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ESSAY
ON THE
SUPPOSED ADVANTAGES
OF A
SINKING FUND.

BY LORD GRENVILLE.

Γηράσκω δ' αἰεὶ πολλὰ διδασκόμενος.

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The first object of the sinking fund is to provide a means of raising the money necessary to pay the interest on the debt. The second object is to provide a means of paying off the principal of the debt. The third object is to provide a means of providing for the contingencies which may arise in the course of the life of the debt.

T. BENSLEY, Printer, Crane Court, Fleet Street.

ESSAY, &c.

PART THE FIRST.

ON THE

SUPPOSED DIRECT ADVANTAGES

OF A

SINKING FUND.

PREFACE.

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THE following pages contain one part only of an Essay which had been intended for publication at the opening of the present Session of Parliament. Severe illness has stopped the progress, and prevented the completion of my design. Under these circumstances, it has not been without much hesitation that I have determined to lay before the public this portion of a work in all respects so very imperfect. I should certainly not have done so, had I consulted only the feelings of an author. But

my original purpose was of a far higher order. It was directed to the hope of contributing what might be practically useful in a discussion of very urgent interest, and great permanent importance to our country. And that hope, even in the much smaller degree in which I can now entertain it, would, in the present state of the question, be utterly defeated by any further delay. Such as it is, therefore, I now submit what I have written to the examination and judgment of those who are to take, or to influence this great decision. On the force of the argument, in so far as it has been pursued, and on the validity of the conclusions which I deduce from it, it is for them to determine.

It is, however, just that I should here distinctly avow, that I have availed myself, without reserve, of the lights which have been thrown upon this subject by many writers of the present age, to whose praise nothing could be added by my enumeration of them. And I am particularly bound to acknowledge, that it was by the well-known treatise of Dr. HAMILTON, that my thoughts on this matter were, I believe, first directed into their present channel. But I am not aware that the question has ever yet been placed before the public exactly in the same point of view in which I have here considered it; and with respect to the distinguished writer whom I have named, there are not a few of the topics on

which I have most dwelt, as well as some others which I have not had occasion so particularly to notice in this Essay, respecting all which his opinions, if I rightly apprehend them, differ, I regret to say it, very much from mine.

Throughout the inquiry, I have not scrupled to question many long-established and deeply-rooted prepossessions. I have done so with unfeigned distrust of my own judgment, but under impressions long since received, and confirmed by much reconsideration of them. Truth alone is my object; and, without the free examination of previously received opinion, no branch of human knowledge can ever be advanced.

Since the above was written, it has occurred to me that, from the imperfect form of this publication, I may appear, on one point of considerable importance, guilty of some injustice,—certainly I intended none,—towards the authors of the Act of 1786. I have omitted to notice here, but I had meant to have dwelt much upon it in a subsequent part of my work, that the principle of unlimited accumulation was expressly excluded from that law, by a provision which limited to four millions the sinking fund then established. A wise precaution, shewing an early and just apprehension of the evils since felt from an opposite policy!

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ESSAY,

&c.

INTRODUCTION.

WHEN politicians tell us of the unvaried uniformity of their opinions and conduct, one is tempted sometimes to ask by what supernatural power they were gifted in their cradle with infallibility. To fallible men small would be the praise of having retained through life, on the most important subjects, a judgment, unimproved by cultivation or exercise, untaught by experience, and of every advance in science utterly regardless. Far more estimable in themselves, and unmeasurably more beneficial to mankind, are those qualities which lead men conversant

in government and legislation both to the ready abandonment of error, and to its undisguised avowal.

Such is the justification, if any justification can be requisite, of the total change of sentiment which is expressed in the following essay. Few measures have been more largely applauded than the Act of Parliament which established, in 1786, a sinking fund for the reduction of our national debt. The writer of these pages was himself a party to the too sanguine hopes of those who framed and proposed that law; confidently believing it one of the greatest services which could then be rendered to their country. To that opinion he long adhered; and even now, after the lapse of more than forty years, he feels it still painful to renounce so flattering a persuasion. But the interests of truth and science are paramount to all such considerations; and he who was formerly among the warmest advocates of a sinking fund, is, on that account, the more strongly bound to avow, on every fit occasion, the distrust which

he now entertains of its efficacy and real benefit. This is the true consistency of + public duty.

Such an occasion now presents itself. After repeated changes made in the Act of 1786, the State has been once more driven avowedly to support its sinking fund by borrowing; a policy which is, in fact, though not in name, a virtual suspension of the whole system: and Parliament, pressed by fresh difficulties and doubts, is expected now to pronounce definitively on the re-establishment, modification, or abandonment of that important measure. Under these circumstances some advantage may possibly be derived from an attempt, however imperfect, to examine separately, each on its own grounds, the most prominent among the many topics which that deliberation must embrace.

CHAPTER I.

GENERAL PRINCIPLES.

For the prosecution of this design, there are three leading principles, which it is, I think, necessary to establish in the very outset of the discussion. These are, First, the entire dependance of every sinking fund on an actually existing surplus of revenue: Secondly, the consequent inutility of all borrowed sinking funds: And, Thirdly, the no less evident impossibility of deriving benefit from a sinking fund operating in times of war, or of otherwise deficient revenue. Of these it will be proper to speak separately. The two last of them are indeed little more than corollaries, deduced from the first by immediate and obvious conclusion. They might therefore have been assumed as virtually included in it. But a distinct and separate, though

X The preliminary and perhaps the most important question is here left untouched - viz: - Supposing a surplus revenue (arising as it must from taxation) to exist - is it more conducive to the prosperity and wealth of a country to apply it to the discharge of debt by the purchase of national securities - than to leave it (by repealing taxes to the amount) in the hands of those from whom it was levied to be expended as it naturally would be in the purchase of consumable commodities. brief statement of them, seems more consonant to the course of particular examination attempted in this Essay.

§ 1. Necessity of a surplus Revenue for the support of a Sinking Fund. X

Never should he who undertakes to treat of any question connected with a sinking fund, overlook, even for an instant, the absolute and continual necessity of providing for it an effective surplus of revenue. Under no circumstances can any sinking fund be productive of real benefit, except where the ordinary income of the State has been carried to an amount permanently exceeding its current expenditure. To the neglect of this fundamental truth, nearly all the errors which have prevailed in this branch of financial policy, are, as I think, mainly to be ascribed. Without such an exceeding, firmly established and invariably applied, a sinking fund may indeed exist in name, but it can have no solid operation.

Handwritten initials or mark.

X This proposition was maintained by many of those who in 1786 were loudest in their approbation of a sinking fund. It was upon this principle Mr. Fox proposed it should be suspended in time of warfare.

Even when the revenue of a State is most deficient, some portions of it may, as we know, both from our past and present experience, be nominally appropriated to the purposes of a sinking fund: but, by such appropriations, the public debts are in no degree diminished. X The veriest prodigal may annually discharge a part of what he owes; but if, on the whole, he expends within the year much more than he receives, he will find, at its close, his encumbrances not lessened, but considerably increased.

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To reduce debt is the only object of a sinking fund. To the efficacy, therefore, and consequently to the wisdom of such an institution, two conditions are indispensable: first, the continued existence of the surplus from which it is to be supplied; and, secondly, the uninterrupted appropriation of that surplus to the reduction of debt. The very name of a sinking fund implies the recurrence of fixed payments at regular and stated periods: the casual application of occasional resources is a notion quite distinct from that of such a fund.

