To Lord Lauderdale

A

LETTER

TO THE

RIGHT HONOURABLE

HENRY ADDINGTON,

ON THE

FINANCES

OF

GREAT BRITAIN.

BY

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LETTER

TO THE

RIGHT HONOURABLE

HENRY ADDINGTON,

Rotterdam, May 28, 1802.

SIR,

AS a definitive treaty of peace is now concluded, I take the liberty of addressing myself to you on a subject, which has no doubt already given you a considerable degree of anxiety, and which I am confident will continue to be a source of disquiet to you and to your official successors, as long as the adopted principles of Finance are persevered in.

The sinking fund will in particular form the subject of my representations to you, in order to induce a very serious investigation upon principles, perfectly different from any which have hitherto been adopted by Financial Committees of the House of Commons.

I believe, Sir, you will readily admit, as an undoubted fact, that the public funds have been constantly higher during times of peace than during times of war, and that I am neither incorrect nor unfair in stating the average price of 3 pr. cents. during the war at 56 pr. ct. and during peace at 80 pr. ct. or both proportionably higher, which would give the same result in the application of what I have to state.

You will also certainly allow, as perfectly incontrovertible, that *in reality* no reimbursement whatever *can* take place in times of war, because the new loan is always unquestionably so much more, as may be applied towards purchasing public funds within the year (by means of the old and new sinking funds) than it would be, if this sinking fund plan was totally desisted from.

The reason of such reimbursements during war being perfectly fictitious, is self-evident, when we consider that no excess of revenue beyond the expenditure of a war establishment can possibly exist.

The *bonus*, or price of *omnium* as it is called, on about five millions sterling in money thus borrowed in the year 1801, with one hand, in order to pay off with the other hand, is also such a waste of public money, as will certainly awaken your attention to the extravagant tendency of the plan adopted, and to the neglect of that salutary clause in an act of Parliament passed in the year 1786, which entitled the Commissioners for paying the National debt, to become subscribers in the annual loans for what they had to invest, and by which above 20 pr. ct. might have been saved to the Nation, after the 3 pr. ct. consolidated annuities rose from 56 to 68 pr. ct. I know that this operation of buying public funds is universally believed to produce an increase in their price; but I feel no hesitation in saying, that the sale of the same quantity on the other hand must depress them again in the same *ratio*, independent of that depression which is felt in the general scale of interest on money, by raising any given sum in taxes for the purpose of sinking funds.

The last resolution, Sir, which you moved in the month of June 1801, respecting the finances of Great Britain, states, that by supposing the average price of 3 pr.cents. to be 80 pr. ct. during the peace, which is a further increase of more than 20 pr. ct. beyond the above mentioned increase from 56 to 68 pr. ct. and that the 10 pr. cent. income tax produced near six millions annually, the 56 millions borrowed specifically upon that fund would be paid off in the course of 11 years. I do not pretend to call in question the accuracy of this arithmetical statement, but wish merely to bring to your recollection, that as those 56 millions 3 pr. cts. were sold at about 56 pr. ct. and produced *in money* £ 31,360,000, their reimbursement at 80 pr. ct. will cost the Nation £ 44,800,000 in *money* (equal to £ 140*st.* for every £ 100*st.* received) besides the interest of about 5½ pr. ct. pr. annum.

This unfortunate result is also not confined to that part of the national debt, which your resolution alludes to, but extends itself to almost every reimbursement, and of course to almost every sinking-fund system, from the manner in which our public debts have *unguardedly* and *unnecessarily* been constructed.

In order to save a fractional part of annual interest for a few years, it has been deemed expedient to create 3 pr. cents. much *below par*, and subject to 40 pr. cent. loss in redeem-

ing them, avoiding thus the creation of 5, 5½, or even 6 pr. cents. *at par*, and redeemable at pleasure, although no loss could have possibly arisen on them, and that they would already have been susceptible of a reduction in the interest, by opening a new loan at 4½, 5, or 5½ pr. cent. in order to pay off those 5, 5½ or 6 pr. cents.

Such then is the tendency of that so much applauded system, which your official Predecessor has introduced into Great Britain, and which he asserts must prove the ground-work of her financial salvation.

