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OBSERVATIONS

FINANCE.

12th February 1807.

—No 1.—

A. THAT it is proposed by the New Plan of Finance, that the Annual Excesses of the present Sinking Fund above the Interest of the Debt charged upon it in any given Year, should be declared to be at the disposal of Parliament, and applicable to the Public Service. And it appears, that the Aggregate Produce of the said Excesses, between the Years 1816 and 1826, will amount in the whole to £.11,121,938.

E. THAT Annuities to the Amount of £.685,515. will fall in between the Years 1807 and 1826.

B. THAT it is proposed by the New Plan of Finance, to charge, on the Aggregate Produce of the said Excesses of the Sinking Fund, and upon the said Annuities, the Interest and Sinking Fund of £.204,200,000. Supplementary Loans; and to impose, in aid of the said Aggregate Produce, between the Years 1810 and 1816, New Taxes to the Amount of £.2,051,000.

C. THAT in addition to the Supplementary Loans to be provided for, it is proposed by the New Plan to raise War Loans to the Amount of £.210,000,000. on the Credit of the War Taxes, amounting to £.21,000,000.

C. THAT the War and Supplementary Loans of each Year, added to so much of the War Taxes as may remain unmortgaged, will produce in each Year respectively the sum of £.32,000,000.

B. THAT in order to raise the said sum of £.32,000,000. in each Year, without any Mortgage upon the War Taxes, there would be required, in addition to the £.21,000,000. of War Taxes, an Annual Loan of Eleven Millions only.

THAT, without any Mortgage upon the War Taxes, an Annual Loan of Eleven Millions might be provided for, for nearly Nineteen Years, by the Application of the same Funds; viz. the Annuities, amounting to £.685,515. the Excesses of the Sinking Fund, amounting to £.11,140,274; and the New Taxes intended to be imposed by the New Plan, amounting to £.2,051,000. on which the Supplementary Loans are to be charged.

Note.—The Letters in the Margin refer to the Tables in the printed Papers, in which the Price of the 3-Per-Cent. Stock is taken at 60.

—No 2.—

THAT the proposed System of Finance proceeds gradually to mortgage, for Fourteen Years, the whole of the War Taxes for the Interest of Loans in War.

THAT these Taxes are not generally of a nature which can with propriety be so pledged; as several of them (such as the Tax on Exports, the Duties on Tea and on Spirits) must probably either be modified or reduced on a Peace; whilst it is proposed by the said Plan, that the Property Tax, amounting to £.11,500,000. should in that event be entirely remitted; in which Case (exclusive of any Mortgage at the time affecting the Residue of the War Taxes) the Portion of them which might be continued without material prejudice to the

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the Public Revenue beyond the War, must be wholly insufficient to equalize the Revenue with the Peace Expenditure.

Suppose a Peace Establishment at £. 15,000,000 :

If the War Taxes were mortgaged, there would remain,

Land and Malt	-	-	£. 2,750,000
Surplus of Consolidated Fund	-	-	3,500,000
Lettery	-	-	450,000
			<hr/>
			£. 6,700,000 - 6,700,000
Annual Deficiency to be provided for by New Loans of Taxes,			8,300,000
Supporting the Peace Establishment to amount to			20,000,000
The Deficiency to be provided for in like manner, would be			13,300,000

—N° 3.—

THAT the New Plan will require Loans to a greater amount to be raised in each Year, than would be required, if the usual System of borrowing were perferred in.

By the present System, in order to cover a War Expenditure of £. 32,000,000 there would be wanted in each Year, in aid of the

Twenty-one Millions War Taxes, a Loan of	-	-	11,000,000
amounting in Twenty Years to	-	-	220,000,000

NEW PLAN :

Amount of the War Loans, for Twenty Years	-	-	£. 210,000,000
Ditto of Supplementary Loans, for D ^o	-	-	204,200,000
			<hr/>
Total	-	-	£. 416,200,000

Total Excesses by the New Plan, exclusive of £. 22,000,000, }
 borrowed on the War Taxes, and redeemed within the } £. 196,200,000
 period