§ 2. Inutility of borrowed Sinking Funds.

This first principle, simple and obvious as it is, dispels at once the greatest of all the misconceptions by which this subject has been but too long obscured. It proves beyond all power of dispute, what I do not hesitate to term, the utter worthlessness, the total and hopeless inutility of a borrowed sinking fund. A nation may often find it useful, sometimes absolutely necessary, to eke out a deficient revenue by loans raised for its current service. But to resort to any such expedient in the establishment or support of a sinking fund created for the reduction of debt, is a policy self-contradictory, and for the most part deeply injurious to its own purposes.

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There is indeed one well-known case in which the repayment of debt from borrowed money is advantageous to the debtor. A general fall in the rate of interest may enable him to compel his creditor, if such be the nature of their contract, either to consent to a similar reduction in his own case,

P

X or to accept of the repayment of his capital,
 X to be effected by money borrowed elsewhere
 X at a cheaper rate. This course, we know,
 X has often been successfully followed by our
 X own legislature. But very different from
 X this is the effect of a borrowed sinking fund,
 X applied to purchase stock at its market-price.
 X In the first of these two cases it is an evi-
 X dent benefit to the community to release
 itself from a more burdensome contract by
 money borrowed on terms of less disadvan-
 tage. But to the second no such reasoning
 applies. Can it be profitable to any man to
 buy up in the open market his own en-
 gagements, with money raised at the same
 moment, and in the same market, by a
 corresponding issue of similar securities?
 Would not the mere fact of his resorting
 to such an operation be more likely to
 injure than to improve his credit, if for
 no other reason, at least from the total
 want which it would imply of all judgment
 and intelligence in the conduct of his af-
 fairs? The exchange of two equal parcels
 of the same commodity, two yards of the
 same cloth, or two ounces of the same ingot,

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would at best be a mere loss of time and
 trouble. But the similar operation which
 takes place, when debt is redeemed by a
 fresh creation of debt, is much worse than
 nugatory: it is almost always prejudicial
 to the debtor. And this is most especially
the case with respect to the pecuniary trans-
actions of the State. The extent and urgency
of the public necessities operate in these
dealings strongly against the government.
A considerable profit must accrue to the
contractor, by the intervention of whose
capital these large exchanges are effected.
 And, when the loans wanted for other public
 services are on this account augmented, the
 whole must be raised on terms of propor-
 tionally increased disadvantage.
 I am well aware how entirely this un-
 qualified condemnation of all borrowed
sinking funds is opposed to the present
 practice, both of this country and of others.
 But I cannot with truth profess, even on that
 account, any distrust of the judgment which
 I have here ventured so confidently to ex-
 press. It is sanctioned, if I do not greatly
 deceive myself, by a very general change in

the public opinion on this point. Here, as in so many other branches of political science, a better philosophy has in these later days established far sounder principles, both of inquiry and of judgment. Nor is it at all surprising that the progress of knowledge, in all these cases, should have so much outrun its practical application. Great changes in government and legislation are scarcely ever expedient until there has arisen in the community, not merely a speculative preference of the better course, but an active and growing desire for its adoption. And such a sentiment the public discussions now to be expected on this question, are, I trust, well calculated to produce. If, therefore, even in the present year (1827) money again been borrowed by our government for upholding a deficient sinking fund, we may not the less reasonably hope that this will, at least in England, be the last instance ever to be exhibited of such a policy. It was, in this case, suggested only as a temporary expedient which might give room for the promised revision of the whole system; and, on the

The committee have judiciously proposed it

result of that inquiry, who will now propose that we should again recur to schemes of borrowed sinking funds? To reduce debt by borrowing to the same amount on terms of equal or greater disadvantage, is a manifest fiction in finance; — a fiction in that branch of government, in which, above all others, fiction is most to be condemned. Its mischief is nothing less than this; it disguises from the country, and, in some degree, from the government, and from Parliament itself, the real state of some of our most important interests; throwing over them a false colour of progressive improvement in the very moments when the public debt is most rapidly increasing, and when the public revenue has become most unequal to its charge. That the British Parliament should at any time have lent itself, and under whatever misconception, to a measure capable of producing these groundless impressions, all men, I think, must now regret; and who more than those who once participated in that delusion? But when, at last, the fallacy has ceased to deceive ourselves, it would ill become us to impose it

X If this passage is to be considered as expressing approbation of applying any portion of the revenue to the reduction of debt, the doctrine is unintelligible, for it is inconsistent. A surplus of revenue is a sum collected by taxation beyond the expenditure. But if it is disadvantageous as is here admitted to raise ¹² a sum for redeeming debt by imposing new taxes — it seems to follow that it must be disadvantageous to keep up taxes for this object.

upon others. Never again may any just legislature, or any enlightened community forget, that the only surplus from which a nation can, with sincerity and truth, reduce its debt, is a surplus accruing, not from loans, but from revenue. X

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§ 3. Inefficacy of Sinking Funds operating in War.

If the foregoing reasonings are correct, there necessarily follows from them another most important limitation of the whole question to be now submitted to Parliament. No sinking fund, it is thus evident, can truly exist, except in periods of peace; and in reference therefore to those periods only can the revival or abandonment of such a system be reasonably made matter of debate. In war, no man expects that our income will ever equal our expenditure; how then can it afford an excess of millions for the reduction of debt? Whatever surplus may have been created for that purpose in peace, a new war will at once absorb; and, in that moment, vanishes all possibility of benefit

from the sinking fund. A visionary permanence may indeed even then be given to it by law; its useless forms may be continued, in vain semblance of that which once was powerful and active; but its vital spirit we cannot so preserve. When the dog-star has drunk up the stream, what provinces will its empty channel fertilize?

§ 4. Opposition of these Principles to those of our present Sinking Fund.

It must not however be disguised, that the opinions thus stated as fundamental to this whole subject, lead, by necessary conclusion, to no modification or change, but to the total abandonment of our present sinking fund. The laws of that institution, and its whole course and operation are, not incidentally or partially, but essentially and universally opposed to all which has here been said. Though first established in peace, and founded in an assumed surplus of revenue, it has been nominally continued through long periods of

war; and, during the far greater part of the more than forty years of its existence, it has been either wholly or partially supported by loans heaped on loans. The failure of its original surplus was, in the very first moment of returning war, supplied by borrowing; and we have, ever since that time, to a greater or less amount, and in various, though sometimes not easily intelligible forms, borrowed again, with little intermission, throughout its whole continuance. This indeed was its natural and necessary course, and this the very principle of its existence. By no other means than these could its operations, such as they are prescribed by law, have been carried on during this long period of difficulty and pressure. The facts are here stated therefore, without any, the most distant, purpose of censure or reproach on those under whose councils the system has been thus administered. Far otherwise. The course pursued was of the very essence of the measure to which it was applied. The avowed principles of that measure were,

and still are, that the operations of the fund which it established shall be continued in war, no less than in peace, and that its consequent deficiencies shall be made good by borrowing. Take from it this support, feeble as it is, and the whole fabric crumbles into the dust.