I leave you to judge, Sir, how it *can* be possible for a Nation to withstand the reimbursement of a debt contracted during war, with the addition of 40 pr. ct. independent of the usual interest.

I have thus far only stated to you the loss annually incurred during war, by borrowing with one hand in order to pay off with the other, as well as the inevitable consequences of paying during peace a sum infinitely greater than was received by the public during war; but I shall now proceed to shew, that however plausible the idea of paying off a national debt may, by the power of eloquence, be made to appear, the possibility of doing it (even at the rate of £ 100*st.* for every 100*st.* received) does not in the present state of our debts exist, and that every attempt plunges, on the contrary, a nation into a further increase of debt, while I shall, on concluding the subject, prove to you, that it is perfectly useless to redeem public debts, as the nature and the prin-

ciples of money point out the remedy, which is necessary to be applied in preventing their accumulation beyond certain bounds.

I must here confess to you, that I consider the arithmetical effect arising from the application of a given sum towards paying off a national debt (however true and correct it may be stated) as a fatal imposition, which the human mind has forced upon itself, from not calculating at the same time the arithmetical effect of taxes, to the amount of that given sum, on the price of every species of industry and of every consumable commodity.

In order to bring this point to the clear comprehension of every candid inquirer, I need only ask, if the ten millions of new taxes levied since the year 1793, for the purpose of paying the interest of 250 millions additional debt, together with 1 pr. cent. on that capital, as a new sinking fund, as well as the six millions raised by the income tax, in order to pay the interest and the capital of 56 million more of 3 pr. cents. have not increased the annual expences of individuals, as also those of the public during the last war, and whether our future peace establishment, as well as our future war expences, will not be further encreased by this accumulation of taxes.

If this point be allowed to me, as also that no *real* reimbursements have taken place, all which I think no reasonable man will contest, Great Britain does of course at this moment exhibit the picture of a Nation which, by *a preparatory attempt only* during the last war to pay off her debts during the present peace, has involved herself in *ad-*

ditional debts, and prepared also a labyrinth of accumulating expenditure, which she cannot possibly withstand for any length of time during a future war.

It may be urged, that all these additional taxes were not levied for the purpose of sinking funds, and do therefore not apply to my arguments against the adopted system of redemption; but I now bind myself to prove in the following pages, that the *whole sixteen millions* of additional taxes were unnecessary, if that system had been desisted from, and shall for the present only observe, that if you cannot readily admit those sixteen millions of new taxes to have increased very considerably the price of every thing, and of course our public expences during the last war, it will be necessary for me to develope to you, on a future occasion, in what manner these consequences took place, as I should be extremely sorry to assert any thing on the subject of Finance, which was not susceptible of mathematical proof for its demonstration.

In order, however, to give you some idea of the magnitude of the evil, I need only suggest the enormous price to which corn and bread had lately risen. It was indeed attributed solely and exclusively to scarcity, and to a pretended monopoly by superficial observers, though it is well known that such scarcity and such pretended monopolies had existed before, without producing such extensive bad consequences.

It is the inevitable effect of additional taxation; and I doubt much if a second good harvest would reduce the price of wheat to 35 à 40 shil-

lings pr. Quarter, as in former years of plenty. Should such a fall in the price of wheat even take place, future bad consequences might probably ensue, as corn would then be no more an object worthy of cultivation to the Farmer, who must pay advanced prices for many materials.

Other articles of general use are also materially affected in the same way, and produce altogether a mass of incalculable expence to the Public as well as to individuals, who by not having a sufficient knowledge of the cause, attribute it to forestalling, to monopolies, or to other actions of private men.