The average Capitals to be annually raised by the New Plan are,

Annual Amount of Loans by the New Plan on a Twenty Years Average,			
War Loan	-	-	£. 10,500,000
Supplementary Ditto	-	-	10,200,000
			<hr/>
Annual Amount of Loans by the present Plan	-	-	20,700,000
			<hr/>
Average Annual Excess of Loans by New Plan	-	-	9,700,000

—N° 4.—

THAT the comparative Increase of the Public Debt, which will be produced by the two Plans, and the Effect they will have on the proportionate Amount of the Sinking Fund, by their Operation in twenty Years, is as follows:

EFFECT OF THE PRESENT SYSTEM :

The Amount of Money Capital of the Public Debt is (by Table N.) in the Year 1807	-	-	£. 364,993,722
The Amount of Ditto will be, in the Year 1826, supposing Eleven Millions raised in each Year	-	-	270,443,305
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Decrease of Debt in Twenty Years, raising Eleven Millions in each Year	-	-	93,350,417

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EFFECT OF THE NEW PLAN :

N. Amount of Money Capital of the Public Debt, under the New Plan, is, in 1807	-	-	-	-	-	£. 364,993,722
N. The Amount of Ditto will be, in 1826	-	-	-	-	-	455,537,932
						<hr/>
Increase by New Plan in Twenty Years	-	-	-	-	-	£. 90,544,210
						<hr/>
Decrease of Debt by the present System, as above	-	-	-	-	-	£. 93,350,417
Increase of ditto by New Plan	-	-	-	-	-	90,544,210
						<hr/>
Total Increase of Debt by New System	-	-	-	-	-	£. 183,894,667

EFFECT OF PRESENT PLAN ON THE SINKING FUND :

N. Amount of Sinking Fund, under the present System, on the Public Debt, is, in 1807	-	-	-	-	-	£. 8,515,042
N. Amount of Ditto will be, in 1826	-	-	-	-	-	27,115,881
						<hr/>
Increase of Sinking Fund in 20 Years	-	-	-	-	-	18,610,839

EFFECT OF NEW PLAN ON THE SINKING FUND :

Amount of Sinking Fund, under the New System, is stated to be, in 1807	-	-	-	-	-	£. 8,935,042
Amount of Ditto under New System, will be, in 1826	-	-	-	-	-	26,901,360
						<hr/>
Increase in 20 Years	-	-	-	-	-	£. 17,966,318
Difference in favour of present System	-	-	-	-	-	644,421

So that the New Plan gives only £. 26,901,360. Sinking Fund on a Debt of £. 455,537,932 ; whilst the present System would give the larger Sinking Fund of £. 27,115,881. on the smaller Debt of £. 270,443,305.

N. The Proportion of the Sinking Fund to the whole Debt, under the present Plan, will be, in 1826, above One-tenth.

N. The Proportion of the Sinking Fund to the whole Debt, under the New Plan, will be, in 1826, about One-seventeenth.

The Sinking Fund, under the present Plan, above stated at £. 27,115,881, continues to increase at compound Interest after the Year 1826, till the whole Debt is redeemed.

N. The Sinking Fund under the New Plan having obtained its Maximum of £. 28,155,358. in the Year 1820, descends to £. 26,901,360. in the Year 1826 ; and must continue to decline after that period, so long as the Excesses shall be deducted.

—N° 5.—

THAT an Increase of Charges for the Interest and Sinking Fund of Loans, for the Twenty Years, must take place under the New Plan, compared with the like Charge, which would take place were the present System perferred in.

EFFECTS OF THE PRESENT SYSTEM :

Annual Loan, £. 11,000,000.—Charge for Interest and Sinking Fund	-	-	-	-	-	£. 733,333
Amount of Loans for Twenty Years, £. 220,000,000.—Charge for Ditto, Expiring Annuities not deducted	-	-	-	-	-	14,666,680

This mode of comparing the advantages of the two plans is simply comparing the present amount of the sinking fund, with the amount of the sinking fund as it will stand at the end of 20 years is perfectly fallacious because it must also consider the amount of the fund in the intermediate years. If taken at the end of the 19th year it would be in our favour and if that principle of comparison were admitted, it would prove that it is better to receive 1st p. ann for 19 years, & 1000 in the 20th yr, than to receive £ 999. in each of 20 years.