More than a century ago, and in the very outset of a sinking fund, its first authors adopted this expedient as an essential part of their system. And, at a later period, Dr. Price, whose suggestions so powerfully contributed to its revival, founded on the same basis all his hopes of its promised utility. Periods of public distress, he contended, would, by the depression of the funds, accelerate its operation: and he even brought himself to believe, that the rate of interest on which the State might thenceforth borrow money would thus become comparatively indifferent. "For the higher the interest," he says, "the sooner would such a fund pay off the principal;"*—the more violent the fever, the greater would be

* Price on Annuities, 4th Edit. Vol. I. passim. See particularly pp. 187, 204, &c.

the power of the medicine to relieve it! This theory, self-evident as he imagined it, completely erroneous as it now appears, he urged with ceaseless vehemence, loading with reproach the government and legislature of his country, by whom these vain imaginations had been, after some experience of them, for nearly half a century utterly renounced. "The sinking fund," he says, "was established in 1716, and began its operations in 1719." It was at first strictly appropriated to the reduction of debt; "and so well," he adds, "did our ministers then understand the nature and importance of this fund, that rather than encroach upon it, they frequently borrowed money to defray the necessary expenses of government." In other words, they frequently supported their sinking fund by borrowed surpluses, and this not in war only, but in peace. They seem to have thought it no contradiction to increase debt in the very moments of professing to reduce it. But so great an inconsistency did not long escape the sagacity of Walpole;

a minister, who, in some other instances, no less than in this, seems not a little to have outrun the wisdom of his contemporaries. By measures which, notwithstanding all the clamour of his opponents, it would be very difficult to censure on any just ground of reasoning, he diverted the sinking fund from these unreal and simulated operations, to fresh exigencies of the public service as they successively arose; thereby saving to his country the imposition of new taxes, or the creation of new debt. For about forty years afterwards the same policy governed our councils, under some of our best, and wisest statesmen. They judged it the most beneficial course, as it unquestionably was the most natural, to attempt the reduction of debt in those periods only when the revenue of the State exceeded its expenditure. Nor did they show much solicitude to increase the taxation of their country for the purpose of providing it with such a surplus. Their reductions of debt were principally, though not wholly, effected by the falling in of

annuities, and by the diminutions successively made in the rate of interest on the public securities, by such tenders of repayment as I have above adverted to.

But, in the days of Price, the principles of 1716 regained the public favour; and, in 1786, they were re-established by almost universal acclamation, as the main bulwark of our finance, and the unfailing sources of incalculable benefit. To this change the circumstances of the moment powerfully contributed. At the close of the American war, the loss of our long-cherished colonies, to whose possession such false notions of advantage had been attached, the magnitude of the debt incurred in that fruitless contest, and the deficiency of the revenue created to defray its charge, had thrown over our financial prospects a cloud of distrust and apprehension, scarcely to be imagined but by those who witnessed it. Nor were there wanting strong grounds for these impressions, exaggerated as they were. The real pressure of our burdens was, at that time, extremely severe: more grievous per-

haps, in proportion to our wealth, than in any succeeding period of our greatest difficulties. The nation gave way therefore to an almost universal panic on this subject. The ordinary course of our finance was thought no longer adequate to our necessities: resort must be had for safety; it was said, to some new, or, at least, to some long untried expedient. Under these circumstances it was, that the project of establishing a new sinking fund, which should accumulate, uninterruptedly, at compound interest, through every vicissitude of peace and war, and which, on that assumption, would be demonstrably capable of being carried, at least in figures, to any assignable amount, captivated all imaginations. The country grasped, almost without inquiry, at promises of relief so specious and so ample; adopting, with unbounded confidence, a remedy proclaimed on no light authority to be of efficacy nothing less than omnipotent.*

It can be no reproach to any individual to have partaken largely in these feelings;—

* Price, Vol. I, 252.

no reproach, I trust, to any public man to have co-operated with earnestness and zeal, both in preparing, and in supporting a measure so consonant to the wishes of his country. And least of all can censure be attached on this account to that able and excellent Statesman, who framed and carried through the act of 1786. Allowing for the impressions at that time so generally prevalent, there is, on the contrary, much of his conduct on that occasion, for which he is justly entitled to the highest praise. With an ardent and generous spirit, devoting all its energies to the national prosperity, he risked, and in no small degree surrendered his highly valued popularity to the necessity of the large additional taxation which that measure compelled him to establish and to maintain. This was no light sacrifice, nor did he feel it such. But he anticipated in return, with unspeakable delight, the full tide of ~~wealth~~ wealth which, in some distant, but auspicious moment, the results of these disinterested exertions were to pour in upon his country. What he so ardently wished, he

willingly believed. His persuasion of the great advantages of a sinking fund to be continued in war, and to be upheld by borrowing in all periods of deficiency, was therefore deeply rooted; not in his judgment only, but also in his feelings. To these opinions he clung with unvaried fondness; and his provisions for giving effect to them, although, on more than one occasion, widely departed from by his successors, still form, even in the present moment, the leading features of the system, in so far as it can still be said to exist at all.

Yet shall we now, in deference to his great authority, seek to revive this nearly extinguished project, or to re-construct on the same foundations any similar institution? If we have learnt from the improved knowledge of the present age, that this structure, which he believed to be a main tower of our strength, rests on a basis unequal even to its own support, shall we not act as he would himself have acted under a similar conviction? Shall we not labour to devise some other less objectionable plan,

under which his purpose may be executed? or, if this be found impracticable, shall we not rather abandon the whole design, than adhere to hopes and projects which we now perceive to be, in their very essence, self-contradictory, and therefore manifestly delusive?

Though the Establishment of a Sinking Fund is here predicated to be self-contradictory and delusive, and in Page 26 to be vain and delusive; it is no where however directly stated as injurious and destructive

CHAPTER II.

OPERATION AND RESULTS OF OUR PRESENT SINKING FUND.

For a full examination, however, of the questions with which I closed the preceding chapter, and which comprise the whole substance of the decision now expected from Parliament, our sinking fund, such as it now exists, must be considered with reference not only to its fundamental principles, the erroneous character of which I have here endeavoured to demonstrate, but also to its actual operation and results. It will thus appear in what degree the general reasonings here stated have been confirmed by our own experience. This is indeed a far wider, and more difficult inquiry. For who can hope to discover and to appreciate with accuracy, all the remote and incidental changes which this great engine may possibly have worked in the complicated state of our society and government? But, in propor-

tion as the topics to be thus inquired into are found more numerous and intricate, the more urgent is the necessity, the greater the advantage, of subjecting them to distinct and separate investigation.

Setting aside, therefore, for the present, all question of the indirect and collateral consequences which have resulted from this institution, let us, in the first instance, endeavour to ascertain what has been its immediate and direct operation in respect of its two great objects, the increase of the national wealth, and the reduction of the national encumbrances. That it must powerfully contribute to both these purposes, has long been the general opinion of our country. In this belief the measure of 1786 was first adopted: by the prevalence of such impressions it rapidly dissipated the panic which had preceded it; and the continued operation of the same system has very commonly been represented as one of the great pillars of our safety throughout all our more recent difficulties. And on that supposition, how inestimable would have been its value! But

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there is no ground for any such pretension. Under the favour of Providence, the true elements of our success in that great contest for all which could be dear to us, are to be found in the character of our people, and in the spirit of its legislation and its government; — all formed in a long course of centuries by our unrivalled political institutions. When, therefore, amidst the fresh praise, and gratitude, and ardent attachment which these institutions have thus merited from us, any portion of such feelings is claimed for our inconsistent and delusive arrangements of finance, we owe it to the best interests of society to shew how little our experience has warranted that vain imagination.