You will now be anxious to know how the greatest part of those additional taxes could possibly have been avoided, and how I can make good my assertion, that the sinking fund system *alone* has led to and of course occasioned the whole of the accumulated sixteen million of new taxes. In order to bring the truth of my *assertion* very clearly to your view, I need only refer to the produce of those taxes which existed before the year 1793, and which, according to papers laid before the House of Commons, produced in the year 1799 not less than. . . . . £ 15,743,000

There existed also in 1792 a net produce from taxes levied for the Spanish armament, and which have since been appropriated to interest on loans in 1793 and 1794, of . . . . . £ 807,000

£ 16,550,000

To this must be added the annual Land and Malt-tax. 2,750,000

The annual gain from a Lottery.	300,000
Expected annually from the E. India Company	500,000
Total amount of our peace revenue, independent of *new taxes*. . . £	20,100,000

It appears also by papers laid before the House of Commons, that the interest to be paid on the *existing* debt previous to 1793 amounted to . . . . . £. 9,000,000

As there has since that year been redeemed by the old and new sinking funds a sum equal to more than 56 millions of 3 pr. cents. I shall, to counterbalance that reduction of debt, keep out of my calculation the additional interest of the £. 56,445,000 borrowed on the income tax, and only charge the Nation with the interest of 250 millions of 3 pr. cents. or a debt equal to that amount created during the last war, making in interest 7,500,000

£. 16,500,000

To this must be added the amount of our peace establishment and civil-list, as stated by the Committee on Finance 5,600,000

Amount of our annual expenditure during peace . . . . . £. 22,100,000

If no new taxes then had been raised since the year 1793, and no sinking fund system had

existed, there would, upon the first examination of this important subject, have appeared a deficiency of two millions annually to be provided for in new taxes, as the difference between our annual expenditure of £ 22,100,000 *st.* and our annual revenue of £ 20,100,000 *st.*

This would certainly not have been an object of much difficulty to obtain, but a more profound examination of the subject will shew, that if we had desisted from levying during war the enormous sum of £ 16,000,000 in new taxes, our expenditure, and of course *our new debts*, would have been considerably less than they have been; our 3 pr. cents. would have sold *much* higher than the average of 56 pr. cent. on account of every thing being cheaper, and money of course relatively plentier; while those taxes which existed prior to the year 1793, would have been much more productive, forming altogether a mass of public advantages, which would not only have prevented this deficiency, but have produced, on the contrary, at this moment of general pacification, a surplus revenue beyond our necessary expenditure.

We should undoubtedly have saved in our war-expences no less a sum than 28 millions *in money*) of which four or five millions in premiums for borrowing with one hand to pay off with the other) equal to 50 millions of 3 pr. cent. sold at 56 pr. cents. which would have saved annually . . . . . £ 1,500,000

The price of every thing being cheaper and money relatively plentier, the 3 pr. cents might have been

sold at an average of 70 pr. ct. or even higher, by which means 160 millions of 3 pr. cents. would have produced in money as much as 200 millions (the sum wanted after deducting the above saving of 50 millions) did, and of course a saving of 40 millions at 3 pr. cent. would have been annually . . . . . £ 1,200,000

£ 2,700,000

What depression has been occasioned for some years past in the growing produce of the £ 16,550,000 permanent taxes created before the year 1793, by the accumulation of £ 16,000,000 more, I cannot pretend to calculate with any degree of accuracy; but I am much within bounds in stating it only at £ 3,000,000 above their produce during the years 1800 and 1801, or above that of 1799, at £ 2,000,000

Lost annually by the Public in various ways . . . . . £ 4,700,000

From all which it follows, that instead of a deficiency of two millions annually, there would have existed at this moment not less than £ 2,700,000 annual surplus, which would have more than provided for any deficiency in the estimates of our peace-establishment, or in the interest on loans during the last war, as well as for that increase which would have been necessary in our annual loans, if the 10 pr. cent.

income-tax had not been levied towards the supplies, after paying the interest on the 56 millions raised on that fund.

On the supposition, then, that we have only lost by laying on new taxes to the amount of £ 16,000,000 during the war, the sum of £ 4,700,000 *st.* annually and perpetually by an increased expenditure, by the debased sale of our 3 pr. cents. annuities, or by having checked the progressive increase in the produce of previously existing taxes, it becomes necessary to redeem about 157 millions of 3 pr. cents. in order to recover *our position*, and to repair a loss already incurred in various ways equal to the annual interest on that sum.

You will no doubt, from having considered fiscal and financial principles in a very different point of view, either startle at the idea, or consider the whole as visionary on my part.

