost, to sell; and as the instalments on the loan are paid monthly, it may fairly be said that the supply is as regular as the demand. It cannot be doubted too, that a loan of twenty millions is negotiated on worse terms than one of ten. It is true that no more stock will remain in the market at the end of the year, whether the one or the other sum be raised by

loan; but for a time the contractor must make a large purchase, and he must wait before he can sell his ten millions to the commissioners. He is induced then to sell much more largely before the contract, which cannot fail to affect the market price; and it must be recollected, that it is the market price on the day of bidding for the loan, which governs the terms on which the loan is negotiated. It is looked to both by the minister who sells and the contractor who purchases. The experiment, on Mr. Grenfell's suggestion, was tried for the first time in the year 1819. The sum required by the government was twenty-four millions, to which the commissioners subscribed twelve millions. In lieu of a loan of twenty-four millions from the contractor, there was only one of twelve millions; and as soon as this arrangement was known, previously to the contract, the stocks rose four or five per

cent., and influenced the terms of the loan in that degree\*." *— Mr. Ricardo, Supplement to Encyclopædia Britannica, art. Funding System.*

Those, then, who uphold the sinking fund simply for its beneficial influence on the public funds, should remember, that in peace it may indeed raise their price against ourselves, but can only be useful in the rare case of a reduction in the interest of our debt; while in war, the system of sale and repurchase seems to have the very undesirable effect of lowering stock when we are obliged to sell, and of enhancing its value when we wish to buy.

But whatever may be the value of these contingent effects which a sinking fund is supposed to produce, the direct object of such a fund is the payment of debt. Now we have, I think, seen, that whereas theory proves this institution to be in all

\* Mr. Ricardo, Supplement to Encyclopædia Britannica, art. Funding System.

cases advantageous, in some indispensably necessary, practice has shown its efforts for the reduction of existing debt to have been hitherto often mischievous in failure, always contemptible in success. Nor is this conclusion, to which we have been reluctantly led, so paradoxical as its tenour seems to import. It is highly desirable for an individual, whose affairs are embarrassed, to disenthral himself from his incumbrances by a series of vigorous efforts. Yet who has not observed, that the greater the expediency the more difficult is the execution of this determination; that the necessity and the improbability of private retrenchment usually go hand in hand together.

Parliament have not now to determine whether they shall continue an existing surplus; for instead of a surplus, the accounts of the last two years, when truly read, have told us of a deficiency. Unless

the finance committee effect some large and permanent reduction in our expenses, or unless there be a certain promise of improvement in our revenue, they have to decide, whether, to whatever amount they propose the creation of a sinking fund, to the same amount they shall make up their minds to impose new taxes on the nation.

Perhaps Mr. Courtenay's perilous suggestion may be adopted, and that ultima ratio of the Exchequer, the income tax, may be called in as our only resource. But however patiently the House of Commons or its constituents might submit to this impost, if they thought that their own annual loss would prove a perpetual gain to the state, I should conceive that the sacrifice might be made with some reluctance, if they had learned from experience that in parting with five pounds on each hundred of their incomes, not two of those

would be applied to the end for which they were granted.

Yet perhaps, notwithstanding our repeated failures, it may not be desperate once more to make this experiment. Perhaps from those very failures we may learn to prevent their recurrence. We have vainly tried to fence this fund by the determination of ministers, the enactments of parliament, the semblance of trusteeship, and the sacred name itself of public faith. But there is one security which we have not yet tried—a clear and honest system of accounts. If it be possible to ensure the application of a surplus to the reduction of debt, I think that it can only be thus attained: yet I am not at all sanguine in the expectation of success, though this method be adopted; on the contrary, judging from the past, I should perhaps anticipate its failure.