But where shall this experience be looked for? Not in columns and tables of figures, highly useful for many other purposes, but which in this inquiry can exhibit to us only the outward and ostensible workings of this complicated mechanism. To judge rightly of its real movements and results, we must, if I mistake not, consider it much more deeply. Our attention must be directed to its internal principles of action; to the origin and nature

of its powers, and to the necessary laws and limits of their operation. The more thoroughly these are examined, the more fully, I think, we must be satisfied how vain and valueless is all which it has ever done, and all which it even could do, for the advantage of the public. The indirect operation to be expected from such an institution, I propose, as I have already said, separately to examine in a subsequent part of this Essay. Its whole immediate course and effect may, if I do not greatly deceive myself, be accurately stated under the following propositions; which will of course be found equally applicable to all future institutions resting on the same principles, and established under similar regulations.

First, All the direct benefit of which this establishment can, on the most favourable supposition, have been productive, consists in its having, from time to time, placed at the free disposal of the community certain portions of annual taxation previously appropriated to the interests of our public debt.

Secondly, All the means by which it has produced this effect have been supplied to it

by surplus taxation, levied in excess of the current expenditure of the State, and therefore imposed or continued solely for this especial purpose.

Thirdly, Under the mutual counteraction of these two conflicting principles, the one of released, the other of superadded taxation, all the operations of this fund may be resolved into mere exchanges of equivalents; tending in a precisely equal degree to increase and to lessen the wealth of the community, and therefore equally incapable either of advancing its prosperity, or diminishing its burthens.

And, fourthly, The application of the powers of compound interest to these transactions has only enlarged their amount, without at all varying the self-contradiction of their principles, or the inefficiency of their results.

These views of this subject differ much from the long received opinions respecting it. Before we attempt therefore to draw any inference from them, they must, in conformity to the design of this essay, be separately considered.

out of the revenue of the subjects

Here as elsewhere the sinking fund is only stated to be incapable of producing the advantages it was intended to effect, but it seems now where to have been regarded as injurious or destructive of national prosperity.

§ 1. *The direct Benefit derived from this Fund consists in the release of previously appropriated Taxation.*

The first of these propositions relates to the direct advantages which have been derived to the community from those reductions of debt which this fund has effected. Correctly to estimate these advantages, we must establish with precision, in what operations such reductions have actually consisted, and what are the beneficial consequences of which those operations are naturally productive? The answer to these two questions cannot be doubtful. The reductions of debt have consisted in the purchases which the sinking fund has made of certain annuities due from the State to its creditors; and the benefit accruing to the community from such purchases, is to be found in the release of the annual taxation appropriated to those payments.

These propositions require no proof. But they are the foundations of all further reasoning on these subjects. It may, there-

fore, not be superfluous in this place to speak somewhat more particularly of both.

Our public debt consists not in capital, but in annuities; and all reductions of it are therefore reductions, not of capital, but of annuities. That debt is continually spoken of as if it were composed of the nominal amount of our public securities; but it is really composed only of the annual payments guaranteed by those securities. Nothing is debt except what some person may, in justice or in equity, demand; and no one can claim from the nation any part of the principal of our public funds. The annual income which the stockholder derives from them, is all which, in any sense, is his right; but that right is inviolable. The State has not borrowed his money at interest, under an obligation of repayment, but has sold to him an annuity. To such a transaction, the words, loans and debts, capitals and interests, are not strictly applicable. It would now indeed be a vain attempt to banish even from our technical language a verbal inaccuracy so general and so long established. But, in the study of our national finance, the distinction

not a person but of another an individual obliged to be a debtor implies the exchange of a creditor whose interest is ascribed to that of the debtor

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itself is of much importance. It has been very generally disregarded, and its neglect has greatly complicated these discussions, which for the public interest could not have been made too simple. In private concerns we find no such confusion. There, when annuities are intended to be sold, that purpose is so expressed: when money is lent, under an obligation of repayment, the sum advanced constitutes its principal; its interest is computed at the rate truly agreed upon by the parties; and its repayment at such periods, definite or indefinite, as they have stipulated, extinguishes the debt. In our public loans, on the contrary, we create an imaginary capital, to which we assign a fictitious rate of interest. A million of money is advanced to us at a real interest, suppose of six per cent.; but we grant in return for it two millions of stock, bearing an assumed interest of three per cent. And we reserve to the State a right of extinguishing that interest by a money-payment, not of one million, but of two. The substance of such transactions, and their relative advantage to the contracting parties, may indeed be presumed to be

little, if at all, varied by these singularly embarrassed forms. Competition, wherever it freely operates, has a natural tendency as certainly and as correctly to regulate exchange in these, as in any more simple dealings. But the fiction, if nugatory, is not therefore harmless. What fiction was ever harmless in finance? Many are the false reasonings, numberless and monstrous the projects of injustice which originate only in the misconception of these facts. What invidious comparisons do we not daily hear between the sums actually advanced to the state by its creditors, and the much larger amount of debt supposed to have been created in their favour! Had it been remembered that our debt consists only in annuities, no such error could have been committed. On this imaginary capital, swelled to whatever amount, the stockholder has no claim. It serves only to express the price at which the State may, at its own convenience, redeem its engagements. And this is an advantage reserved only to the debtor. By the State it has been sometimes

*most is the
word of paper
could be
is to be
deemed by a contrary form*

used to lower the rate of these annuities; as when, on a general fall of interest, the five per cents have, by a tender of repayment, been reduced to four, or the four per cents to three. But when interest rises, the stockholder has not, like the private creditor, a corresponding right of enforcing, by a demand of repayment, the proportionate increase of that annuity, which, as we have seen, constitutes his whole property in the debt.

All these particulars are of general notoriety. But familiar as they are, they have not always been present to the minds of those who have discussed these subjects. The least attention to them would at once have dispelled all notion of any undue advantage accruing to the public creditor, merely from the needless complication of the form which has been thus given to our loans. It would also have obviated an error, much less important certainly than this, yet not without its inconvenience: the habit, I mean, of estimating, either wholly or in part, the comparative merits of different plans of finance

by their more or less rapid progress towards the extinction of that nominal capital, which is commonly believed to constitute our debt. It would be going perhaps too far to affirm, that in this respect all these plans are alike indifferent. But it may at least be most confidently said, that the diminution, not of the capital, but of the annual charge of this debt, is the main object to be kept in view for the promotion of the public interests, and for the alleviation of the public burthens.

If then, the purchase of these annuities is all which the sinking fund has contributed towards the reduction of debt, in what consists its benefit? Undeniably, in the release of so much of the public revenue as was appropriated to their payment. Such is indeed the familiar, perhaps the universal notion on this subject. The repeal of taxation is the advantage generally expected from the sinking fund. The nominal capital of a debt not demandable is comparatively indifferent to all, but all severely feel its annual charge. And their hope is, that at some period, however remote, the gradual reduction of debt

The operation of a sinking fund inevitably gives reality to the nominal capital created in our

mode of contracting debt; for before it can be expunged so long as to redeem any sum of debt that is material, it must identify the real value of the capital with its nominal value, by the rise that will take place in the value of the annuity.

X This proposition is true if by the word Community is meant The Treasury (The Public Side); but taking the word Community in its natural sense as meaning the Nation at large, it is not true - For a Transfer from A and B, subjects of this country, of 100,000 3 percent stock to the Government can make no alteration on the mass of national wealth.