I can however assure you, that what I state is not only mathematically true, but that the great evil, to which the Nation is doomed by this fatal operation of additional taxes for the purpose of sinking funds, and for raising *a part of the supplies within the year*, which is exactly the same as the redemption system, will not be repaired by the purchase of 157 millions of 3 pr. cents. but will continue to exist in an additional expenditure of one and a half million annually in the poor-rates, as well as of 2 millions annually in our peace establishment (equal together to the interest of 116 millions more of 3 pr. cts.) and finally disable us from

carrying on a future war for any length of time, on account of an unavoidable increase of ten or twelve millions *annually* in our expences *beyond* what we have experienced in the last war.

We have already to lament, from experience, the enormous increase of our poor rates, which cannot therefore be disputed; but you may possibly contest that of our peace establishment, and of our future war-expences, because the first cannot be proved before 1803 or 1804*, and the last at a distant period.

You may however rest assured, Sir, that the great effects of our additional taxation was *only* felt at the end of the last war, and will be more severely felt whenever it breaks out again.

In proof of this, I have only to state, that a war-establishment for 5 months during this year, occasioned a loan being made of 25 millions in money, and to ask how much more would have been wanted, if the war-establishment had continued for a full year.

Experience also shews, that the taxes of each war doubles the expence of the succeed-

*The increased expences of our peace-establishment will be concealed in 1803, under the head of monies due for the winding up of the war, and in 1804 and 1805 by the return of various unexpended sums into the Treasury, in the same manner as was the case during the last peace. The happy year of final reduction in our peace-establishment never came during ten years of peace. The revenue in 1792 was £1,000,000 more than the Committee stated as necessary; yet no more than 1 million was applied to the sinking fund.

ing war, and consequently produces an increase of debt proportioned thereto.

The seven years war increased the national debt 56 millions; the American war 131 millions more; and the last war cost us full 250 millions, independent of what was raised for near 60 millions, paid off since 1793.

A seven or eight years war would consequently now cost us above 60 millions of 3 pr. cents. annually, or between 400 or 500 millions of new debt: and who knows how soon such an unfortunate event may take place! The paying off the present debt will inevitably be suspended during that war, or there will be a further increase in the new debt to the same amount as may be paying off, so that 43 years of *uninterrupted peace* are required to enable Great Britain to carry her present plans into execution.

While this plausible act of redeeming the present national debt of 485 millions, with an avowed *premium* of 40 pr. ct. or 200 millions more as a *douceur*, and 5¼ pr. ct annual interest on the sum received, is carrying into execution during 43 years of profound peace, and the addition of as many more years as there may be war during that period; it will in all probability, from its natural tendency, have occasioned in the first 15 or 20 years of its operation, not alone the losses already incurred equal to the interest of 157 and 116 millions of 3 pr. cents. but also full 300 millions of those 3 pr. cts. which the expenditure of a future war will occasion; making the whole loss

equal to 573 millions of 3 pr. cents. besides the avowed premium of 40 pr. ct. or 200 millions on the old debt, and the further accumulating bad consequences, which will arise in a geometrical progression, and produce ultimate ruin. That the minds of so many Gentlemen whose distinguished abilities have placed them in eminent situations, should be absorbed in joy and admiration at this *very expensive mode of upholding public credit*, (while it requires nothing but the regular payment of annuities granted) and at this *very extraordinary manner of lightening the burthens of posterity*, is to me an object of the greatest astonishment!

It appears, by Papers laid before the House of Commons, that the average price of 3 pr. cts. redeemed by the new sinking fund, from 1793 to 1801, was 57 pr. ct. so that the average price of what was annually raised by the public during that period, could not have been so high as 56 pr. cent. because the profit on loans, or the *omnium*, must be deducted from the current buying price of 57 pr. cent. This affords certainly no grounds for exultation or for admiration; and as to the very high price to which the 3 pr. cts. are expected to rise, when no more money is wanted, it ought in justice to create the *most serious regret*, on repurchasing them by means of excessive taxation.

It is certainly an object worthy of enquiry, how far it may be practicable to take immediate precautions against these very alarming consequences, which experience already points out to us as inevitable.