252,000,000

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EFFECT OF THE NEW PLAN :

C.	Charge of Supplementary Loans, amounting in Twenty Years to £. 204,200,000. Expiring Annuities not deducted	£. 14,266,388
	War Taxes mortgaged at the end of Twenty Years, which are to be liberated successively in the next Fourteen Years after the Year 1826	21,000,000
I.	Charge, as above, under the present System	£. 14,666,660
G.	Charge under the New Plan, for the Supplementary Loans only	14,299,388
	Difference	£. 370,272
	War Taxes, mortgaged as above for War Loans, according to the New Plan	£. 21,000,000
	Ditto, according to the present System	Nil.

—N^o 6.—

THAT the Ways and Means proposed by the New Plan to prevent the necessity of imposing New Taxes to any considerable amount; viz. the Expiring Annuities, together with the Excesses of the Sinking Fund above the Interest of the Unredeemed Debt, are equally applicable *pro tanto* to mitigate their Increase under any other mode of raising Loans which may be decided on. The Means proposed by the New Plan of defraying the Interest and Sinking Fund of the Supplementary Loans, are as follows:—

F.	Produce of the Excess of the Sinking Fund between 1816 and 1826, above the Interest of the Unredeemed Debt	£. 11,122,809
	Applicable by falling in of Annuities	683,092
K.	New Permanent Taxes proposed by New Plan to be raised between 1810 and 1817, to amount of	2,051,000
	Total	£. 13,856,861
C.	Charge of Supplementary Loans, Annuities not deducted	£. 14,296,388
	Ways and Means as above	13,856,000
	Remains to be provided for	£. 440,388
K.	Charge for the total Amount of Loans at the rate of £. 11,000,000. a Year; under the present System, at £. 733,333 for Interest and Sinking Fund, the Expiring Annuities not deducted	£. 14,056,660
	As a Fund to supply this Charge, the Ways and Means as above, for raising the Interest and Sinking Fund of the Supplementary Loans, may be applied	13,856,861
	Remains to be provided for in order to cover the Charge	£. 809,799

THAT it therefore appears, that the Means to be applied under the New System to defray the Charge for Interest and Sinking Fund on the Supplementary Loans alone, would, (exclusive of any Mortgage on the War Loans) with the Addition of Taxes to the amount of £. 369,411. defray the total Charges of the Loans required to complete the Fund of £. 32,000,000. annually for War Expenditure, without the necessity of any Incumbrance whatever upon the War Taxes.

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—N^o 7.—

THAT the comparative Effects which will be produced on the Public Income by the two Systems on Return of Peace, and on the Formation of a Peace Establishment, are as follows:

UNDER THE PRESENT PLAN,

There would be no Charge whatever, upon any Part of the War Taxes: the whole Twenty-one Millions would remain free.—The Property Tax, or whatever Portion of the other War Taxes were not required towards making an adequate Provision for the Peace Establishment, might be immediately remitted, leaving that Resource unpledged, and available on the Recurrence of War.

UNDER THE NEW SYSTEM,

When Peace takes place, a considerable Part, if not the Whole of the War Taxes will have been mortgaged.—In the latter case, there will only remain a clear Revenue of £. 6,700,000. immediately applicable to support the Charges of a Peace Establishment.

By Table R. it appears, that in 1826 the Excess of the War Sinking Fund will be £. 9,967,283.—If this Sum shall be then preferably applied to liberate a Part of the Property Tax mortgaged for the War Debt, the Remainder of the Property Tax, and all the War Taxes, will become Permanent Taxes, and Part of the Consolidated Fund, and be mortgaged like the other Parts of that Fund for the Redemption of the War Debt; and the present Debt, thus consolidated into a Common Debt, and the Deficiency on the Peace Establishment, must be provided for, either by fresh Taxes, or fresh Loans.