One ambiguous phrase to which an erroneous meaning is annexed (and which gives rise to a false step in arguments, always generates further error, and this truth is here strongly illustrated - For on the assumption "that to place at the disposal of the community a proportion of its now appropriated taxation is indisputably to augment its wealth" is followed by announcing "that this is equally true immediately repealed or are applied - to the more rapid reduction of debt -"

will finally reduce the taxation which now defrays that charge.

This is no doubt an object most highly desirable; and any real progress made towards its accomplishment must be recognized by all as an evident public benefit? To place at the disposal of the community any portion of its now appropriated taxation is, indisputably, to augment its wealth. X And this is equally true, whether the taxes thus set free are thenceforth immediately repealed, or are applied either to fresh exigencies of the State, or to the more rapid reduction of debt. In all these cases alike, the immediate benefit accruing to the community from the purchases of the sinking fund is the same, in whatever mode it may subsequently be made available. What the nation first acquires in this case is a fresh command over its own resources; a new power, either of increased accumulation or increased expenditure. And who does not see that this is itself an increase of wealth?

whether the taxes thus set free are henceforth immediately repealed or are applied - to the more rapid reduction of debt -

An assertion which may be true if Community is again held to mean The Treasury, but which is untrue if it is taken in the sense of the nation at large; though taken in that sense it is decisive of the most important question on the policy of a sinking fund - viz: - whether the national wealth would be most augmented by taxes to the amount being repealed, which will have the effect of leaving a sum

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to the amount of the portion of taxes acquired to be expended according to the natural inclination of the contributors, or by devoting the portion of annuity acquired to accumulation - a question which is unfortunately not directly treated here. E. Gray.

§ 2. The effective Operations of this Fund are supported only by surplus Taxation.

But of the true value of this benefit we shall form a very different estimate, when we extend our inquiries to the means by which it has been realized. It is the result, we are told, of the purchases of stock made by our sinking fund. It is so. But whence was the wealth derived which this fund so employed? Whence could it be derived but from the public contributions: from the impoverishment therefore, in the first instance, of that very community which these operations are finally intended to enrich?

The national wealth of any country is nothing else but the aggregate of the wealth of the individuals of whom the community consists. + And from this source all its public services are ultimately defrayed. The particular establishment which we are now considering was first founded on an estimated surplus of revenue; and its operations have

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+ Does it not follow from this definition of national wealth that the mass or total amount

of it can neither be impaired by borrowing, or increased by paying it off through the means of a sinking fund.

The operation of the Sinking Fund is truly described in the next page; it is there stated that for every portion of previously appropriated wealth which our sinking fund places at the disposal of the community, it has withdrawn from the same community a corresponding portion of wealth previously

previously free and unappropriated. But might it not be stated with equal truth of the mode in which we borrow money for the public service that for every portion of previously appropriated wealth, which is by that means placed at the disposal of the community an engagement is given annually to withdraw from the same community a portion of wealth previously free and unappropriated, which is deemed an equivalent.

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been effective only in so far as it has been supported by some actual surplus of that description. And what is the public revenue of any community, but that portion of its wealth which its legislature withdraws from private accumulation or enjoyment, for purposes deemed to be of common benefit? As long as in our own country these purposes included only the current services of the State, so much only as those services required, was withdrawn by taxation from private wealth. But when the reduction of debt was also to be attempted, this new charge demanded fresh sacrifices, and a surplus taxation was thenceforth levied on the nation, which otherwise would either never have been imposed, or, if already existing, might have been repealed. For every portion, therefore, of previously appropriated wealth, which our sinking fund has placed at the disposal of the community, it has withdrawn from the same community a corresponding portion of wealth previously free and unappropriated. This is

In the case of a sinking fund or sinking equivalent to the capital re- deemed is raised by taxation previously imposed; in the case of money borrowed a Revenue deemed equivalent to the Capital acquired is subsequently raised by taxation; but as both these operations are mere exchanges of equivalents amongst the members of a community, does it not follow that neither can produce any effect in increasing or diminishing the aggregate of the wealth of the individuals of whom the community consists.

ber or amount can vary. Quantity forms no part of its elements. Whether the operations of this fund have extended to millions, or to hundreds of millions, their character is uniform. In every such transaction, national wealth has been purchased by the sacrifice of national wealth; the purchase has released taxation, the sacrifice has augmented it.

And here who can forbear to ask himself, in what respect it is a more reasonable or more real operation to reduce taxation by taxing, than to pay debt by borrowing? But I postpone for the present these reflections. The statement of this part of our subject is still incomplete.

§ 3. The Reductions of Debt thus effected, are mere Exchanges of Equivalents.

All direct benefit which results to the nation from the operations of this fund, is thus invariably purchased by a corresponding sacrifice, precisely of the same descrip-

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tion. And it may with no less certainty be shewn, that in all these cases the benefit and the sacrifice have uniformly been of exactly equal value. The benefit has consisted in the purchase of certain public annuities, and in the consequent release of the taxation appropriated to their payment. The sacrifice has consisted in the cost of those purchases, and in the superadded taxation from which that cost has been defrayed. But, under the laws of this institution, all these purchases have been made by free competition in the open market. Each portion of stock so bought was, therefore, at the period of its purchase, the precise equivalent of the money which was paid for it, and consequently the precise equivalent also of the taxation by which that money was levied. This is self-evident. When a shilling is the market price of a quartern loaf, those quantities of money and of bread are equivalents. They are freely exchanged against each other, and each of them commands the same quantities of other commodities; of beer for instance,

It is not all this an operose and complicated method of conveying to the readers a simple truth of which no man can doubt, that a person who holds his whole fortune £1000 in his right hand would be transferring £500 of it into his left, neither encreases or diminishes his wealth.

or of meat. And what other notion than this have we of equivalence? Such is not only the scientific, but also the popular view of this subject. "The intrinsic value of a thing," (says Hudibras) "is just so much as it will bring."

Thus then do these operose and complicated transactions universally resolve themselves into simple exchanges of equivalents. X They boast to have added millions to our wealth, to have removed millions from our encumbrances; and they promise to us a continual succession of similar, and increasing benefits. But every gift which they have conferred on the community, they had previously exacted from it. The water was drawn from the same reservoir into which it is poured back: some loss of it each of these transfers has produced; but what can either of them have added to it? Disappointing as this statement is, when contrasted with the visions which once dazzled the imaginations of the wisest, yet such we see must be the result, not of this

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sinking fund alone, but of every plan for buying up the public debts, at their market price, with the public money, whether raised by loans, or by taxation. The system is one of self-counteraction in all its parts. The money which thus redeems debt is all drawn from the wealth of the debtor, and the mode of the redemption shuts out all possibility of his profiting by the transaction. Both these circumstances prove alike, and beyond denial, the utter inefficiency of the whole project.

The great importance of this topic, in reference to the questions which now wait the decision of Parliament, has indeed alone led me to dwell upon it thus minutely. It is one example only of an universal and obvious truism. Every purchase made at the market price, implies on both sides an equal transfer of exchangeable value. How that price is adjusted by competition, and in what manner, by the very nature of that adjustment, it includes the due returns to the producers of the commodity, for the labour, and skill, and capital, employed upon it,

are things too well known to be here detailed. But when this adjustment has thus been made, the exchange of the commodity itself against its market price is, and must be an exchange of equivalents.