Permit me then to urge your further investi-

gation of this subject, and to request your considering what misery has been brought on numberless individuals, particularly on widows and on families whose incomes are limited, and no ways capable of an increase during this progressive rise in the price of every necessary of life. I need hardly add, that a dreadful emigration will in all probability ensue.

You have already prevailed on Parliament to abandon the system of paying off the 56 millions, by repealing the income-tax. You have also engaged the Legislature of Great Britain to desist from its resolution of levying one per cent. on all new capitals, by not extending it to those 56 millions now made a permanent debt of Great Britain, or to the 30 millions of 3 pr. cts. created by the loan of this year.

Your proposals must no doubt have originated either in a conviction of the impossibility, or at least of the impolicy to extend so far the sinking fund system.

All that seems requisite is, an enlargement of your views upon the same principles, which guided you respecting those objects.

That any national advantage is derived by your plan of consolidating the two sinking funds, you must give me leave to doubt, because they can by that means give no greater produce, and that the object of not taking off taxes when the old sinking fund's produce had attained four millions annually, does not depend on those two funds acting separately, or jointly, but on the simple will of the Legislature, which could have

been expressed, and carried into effect without this junction. I have not, however, any objection to make to this consolidation, which naturally simplifies the business; but I wish to destroy every idea, that a pecuniary advantage of any importance is to be obtained by it, when I see that the views and the projects held forth are to arise from a distinct cause.

I have thus far supposed the possibility of continuing the system adopted, under all the disadvantages I have enumerated, without laying more burdens on the suffering inhabitants of Great Britain; but by comparing the actual revenue with the necessary expenditure, I conceive this point to be very doubtful.

If the sinking fund, as modelled by the new Resolutions of Parliament, is carried into effect, it becomes necessary to add to the annual expenditure of . . . . . £ 22,100,000
which I have already enumerated, the following charges, viz.

For interest of the loan of 1802, and on 56 millions made permanent, &c.	3,100,000
For redeemed interest prior to 1793, and now carried to the sinking fund	300,000
For the old sinking fund created in 1786	1,000,000
For the new sinking fund created from 1793 to 1801, on 250 millions	2,500,000
For voted annually by Parliament as an additional sinking fund . .	£ 200,000
For additional expence in the Peace Establishment and Civil List . .	2,000,000
Necessary amount of the annual expenditure	£ 31,200,000

If I may credit the English Newspapers, until I am in possession of more authentic documents, the permanent taxes produced in 1801, only . . . . . £ 22,400,000

To this must be added the annual Land and Malt-tax	2,750,000
The profit on an annual Lottery .	300,000
To be received annually from the East India Company	500,000
Taxes levied in 1802, including the Convoy-duty	5,000,000

The expected annual receipt is consequently only . . . . . £ 30,950,000

But we must still wait for the experience of future years, to know whether this annual deficiency of £ 250,000 (being the difference between £ 30,950,000 expected revenue, and £ 31,200,000 probable expenditure) will not be further increased by a considerable defalcation in the produce of those taxes which have been levied this year, as a mere accumulation of tax upon tax does not in general produce the expected amount.

I believe, Sir, that I am perfectly correct in saying, that the taxes *levied* since 1793 were calculated to produce £ 10,000,000 *st.* and do not produce more than about £ 7,000,000, and

that the 10 pr. ct. income-tax was at first expected to produce £ 10,000,000, but did not produce £ 6,000,000 *st.*

It remains therefore to be ascertained, if the £ 5,000,000 levied this year, will produce that sum, and whether Great Britain can with impunity resist the consequences of increasing the permanent taxes to £ 28,000,000 *st.* besides £ 2,750,000 Land and Malt.

I have formerly heard it asserted, when our permanent and annual Malt and Land-taxes produced altogether only £ 10,000,000 *st.* annually, that 8ths part of the money-price of every consumable object originated solely and exclusively from the then existing taxes and their consequences, and that 8ths part of that money-price would be the real cost, if those taxes had not been levied.

If this should have been a correct statement of the case at that time, and I am of opinion that it was the result of a very fair enquiry, we need be under no astonishment at the present enormous price of almost every consumable commodity (notwithstanding that various improvements in machinery, canals, &c. &c. have in many instances counteracted such increase) when we consider that all those taxes have, during two wars, been so much multiplied *in their number* as to produce above £ 30,000,000 at this moment.