—N^o 8.—

THAT the Sum of Eleven Millions a year, required in aid of the Twenty-one Millions War Taxes, to complete the War Expenditure of Thirty-two Millions, may be raised (should the Principle of applying the Excesses of the Sinking Fund to the Public Service be decided on) according to the following Mode, without mortgaging the War Taxes, or rendering New Taxes of any greater Amount necessary than it is proposed to lay on by the New System, and without making so considerable an Addition to the Debt as will be made, should the New System be carried into execution.

The Sum required as above to provide for a Loan of Eleven Millions per Annum, for 20 Years, is - - - - - £. 14,666,660
The Resources available, amount to - - - - - 13,856,861

Deficiency - - - - - £. 809,799

This Deficiency of £. 809,799. exceeding only by £. 369,431. the Charges for Supplementary Loans, would remain an additional Charge to be provided for.

As the Charges upon a Loan of Eleven Millions would in each Year amount to £. 733,333. if it should be thought fit, in aid of the Annuities, to raise only the precise Amount of Taxes proposed by the New Plan to be imposed in the first Ten Years, until the Excesses of the Sinking Fund shall arise in 1816; the Difference between the above Funds and the Annual Charge of £. 733,333. (amounting on an average to £. 489,682. a year) must be added, as it arises, to the Loan of the Year; the Interest and Sinking Fund thereon amounting to about £. 33,000. a year, to be defrayed in the first instance out of the Consolidated Fund, and to be afterwards replaced out of the Excesses of Sinking Fund, as they accrue.

— No. 9. —

THAT nearly the same Results may be produced, by determining, that when the Loan of the Year, in War, does not exceed the Amount of the Sinking Fund in the said Year, instead of making Provision for the Interest of the said Loan by New Taxes, the same shall be provided for, by and out of the Interest receivable on the Amount of Stock in that Year, redeemed by the Commissioners of the National Debt: in which case, the Amount of Debt unredeemed will continue stationary during War.

N. The Sinking Fund is at present	- - - - -	£. 8,515,042
It will be, in 1811	- - - - -	11,140,274

In four Years therefore from the present time, no New Taxes will be required (the data remaining the same) however long the War may continue; and the War Taxes will remain free at the close of the War, when the Sinking Fund will resume its progressive operation; the Purchase of Stock by the Commissioners being continued in the meantime to the full Amount of the Sinking Fund.

THAT the Charges for four Years Loan as above, for Eleven Millions in each Year, taking credit for £. 385,515. Annuities, amounts to £. 2,547,810.

Taxes required in each Year, for the next four Years - £. 626,970.

The Taxes so to be imposed exceed only by £. 496,810, the total Amount of New Taxes proposed by the New Plan to be imposed between 1810 and 1817; by which Plan, the War Taxes are at the same time progressively absorbed and pledged for the Redemption of the Loans raised upon them.

According, to this Plan, the Debt would continue stationary at £. 369,390,887. throughout the War.

N. Amount of Debt in 1826, by New Plan	- - - - -	£. 455,517,432
Ditto - - - in 1826, by this Plan	- - - - -	369,390,887

Difference of Debt in favour of this Plan - £. 86,147,045
And no War Taxes are mortgaged.

— No. 10. —

THAT the Expence of raising any given Amount of Loan on the present System; viz. by a Single Loan, with a Sinking Fund of One per-Cent. as compared with the Principle of the New Plan of raising the same Amount by double and concurrent Loans; the one raised upon a Fund of Ten per-Cent. for Interest and Sinking Fund; the other raised upon a Fund of Six per-Cent. for Interest and Sinking Fund; calculating the Payments on Account thereof, from the commencement to the final liquidation of the said Loan, is as follows, the Sinking Fund in both Cases being taken on the Money, instead of the Nominal Capital:

Suppose £. 12,000,000. to be raised.

NEW PLAN :

Ten per-Cent. Interest and Sinking Fund on £. 12,000,000, for One Year	- - - - -	£. 1,200,000
A like Charge for 13 Years more, at which Time the Principal is redeemed	- - - - -	15,000,000
Total Payments	- - - - -	£. 16,800,000

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This should be 6 3/4

+ this is contrary to the act of 1792, which requires that the sinking fund should be 1 P.C. on the nominal Capital.