But we know that the motley forms of

our public debts have hitherto disinclined parliament and the public from any attempt to ascertain the practical merits of the sinking fund. Our funded debt is estimated by its nominal amount, whereas this nominal amount is an undistinguishing official denomination of securities, varying greatly from each other in value. Yet in the speech of every finance minister, you will find a million of three per cents. worth perhaps eight hundred thousand pounds, and a million of exchequer bills, which have been received at par, classed indiscriminately together, while credit is taken for a reduction of two millions in the national debt. Again, the whole branch of annuities generally escapes detection. The long annuities, worth more than twenty millions, are of course overlooked when the capital of our debt is stated. The dead weight annuity of nearly six hundred thousand pounds has been sold to the Bank,

yet from the reasonings delivered by ministers in 1822 to the two houses, we should be led to infer that no debt whatever had been thereby created. Funded capital too is converted into life annuities; that is to say, a perpetuity is exchanged for a larger terminable annuity; and before a single augmented payment has been made in virtue of the transaction, credit is taken for a diminution of debt to the whole capital amount, while it has in fact only been inscribed on the sheet of a different ledger, and that, as we have lately learned, with a probability of future loss. Hence it has been ever impossible, without laborious research, to ascertain the progress made by the sinking fund in the reduction of debt.

But if, after repeated disappointments, the experiment be once again renewed, surely it is expedient that we be enabled to appreciate its issue. Nor would it be diffi-

cult, in laying the annual accounts on the table of the House of Commons, to afford the means of forming this judgment. One short paper easily drawn up would suffice. Such a statement must show in the first place the amount of new debt contracted since the formation of the new sinking fund, that debt being stated in the money value which it bore at the time of its contraction. In the second place it should give the amount of debt reduced within the same period, at the price of its redemption. It must also state what debt has terminated spontaneously, and how much has been reduced from extraneous sources. There need only be added the aggregate sum received by the commissioners, and the efficacy of the sinking fund might then be tried by the common rules of arithmetic. The publicity which a clear form of accounts would give to the

operations of this fund, might perhaps invigorate its efforts. This advantage would at least be attained, that a minister, with a surplus so strictly accounted for, would find himself little more at large than he would with a revenue strictly appor-tioned to estimated expenditure.

After all I do not believe that our future financial prosperity will be much affected by the employment or the omission of any sinking fund, which can at present come within the contemplation of parliament. Should a surplus of five millions be now voted, we shall have great reason to be satisfied if after twelve more years of peace one-half of that amount have been really applied to the reduction of debt. Only in the first five years of Mr. Pitt's sinking fund, has any such proportion been hitherto observed. Twelve millions are the more probable result; but if twenty-eight should

indeed be reduced, what ratio will they bear to the debt which is likely to be in-curred in the subsequent war.

In those wars which we have hitherto experienced, our debt has increased by geometrical progression. The more eco-nomical have almost doubled, the most obstinate have before their conclusion nearly trebled, the debt which existed on their commencement, as the following numbers extracted from Dr. Hamilton's table clearly show\*.

	£.	Rate of in-crease of debt.
Debt at commencement of Queen Ann's war, 1702.....	16,394,702	
Debt contracted during war.....	35,750,661	3
Debt at commencement of war, 1739 .....	47,954,629	
Debt contracted during war.....	31,339,084	$\frac{5}{3}$
Debt at commencement of seven years war, 1756.....	74,332,153	
Debt contracted during war.....	64,533,277	2 nearly.

\* Hamilton, on National Debt, pages 100, 101.



	£.	Rate of in- crease of debt.
Debt at commencement of Ame- rican war, 1775.....	128,583,635	
Debt contracted during war.....	121,267,993	2
Debt at commencement of revo- lutionary war, 1793.....	244,118,635	
Debt contracted before peace of Amiens.....	276,088,466	2
Debt at commencement of revo- lutionary war, 1793.....	244,118,635	
Debt contracted from 1793 to 1815.....	529,077,296	3

If the law of increase which appears to have prevailed since the revolution should remain yet in force, our debt of eight hundred millions will receive the accession of other eight hundred millions before the conclusion of the next considerable war. If only half of this augmentation take place, the result of any sinking fund which we can hope to establish, must, I fear, be inconsiderable; for what is a reduction even of thirty millions,

when compared with an addition of four hundred.