Of this increase, £ 6,500,000 were levied for the American war; above £ 12,000,000 for the last war by *additional taxes*; and of course only £ 1,500,000 *st.* can be attributed to an

increase of industry, having made previously existing taxes more productive.

It may not be improper also to bring to your recollection, that, on finishing the American war with only £ 6,500,000 *st.* additional taxes, we had the advantage of a gold and silver currency, aided by a properly-limited quantity of Bank of England paper, convertible into money at a moment's notice; whereas, with the further increase of taxes to the amount of above £ 12,000,000 *st.* for the last war, we have the mortification of seeing an unlimited circulation of Bank of England as well as of Country bank-notes, *not* convertible into money, and unsupported by that quantity of gold and silver-currency which is required by *the acknowledged* principles of Banking.

That the public spirit should overlook this deviation from prudential principles, and the possible consequences that might ensue, or that this increased quantity of paper (particularly Country bank-notes) should have *permitted* the present quantity of industry to continue in existence at its increased price, as well as the public funds being so much higher than at the close of the American war, proves nothing in favor of public prosperity, but only that the natural consequences of our system of Finance was such as to compel us to resort to these extraordinary measures, when our current coin was found incompetent to the duty required of it from this general elevation of prices.

The scarcity of *circulating medium* is therefore not felt at present, as in 1783 and 1784;

but the increase of revenue will also not be conformable to that which took place from 1784 to 1786, after the riches or coins of Mexico and Peru were again introduced into Great Britain, because those riches, which will soon flow in again, are to sink, or *ought* at least to sink a part of this overgrown paper-currency.

I hear much of the trade of Great Britain being doubled, and yet I perceive no more than about £ 1,500,000 *st.* increase in the produce of taxes levied prior to the year 1786, which makes me conclude, that there exists some fallacy in this boasted prosperity, or that our internal commerce has decayed very considerably, though not in the same proportion as our external commerce increased.

I must admit that there is an immense increase in the funded property of individuals, by the increase of the National Debt, as well as in the money-value of rents and of various other incomes, which arise from taxes operating on the price of consumable objects; all which may be truly called fictitious wealth when applied to National prosperity, yet to common observers it may appear as additional real wealth and industry.

I flatter myself that you will not class me amongst the common observers, or even amongst the common projectors on Finance, as my ideas differ very widely from any schemes hitherto proposed in order to ameliorate our present situation.

I presume also to hold a very different opinion respecting the nature of money and of money debts,

than those, which have hitherto been promulgated by philosophical writers, or by eminent Statesmen; and I shall now lay before you, in as few words as the subject will permit, such part of my opinion as relates to my *assertion*, that the nature and principles of money afford a sufficient remedy against the accumulation of public debts beyond certain bounds, without resorting to the system of redeeming the capital of such debts.

I must, in the first place, observe, that money is not in its nature a perpetuity like land, but is subject to loss by friction, clipping, accident, and bankruptcies, when put out to use by the possessors.

It therefore gives more interest than land; and such superior interest, laid out at compound interest, procures in a cerrain number of years a new capital, which can be laid out in the purchase of a perpetuity in land whenever any of the above mentioned events shall have annihilated the old capital. No Government is therefore obliged to consider National debts as a perpetual burthen, because theory points out, that the reimbursement is effected by a part of the interest, which is annually received for its use.

In order to prove it in practice, it is only necessary either to give the full interest according to the existing price of money, say 4, 5, or even 6 pr. cent. per annum for every hundred pounds raised during war, reserving as usual the power of redeeming them at pleasure, which might of course be accomplished whenever interest fell to 3, 4 or 5 pr. cent. by substituting a new loan to the same amount, or simply to sell annuities for a

term of 60 or 70 years, and then to cease entirely.

The monied interest may possibly pretend, that this is not always practicable; but it might as well be asserted, that a baker could not dispose of his bread if he offered it at something less than the assize price, as to say that by giving a *bonus* on the current price of any particular stock, Government would not find purchasers of a further quantity of the same stock.

Both these modes of raising money are already in existence, which proves by practice the possibility of adopting those plans without any danger of disappointment.