* This whole sum should be omitted, as we are subsequently charged with the whole expence of borrowing + paying off this sum.

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To cover the Interest and Sinking Fund of £. 1,200,000. at Six per-Cent. a Fund of £. 72,000. must be provided in each of the Fourteen Years,—the Amount thereof is £. 1,008,000. 1.120.000.

The latter Sum being raised on a One per-Cent. Sinking Fund, may be considered as an Annuity of Forty-three Years.

Payments on account thereof	- - - - -	£. 43,344,000
Payments as above	- - - - -	216,800,000
Total Payments	- - - - -	£. 60,144,000

PRESENT SYSTEM :

The Interest and Sinking Fund on a Loan of £. 12,000,000. at Six per-Cent. amounts per Annum to £. 720,000. 2000

This Charge being raised on a One per-Cent. Sinking Fund, may be considered as an Annuity of Forty-three Years.

Payments to be made on account thereof till its Redemption	- - - - -	£. 30,960,000
Payments on New System, upon a Loan of £. 12,000,000	- - - - -	£. 60,144,000
Ditto on present System	- - - - -	30,960,000

Excess of the Charge of Redemption by New System - £. 29,184,000

Difference according to their principles - £. 120,000

But real Difference is only 400,000

+ This must more than compensate for the use of Stocks, independent of all other considerations

3x - 6 3/4

4x £800,000

5x 2 1/2

Then £800,000

x 2 1/2

400,000

640,000

160,000

2,280,000

6 3/4 - which would require £80,000 instead of £72,000.

* When the Stocks are at 60, & interest at 5 per-Cent, this sinking fund would redeem its principal in 28 1/2 years.

When 3 per-Cent are at par & interest at 3 per-Cent, the same sinking fund would redeem its principal in 37 1/2 years.

+ This line struck out for the reason above stated.

2x This sum if correctly calculated according to D.C.'s principles would therefore be £80,000 x 14 = 1,120,000

which gives £1,120,000 to be multiplied by 28 1/2

560,000

784,000

336,000

4100,000

~~22,400,000~~

~~33,040,000~~

896,000

224,000

£31,920,000

22,800,000

Excess - 9,120,000 - But this

difference arises solely from taking the aggregate sum at the end of the periods, & disregarding the proportions in which the intermediate payments are made.

The effect of this mistake is

the

The principle of annuities is that he makes no allowance for the compound interest on the sum of £800,000 successively paid according to the present system in the first year of the operation, when we by our plan are paying only £0,000.

The only true way of comparing these two modes of raising money is by finding, first what is the present value of an annuity of £800,000 to commence immediately & last for 28 1/2 years? and secondly what is the present value of annuities of £80,000, to be granted in each of the next fourteen years, & to last each of them respectively for 28 1/2 yrs.

The first is the present value on the old system - the second the new plan.

The first is worth - 12,016,865
 The last 12,459,812
 The difference between them is instead of £29,000,000, with the new plan - 404,000

Present

Value of an Annuity of £800,000 to commence immediately (1807) & to continue payable for 28 1/2 years ----- £ 12,016,865

Present

Value of an Annuity of £80,000 to commence immediately 1807 & to continue payable for 28 1/2 years ----- £ 1,201,606

The same to commence 1808 ----- 1,144,463

The same to commence 1809 ----- 1,059,965

The same to commence 1810 ----- 1,038,062

The same to commence 1811 ----- 988,630

The same to commence 1812 ----- 941,552

The same to commence 1813 ----- 896,717

The same to commence 1814 ----- 854,016

The same to commence 1815 ----- 813,348

The same to commence 1816 ----- 774,617

The same to commence 1817 ----- 737,731

The same to commence 1818 ----- 702,601

The same to commence 1819 ----- 669,144

The same to commence 1820 ----- 637,200

£ 12,459,812

12,016,865

.442,947.

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