We may thus, I think, very confidently determine, that notwithstanding all expectations, and all promises on the subject, the nation can really have derived no direct profit from a system of buying up its debts at their market price. Of its indirect consequences I shall hereafter speak. But the inevitable conclusion resulting from the premises which have been thus far stated, might, if it were necessary, be still further confirmed, by a reference to similar transactions in private life; the best of all instruments for the discovery of truth in political economy. Suppose, for instance, that instead of our whole community, any one of its numerous merchants or manufacturers has borrowed money at interest, which he can repay only by withdrawing a portion of the capital invested in his trade. This, if his creditor can demand the repayment of

his debt, may be a necessary, but will it be a profitable operation? Will he voluntarily resort to it so long as no such demand can be made upon him? What will be its consequences? It will neither increase nor diminish the sum total of his wealth. He will owe less, but he will also have less. He will cease to pay interest on the debt which he discharges, but he will cease also to receive profit on the wealth which effects that discharge. This change in his affairs may probably subject him to loss: but how extraordinary would be the case in which it could produce to him countless and unmeasurable gains!

But this example, it may be said, applies only to so much of the national wealth as the taxes levied for the sinking fund withdraw from profitable investment. Be it so. What then is the case of wealth withdrawn for a like purpose from direct enjoyment? A landed proprietor, with money saved from the proceeds of his estate, buys out, at the market price, a rent-charge with which it is burthened. What profit does he find in

* In page 35 The Author states "that the national wealth of any country is nothing else but the aggregate of the wealth of the Individuals of whom the community consists." If this definition is accurate it is apprehended there will be no small difficulty in proving that a community can add to its wealth by saving. 43

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the exchange? By the saving he has no doubt increased his wealth. And thus also may a community enrich itself by saving, although no sinking fund had ever been once thought of. But the question here is, what fresh profit, what direct and immediate gain, belongs to this particular mode of applying such savings, after they have been already realized? The bargain has absolutely no such result. The landholder, like the merchant, extinguishes the charge to which he was liable, but he does so only at the cost of a full equivalent in the money which he possessed. The purchase, if truly made at its market rate, may be matter of convenience to him, but certainly not of gain. In both these cases indeed, as well as in that which they are here brought to illustrate, the objects thus reciprocally exchanged are equivalent portions, not merely of wealth in general, but of the same particular class and description of wealth. In the ordinary course of commerce, money purchases commodities

savings? First, It could not profitably dispose of it for the purpose of increasing production of commodities at a moment when the saving system has diminished the consumption. Secondly, If it lent its saving to some of its own members the whole of the reasoning in this Essay goes to prove that it would be only a transfer of wealth from one

one hand to the other, which cannot increase the wealth of a community.

Thirdly: If it could be supposed to lend its savings in mass to another community, the commo-
dities sent to pay interest from the receipts of which it could in such a case only derive profits, and
discourage the production of commodities in the country which receives it to a degree destructive of its wealth.

or labour; but in these transactions, money is exchanged against itself. It is in this article alone that the merchant and his creditor, the landholder and his annuitant, the public and its stockholder, deal with each other. The thing purchased is an annuity; in other words, a series of future money payments; and the price given for it is a present money payment of equal value. And that relative amount of each which constitutes their equivalence, wholly depends (all other things being supposed the same), on the current rate of interest at the period when the bargain is concluded. How vain then must be the hope of realising, from a long course of such exchanges, a direct, considerable, and, as some have thought, almost inestimable, gain! As well might we expect such profit from continually exchanging against each other equal values in the parts of a well-regulated currency, a thousand sovereigns against two thousand half-sovereigns, or a million of crowns against five times as many shillings.

If then these notions are correct, the conclusion which they establish cannot possibly be affected by any extraneous and contingent consequences of these measures. Such a transaction consists only in the mutual transfer, to one party of a present, and to the other of a deferred money-payment. When this transfer has been made, the business is concluded; and to its actual profit or loss it must be matter of complete indifference in what manner either party may thereafter employ the money which he has so acquired, whether he may apply it to productive or to unproductive use. The farmer who has sold his wheat at its market price, has obtained for it neither more nor less than a just equivalent; and this is equally true, whether the purchaser shall afterwards employ that article in reproduction, or in consumption; whether he shall sow it in his furrows, or grind it in his mill. The tenant who accepts his lease on equitable terms, does not concern himself to ask whether his rent will be expended in the purchase of horses or of books, in gardening or in building.

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Yet, however fully our judgment may be satisfied, that the purchase of stock, at its market price, can produce profit to no one, I am well aware what deep and powerful impressions will yet force back upon our imagination the belief, that any reduction of the public debt, by whatever sacrifices effected, must, in its ultimate effect, be a measure beneficial to the community. If it be so in the case which we are here considering, we have at least seen that such benefit cannot be its direct and immediate result, but must flow from its more remote, and indirect, though possibly inevitable, consequences. That wide topic, and all which belongs to it, I have reserved to a succeeding portion of this Essay. For our present purpose, it is sufficient to remark, that if it be on any such grounds truly advantageous to the State to employ in this year any given sum, say five millions of money, in the purchase of stock, that advantage will be neither greater nor less, because a similar operation took place in the last year, or may be expected in the next. The profit of that

exchange depends in no degree on any progressive course or series of such measures: and it can be, neither consonant to the dignity nor to the wisdom of an enlightened legislature to guard against its own presumed improvidence by an engagement, directed only to distant and contingent benefit, and which, under many supposable events, may in the mean time be found to have been of very doubtful policy. Yet such is the conduct of every state which prescribes to itself, by law, and for its own supposed advantage, the inviolable maintenance of a sinking fund.

§ 4. *These Results have in no degree been varied by the Application of Compound Interest to the Operations of this Fund.*

Dr. Price, though far from concurring in the views here taken of this subject, was, however, fully sensible how little progress could be made in the reduction of our na-

tional encumbrances by the simple application of any surplus which our revenue could afford. "It is far from probable," he says, "that any money which the nation can spare, if applied so as to bear only simple interest, can be capable of reducing its debts within due bounds, or of doing us, in our present circumstances (1781?) any essential service."* He strongly urged, therefore, the necessity of strengthening that feeble machinery, by what have since so frequently been termed the magical powers of compound interest. And magical indeed they appeared in his representation of them. "It has been said," (I quote his own words,) "that when money is wanted for defraying public expenses, it makes no difference whether it is obtained by diverting the sinking fund, or by a new loan. There cannot be a worse fallacy. Money in a sinking fund, if never alienated, is improved, I have shewn, at *compound* interest; but, when procured by a loan, bears only *simple* interest.

* Price, Obs. Vol. I. p. 201.

X It would be easy to calculate the amount of Tonnage it would require to move the County of York on the supposition that the whole surface of it to be shipped to the extent of 100 yards deep, but a conviction of the accuracy of the calculation could never have the effect of proving to the mind of any man that it would be advantageous

A nation, therefore, whenever it applies the income of such a fund to current expenses rather than the redemption of its debts, chooses to lose the benefit of compound interest, in order to avoid paying simple interest; and the loss in this case is equal to the difference between the increase of money at compound and simple interest. The following calculation will show what this difference is.

to remove a single ship load of it into any other climate, or that it would be possible to move the whole to the Southern part of our own Island.