The long annuities, in particular, shew that money-debts *need not* be perpetuities, as no man can deny that, if a Nation commenced and continued *all her debts* by the creation of long annuities for 70 years, the financial machine might revolve on its own axis without end (supposing the expenditure by means of loans *only* to be the same during each succeeding period of 70 years) because the falling in of the interest on the first year's loan would provide for the interest of the 71st year's loan, and so on.

The growing produce from existing taxes would even provide very amply for any increased expence that might take place.

But I should prefer the public debt being constructed in perpetual annuities, although they have not at first sight the prospect of total extinction, but only of reduction from 6 to 5 pr. ct from 5 to 4 pr. cent. and ultimately from 4 to 3 pr. cent. because there

might arise a partial extinction of interest in the course of a few years, which would amply compensate for the trifling addition of interest which a Nation subjects itself to by selling *their stock at par*. in preference to creating 3 pr. cents. at 56 pr. cent. and also because the nature and principles of money are such, that those 4, 5 and 6 pr. cents. when ultimately reduced to 3 pr. cents. are *still* capable of total extinction.

This may appear astonishing, but it arises by giving back for 70 years ½ pr. cent. per annum of the 1, 2, and 3 pr. cents. already gained by reductions, on condition that these 3 pr. cents. shall also cease at the end of 70 years.

By this means, strict justice is observed towards the money-lender, as ½ pr. ct. laid out at compound interest will procure *more* than 100 in 70 years, and repairs the loss of his original capital, which had thus been converted from a perpetuity into a long annuity.

Supposing even that the money-lenders should prefer the *douceur* and the *conversion* being made in perpetual annuities redeemable at pleasure, whenever 3 pr. cents. are by *mutual consent of the parties* to be deprived of perpetual existence, I see no reason for not agreeing thereto, provided the conversion is made in 4 or 5 pr. cents. and of course liable to further reduction, because repeated conversions (combined with new loans) would in the course of time produce a total extinction by means of repeated reductions in the interest.

In order to give you a more perfect idea of this, I shall suppose a loan to be neces-

sary in time of war, and that 3 pr. cents. are at 62 pr. cent.

By offering the holders of 3 pr. cents. the liberty of transferring them to Government at £70 pr. ct. provided they added £30 *st.* in money, either a £5 perpetual annuity, redeemable at pleasure, or £5 for 70 years might be given to them for the whole £100 *st.* received by Government in this manner.

I have no doubt of their accepting the long annuity, because the real value of it could be better ascertained than of a perpetuity, subject to much uncertainty, respecting the period of its reduction.

The sacrifice would be ½ pr. ct. pr. ann. for 70 years on the stock thus converted, and the new loan would by this combination cost 5 pr. ct. in annual interest. The more or the less in making those bargains, is not an object of consideration with me, as that must depend on the circumstances of the moment; but the general principles ought never to be lost sight of.

I am probably holding a financial language, which you have never yet heard uttered; and you may possibly be astonished that the same ideas have not suggested themselves to other minds occupied with the same object of enquiry.

I really cannot account for this want of perspicuity on the part of those who enquired into the nature of money and of public loans; but I see very plainly, that monied men have never lost sight of those principles which were conducive

to their interest, while they have upon every occasion taken advantage of Statesmen not considering with due attention, that, out of the interest of money-debts, must arise the repayment of the capital, and that money gives on that account more annual income than land.

Nothing can be more palpable to illustrate this truth, than the existence of long annuities; nor can it be denied, that Government has the power of levying by taxes the amount of all annuities granted, which precludes the *necesssity* of bankruptcy. This superiority of public debts over private transactions, forms public credit and public confidence; but it does not follow that the public are to pay eternally for what is not in its nature eternal, or to redeem at the rate of 140 for every 100 received, while it gives, in the full and regular payment of its annuities, a consideration which exempts it from such claims.

If monied men gave their property to Government at an interest equal only to what they get from land, after deducting all charges and incumbrances, their claims would have assumed a different character; but they would then not be wallowing in riches at this moment in every country, while the Public is groaning under oppression.