There is indeed a view of this subject, which, if we could allow ourselves to entertain in its full extent, might convert this scene of increasing incumbrances into a prospect of unbounded aggrandizement. It cannot be that in each of our four last wars, debt should have increased by the rapid process of geometrical progression, without some corresponding cause. Doubtless the growing extent of our empire has called forth our exertions into an ever-widening field. But has that accession of territory supplied the increased expense which its preservation demanded? I think not. The proximate cause may be here, but the primary cause must lie deeper. Certainly if it should appear, that after each succeeding war this nation has stood equally erect beneath its growing burthen, that new cities have been built for

our artisans, our wastes been spread with new fields of corn, it might be inferred that national debt had but kept pace with national wealth, that we had taken a double weight on our shoulders because we had felt a double power to bear it. We might even suppose that a consciousness of increased resources had encouraged the nation at the commencement of each war to extend its operations, while perhaps towards its close the warning voice of fallen stocks and popular complaint might inform the cabinet that they had drawn upon the new wealth of the country to the full extent which could be borne; and that they would do well in granting to its productive powers the timely relief of peace. If such a warning voice did indeed bring former conflicts to their close, as history seems to teach us, we may also learn from the financial annals of the late war, why that cry of distress was not heard until

after the restoration of peace. The fallen value of our currency, by reducing our fixed payments, enabled us to defray most extravagant campaigns without any real increase of annual taxation. It was not until the nominal pounds were realized, that we were aware of our situation. But though a war too long, not for our honour but our resources, have now weakened us, it may be that a repose equally lasting will enable our exhausted strength to renew its growth. The thought would indeed be glorious if the persuasion were sure, that our public debt only increases, because the general store has grown in the same proportion, that the shadow only lies wider over the face of the land, because the edifice of national wealth has been built up higher, and broader, and stronger.

Here then we revert to the principle from which we set out, that if the public capital be stationary, the public debt must

be stationary also; while on the other hand if the commonwealth grow, its incumbrances may not unsafely be allowed to increase also. But unfortunately the increase of capital has no steady law of progress. Commercial capital is exposed to sudden reverses which compensate its usual rapid advance. Our own days have seen the grass spring up on the quays of Venice, Cadiz, and Amsterdam. The corollary of the same principle nakedly stated was this. If debt increase too fast for your wealth, under the existing average of war, and you cannot redeem your debt in peace, you must proportionally shorten the periods of war. In this bare enunciation, however, it is assumed, that the increase of capital cannot be accelerated by any effort of government. Now though it is true that such happy growth cannot be forced, it may be fostered by the legislature: it need not be discouraged.

I would say then, my dear Lord, to our country, Trust not the financial statement of any chancellor of the exchequer: he will not perhaps wilfully deceive you, but he imbibes from the air of his office an amiable weakness, which forbids him to tell you an unvarnished tale. Look then into your own accounts, and that you may understand them, let them be clearly kept. The rapid advance which you have already made in the creation of capital forbids you to expect similar progress in future. Your land is already too full to be capable of receiving much additional wealth. But there is a sister island whose extent is one-third of the whole state, whose population is in like proportion, but whose poverty is shown by the smallness of her contribution to the common store, of which her annual payment does not constitute one-twelfth. Examine candidly whether there be an

irreversible decree by which Ireland is doomed to be for ever poor and barbarous; and remember that, if this decree can be invalidated, not only will you be spared your army of occupation, but an unbounded field may be opened to your overflowing capital.

Estimate the value of your colonies, what they do contribute, and what they are capable of contributing to your welfare. A colony should be a branch returning in an improved state the juices which it receives from the parent stem. At least let there be no fungus among yours, exhausting the trunk which it cannot invigorate. Open your arms, not precipitately, nor yet prudishly, to the traffic of the world. I would not without inquiry reject even an honest country banker's well-worn one pound note. It may be difficult to reduce public taxation, but you alone among nations have

in the poor rates a tax, which by a peculiar curse, while it impoverishes the contributor, benefits not the receiver but renders him doubly poor, for it takes from him the price of his labour and takes his spirit also. If we examine fairly, and rectify firmly these broad lines of national interest, then whether or no we have a sinking fund, whether your sinking fund succeed or fail, we have still, I think, ground to hope that though a positive redemption of debt be unattainable, its relative reduction may yet be the result of our own care. If we cannot fill the river with a bucket, we may wait till the earth's natural streams have replenished its channel.

I am,

My dear Lord Carnarvon,

Very faithfully yours,

PHILIP PUSEY.

LONDON,  
May 19, 1828.

0467

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