"One penny put out at our Saviour's birth to five per cent. compound interest, would, in the present year, 1781, have increased to a greater sum than would be contained in two hundred millions of earths, all solid gold. But if put out to simple interest, it would, in the same time, have amounted to no more than seven shillings and sixpence! All governments that alienate funds destined for reimbursements, choose to improve money in the last, rather than the first of these ways."* X

What an astonishing disparity would this be, if we could see in it, as he did, the result

* Price, Obs. Vol. I. p. 227, &c.

of two different modes of employing, or, as he terms it, of *improving* the same amount of wealth! But, alas, the vision is too truly denominated magical! It is as unreal as it is splendid. While it yet dazzles our senses, and confounds our imagination, one drop from the pure fountain of science has already dissolved the charm. We look again, and, instead of the enchanted palaces, glittering with mountains and *earths* of gold, we see only the ordinary gifts of nature, and the products of patient and persevering industry. By these alone, as all reason and all experience teach us, can wealth be either created or multiplied: every other agency, pretending to any such effect, is mere illusion; transferring, perhaps, but never increasing riches.

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The redemption of debt at its market-price can be accelerated only by applying to it additional means of purchase. And it is accordingly asserted that compound interest has actually furnished such additions to our present sinking fund; rendering it thereby, instead of a feeble and insufficient, a most effectual and powerful instrument of our public credit,

prosperity and wealth. This pretension I have already ventured generally to deny. These additions have been supplied, not by compound interest, but by surplus taxation. This matter however must here be more particularly examined.

In what, then, really consists the application of compound interest to the institution of a sinking fund? Divested of technical language and visionary calculations, the answer is simply this. Such application consists in adding to the income of the sinking fund the annuities which that fund successively redeems. Those annuities, or, more properly speaking, the portions of revenue from which they were defrayed, are, as we have already seen, so many fresh surpluses, which the sinking fund annually places at the disposal of the community. And in the different modes of applying these surpluses consists, in this case, the whole difference between simple and compound interest. A system of simple interest leaves them applicable to the repeal of taxation, or to the exigency of any other service;—by compound interest, they

are appropriated to the increase of the sinking fund.

These are the two modes of reducing the public debts, whose comparative efficacy Dr. Price professed to estimate. But in this parallel he has assumed, without proof, the identity of the amount of wealth so employed.

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The two operations are so far from being identical in this respect, that in this very point the difference between them essentially consists. The only reason why the same original sum employed at compound interest reduces debt faster than at simple interest, is because there is thus expended for that purpose, within the same period, a much larger amount of wealth. x And what wonder is it, if with more money more stock is bought? Who does not see that a capital without its interest cannot be identical with the same capital increased by the addition of its interest; that an annuity of a hundred pounds is less than one of a hundred and five pounds; and that this difference will increase as often as fresh interests are added to the latter sum, while the former continues unaltered? Must we not con-

x when from the loose paper throughout

This statement of the erroneous hypothesis on which Dr Price's argument proceeds is perfectly accurate. - It ought however to be observed that in either case every portion of the wealth employed is withdrawn from private enjoyment, and by the use made of it converted into Capital - and this view of the subject would have naturally led to the discussion of the only two important questions for decision in estimating whether the

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conclude, therefore, without meaning the smallest disrespect to the memory of Price, that his whole reasoning on this subject is fallacious? The results which he has so strikingly contrasted, the few shillings of the one case, and the inestimable riches of the other, are really the products, not, as his argument supposes, of the same amount of wealth differently employed, but of very different amounts of wealth similarly employed. He operates in the first instance with a single annuity of fixed amount, and, in the second, with a mass of annuities increasing by unlimited accumulation. And how could the difference of their power be less than infinite?

This whole matter of compound interest is, indeed, not a discovery in finance, but a mere question of numbers. We are told how much debt will in a given period be redeemed by a given annuity, successively increased in a given ratio. And what is this but a problem purely arithmetical? It depends on no principle of political economy. It leaves untouched that which is, in such a case, the main object of inquiry for any practical re-

establishment of a sinking fund is of no advantage to the community. - Whether withdrawing by legislative enactment any portion of Revenue and converting it into Capital adds to or impairs the wealth of the community. 2^d - Whether if it should be found advantageous to employ a certain portion of private Revenue for this purpose it can be preserved in a very limited extent without proving ruinous to the community.

sult. These sums may be accurately calculated according to their prescribed data: we may by law appropriate such payments to the sinking fund, whenever we have the means of making them. But from what source will they be derived, and by whom will their charge be borne? On these questions the accountant is silent:—can the statesman therefore overlook them? They are the very tests of the whole benefit of his system, and decide in no small degree on the possibility of its practical application. As fast as any such fund accumulates, the annual taxation must also accumulate, from which it is to be defrayed. If, instead of Price's two hundred millions of globes of gold, each of so many thousand miles in diameter, we could suppose his fund to have increased *only* up to as many ounces of the same metal, the taxes to be levied for it in a single year would fall little short of the nominal capital of our present debt!

And accordingly it is in this view of our subject, though seen on so much more reduced a scale, that the nullity of our actual

sinking fund seems to me again to force itself upon us with irresistible conviction. All which it can pay it must previously have received. The original surplus which was its assumed basis, and all the additional payments which have since been carried to it, under whatever name, stand, as to their source and supply, precisely on the same footing. For many years both were alike procured by loan; and whenever this vain expedient has not been resorted to, both have been alike derived from surplus taxation. Every portion of unborrowed wealth which this fund has ever received, or poured forth, has been previously withdrawn by the State, for that especial purpose, from private accumulation or enjoyment. Taxes required for no other service, were, in the first instance, levied for the establishment of such an institution; taxes not required either for its establishment or its continuance, have been subsequently levied for the payment of the redeemed annuities by which it has been increased. Those annuities had really expired; but the revenue appropriated to them was, under the

name of compound interest, continued for the purpose of this augmentation. No difference in this respect, though much in others, can be assigned between the prolongation of old taxes, or the imposition of new.

Again, the sinking fund has, by the effects of compound interest, greatly extended its transactions. But this increase has in no-wise varied its results. The wheel is indeed enlarged, but it revolves round the same centre. Every part of it still returns in the same succession to the point from which it first sets out. The same system still operates only to the same effect, that of a mere exchange of equivalents. More taxes are paid by the nation, more money is issued to the sinking fund, more annuities are purchased for the public benefit; but the value of the benefit is still absolutely limited to that of the sacrifice by which it is procured. We have varied the extent of these dealings, but their account is still exactly balanced. It exhibits on the one

35 side a gain to the community by the money-
36 value of so many millions of stock purchased;
37 and, on the other side, a loss to the commu-

nity by precisely the same amount of money-value paid in the taxation levied for that purchase.

But however equal this exchange may in itself be, we must not think that its increased magnitude is unattended with increased cost and labour. The fact is far otherwise; and throughout all these proceedings, every expense of management which they give rise to, whether direct or indirect, from the first imposition of the tax to the final cancelling of the stock, is to be set down as so much clear loss to the community, for whose supposed profit alone the whole operation is conducted.

CHAPTER III.

OF THE ATTEMPTED PERMANENCE AND REPEATED INTERRUPTION OF THIS SYSTEM.

§ 1. *The expected Benefits of a Sinking Fund at Compound Interest depend on its unvaried Accumulation.*

How entirely the promised benefit of our present sinking fund has always depended on its permanence, is too manifest to require any proof. Its operations, slow and feeble in the outset, could become powerful only by its long and unvaried accumulation. It was a brook which, by the accession of many waters, might finally swell into a great river: stop or divert their currents, and it must return to its original insignificance.