I do not build my arguments on speculative theory, but can at all times prove them by practical facts; and I know no class of men better able to assist in calculations for the public interest on those principles which I have developed, than Actuaries or Secretaries to the Insurance So-

cieties, who are in the habit of making calculations on chances and on compound interest.

Practice must have a true theory for its basis; and a true theory must be practicable, which renders futile the common saying, that what is true in theory is not always true in practice.

The theory in that case is evidently false; and many of these false theories respecting money, have been produced by Philosophers, who wanted practical knowledge, in order to ascertain whether their theories were true or false.

You will perceive, Sir, very clearly, that I differ totally in opinion with you, respecting the increased price of stocks from the application of a sinking fund towards their purchase, and that I conceive a depression of price to be the inevitable consequence of such proceedings.

To state all my reasons for this opinion, which is founded upon mathematical principles, would take up too much time at present; and I shall therefore, for argument's sake, *now only* join issue with you on that point, and develope the lamentable consequences which must in that case arise to the Public in the purchase of the 3 pr. cents.

If the application of a given sum of money (produced annually by taxes) tends to raise gradually the price of funds while the purchase is carrying on, we may soon expect to see the 3 pr. cents. at 90 pr. cent. which would be evidently giving above £ 160 *st.* for £ 100 *st.* received, while the only advantage that could arise to the public would be, the reduction of 28 mil-

lions of 5 pr. cents. to 4 pr. cent. and of course a saving of £ 280,000 *st.* pr. annum, or perhaps something more, with a further reduction of all the 4 pr. cents. to 3 pr. cents. whenever the public shall be purchasing their debts of 3 pr. cent. annuities at par, or giving above £ 178 *st.* for £ 100 *st.* received.

It may be a subject of grateful triumph to those persons who have given their money to the Public during war, that such *enormous* profits will arise to them in the course of a few years, by a resale of their annuities to Government, or to any other individual in the market, as it must be confessed that no other human invention can produce such profits; but it ought at the same time to create a sentiment of profound humiliation on the part of the public, which is unmeritedly the victim of such misconceptions, and of such miscalculations, while it must ultimately produce a state of irritation, whereof the consequences are not to be foreseen.

The sacrifice which will now be necessary, in order to deprive our national debt of its immortality, without having recourse to the plan of redemption, is no doubt to be much lamented, as it has not been alleviated by previous reductions; but the diminution of our poor-rates, of our peace expenditure, and of our future war expences, is still to be accomplished by the act of abandoning the sinking fund, and by taking off taxes to the amount of six millions sterling. This measure would, by augmenting the produce of remaining taxes, afford the means of reducing further annually their number; and, without this

reformation in our financial system, there is every reason to apprehend either that *the additional permanent taxes* for the first eight years of war will amount to £ 20,000,000 *st.*; or that Great Britain will be compelled to sign a disgraceful peace, in order to avoid this inevitable charge of warfare.

The reparation of evil is certainly much inferior to that which might have been prevented, by adopting a very different system than those of 1786 and 1792 to 1802, for the consequences of which there is in part no remedy to be found.

I must defer to another opportunity the communication of a consolatory system, which I have still to unfold, and which will prevent, during the next war, the levying of one single additional tax (not even any of the six millions now proposed to be taken off) and on the supposition also, that such war might commence in the following year.

It may require more confidence than I am yet entitled to on your part, to claim an implicit belief in the practicability of such system, and I shall therefore only request, at present, your suspending every opinion on this point until you receive my future explanations.

I shall now conclude this long Letter with the expression of my hope, that I may have awakened your attention to this very serious subject, and that the candor with which you did me the honour to converse on the object of Public Finance, in the year 1786, will insure to me a repeated reading of it on your part.

It is my wish, Sir, that you should be fully informed of every thing I may publish in the

course of this year (as a Second Part of my Financial System) before the Public is put in possession of it; and I flatter myself with being informed, that you are equally desirous of seeing it, from a conviction that my knowledge on the subject merited more attention than was paid to it by your official Predecessor.

I have the honour to subscribe myself, with the highest respect and consideration,

SIR,

Your most obedient and most

humble Servant,

G. C.

The Right Honourable HENRY ADDINGTON,
First Lord of the Treasury, &c. &c. &c.

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