But for this permanence, so necessary to such a system, can any adequate security be in any case provided? Experience warrants no such expectation. The first sinking fund, with all its strong Parliamentary declarations

and enactments of perpetuity, was speedily diverted from its purpose. That of 1786 was again, with studied, but vain solicitude, "fortified as much as possible against alienation." Such were the words, such the hopes of Mr. Pitt; but in its real operation his system has now little more of substantive existence than that which it replaced. And from these repeated failures there arises an almost irresistible presumption against the practicability of the design itself. To say nothing of Dr. Price, the original proposer of this last plan, Mr. Pitt and his coadjutors, by whom it was adopted and established, were no less solicitous than their predecessors had been, to ensure to their system in all time to come a firm and inviolable observance. They distrusted in their turn the wisdom or the public spirit of those who were to succeed them; and they hoped to provide for the true interests of posterity in this matter, much better than posterity itself. They laboured, therefore, to the utmost of their power to throw round this insecure position a fresh barrier of impenetrable strength. But they have failed of this, as

others had failed before them. And a review of the nature of their attempt, and of the circumstances and causes of its disappointment, must, I think, convince the most sanguine, that no better success can ever attend the renewal of any such endeavour.

§ 2. *Provisions adopted for giving Permanence to the Sinking Fund of 1786.*

The new securities then, which were established for this purpose in 1786, consisted solely of variations, not in the nature or substance of the system, but in the forms of its execution. The effective income of the present sinking fund is all derived, as we have seen, from one common origin in surplus taxation. But by the arrangements here spoken of, the component parts of that income were classed under two very different heads of payment. A fixed yearly allowance is appropriated to this service by Act of Parliament, and issued from the Exchequer to certain commissioners appointed by law. The same commis-

sioners also receive, though in another form, the payments accruing to this fund from the interests of so much of the stock which they have purchased, as still remains standing in their names. These last sums are issued, not directly to them, but to the Bank of England, on their behalf; being included in the general mass of dividends payable on the public debt. The law considers this stock not as cancelled, nor even as *redeemed*, in the common sense of that word, but as transferred from the stockholder to the sinking fund. That fund, however, we know, has not any substantive existence; it is a mere creature of our minds, an official form in which the State conducts one portion of its affairs. The nation is the true owner of these annuities. It has re-purchased them from its creditors with the public money; and it now pays them to itself with one hand, and receives them from itself with the other. They are called interests, but interests of a debt redeemed. A manifest contradiction in terms!

Here, therefore, we have again new fictions, and fictions surely not very happily de-

vised. What then is their object? Why should the Government apply its own money to its own purposes through the medium of a commission, nominally distinct from itself? Why does not the direct allowance of the sinking fund include all the revenue which the State appropriates to that service? Why do we call its officers its creditors? Why issue an interest what is paid for the redemption of debt?

To these questions there is but one answer. Such were the devices which were intended to give fresh security to this system. I can have no desire to speak slightly of measures in which I myself concurred; far less of him by whom they were established. Of his virtues and talents I cherish an admiring and affectionate remembrance. But never would he have shunned the free discussion of any subject of public interest. I know not, indeed, what degree of importance he may have attached to these provisions; but some hope, some groundless hope, of their contributing to give permanence to his system, was unquestionably his only motive for their adoption.

Their suggestion was not originally his. The following passage will show in what light their real author regarded them. "Nothing," says Price, "can do us any essential service, but the establishment of a permanent fund that shall never be diverted. Establish such a fund; consign it to a particular commission, acting under penalties, in such a manner as shall take it out of the hands of the Treasury, and form a check on the House of Commons itself; supply from time to time all deficiencies, just as if no such fund existed; and, by these and other measures, convince the kingdom that something effectual is meant, and that the public debts are indeed in the way to be extinguished:—Let this be done, and we may soon see a new state of things; public credit may revive; and the kingdom enjoy at least a chance for being preserved."*

We have seen how closely this advice was followed. A parliamentary commission was appointed: it was composed of persons of whose fidelity in the execution of that trust no doubt could be entertained: To those officers was assigned the fixed allowance of this fund;

* Price, p. xix.

to them the redeemed stock has been transferred as debt; and to them its pretended interests have annually been paid. Nor was it doubted—vain imagination!—that Parliament had thus given to this re-established system some portion of the security of private right, some shadow of the sanctity of public faith. But what respect has, at any time, really been paid to these air-blown fallacies? To what respect indeed were they entitled? They assumed to themselves the imposing mask of property; but they partook neither of the rights nor of the duties of that great bond of social life; their whole efficacy was no more than that of a grant made by a man to himself, in trust for himself, and charged on his own estate! The debtor and the creditor, the receiver and the payer, the obligor, as our lawyers term him, and the obligee, were all in this case completely identified!

Yet were these fictions thought capable of deceiving, and in the highest concerns, the very Government by which they were fabricated. Their aim was nothing less than this: they were to induce the British Parliament to

act, in after times, in opposition to its own deliberate judgment of what might best promote the public happiness. If they failed of this, they did nothing: if they succeeded in it, what consequence could be more injurious, what principle more destructive of the duty of every Government towards those from whom it claims obedience?

§ 3. *Actual Failure of these Endeavours.*

But Parliament did not so abandon its high trust. These devices have in no case ever led to any practical result. So long as the legislature thought fit to uphold the sinking fund, they were never called into effect: no safeguard but that of the law itself was needed for its continuance. And when the necessity was felt, however late, of breaking in upon a system of such intolerable pressure, how easy was it found to overstep its imaginary barriers! By one measure, (I condemn not, but only state the fact,) there were taken from this fund more than five millions, (should I not rather say,

more than seven millions?) of redeemed annuities, the boasted accumulation of so many years.* Nor is this all. "Inroads," says Ricardo, from whom I transcribe this statement, "inroads more fatal than this," (for he considered as fatal in this case that of which I deem far otherwise,) "have" [since] "been made on the fund itself; but they have been made silently and indirectly, while the machinery has been left unaltered." The policy of these complicated operations I have not the smallest disposition to discuss. Principles, not measures, are the object of this inquiry. But when we look to the general result of all which has been done in this matter, from the first creation of this fund down to the present year, what do we find? This system was established in 1786. Its great and overwhelming power was to consist in the rich stream of accumulated revenue which its redeemed annuities

* Ricardo, Supplement to the Encyclopedia Britannica. Art. "Funding System," pp. 414 and 423.

In the first of these two passages he explains in what manner while more than seven millions were deducted from the sinking fund, somewhat more than two millions were at the same time professed to be added to it in another form. But these details are foreign to my purpose.

were, after a long course of time, to pour into the sinking fund. Above forty years have since elapsed, and the annual amount of that fund, including all the sources of its income, was at one period actually stated, if I mistake not, in our public accounts, at more than seventeen millions.* But in 1827 there were carried to it, I believe, on account of redeemed annuities, not quite seven hundred thousand pounds; and, with a very small exception, all its other income then consisted only in its fixed allowance; which had been nominally augmented by law from one million to five, but of which every farthing was in that year raised by loan!

To this statement what can be added? What can more completely prove the inefficacy of every attempt made in the re-establishment of this system to guard against its justly apprehended violation?

§ 4. *Causes of this Failure.*

Nor is there any difficulty in assigning the true causes of the interruption of this esta-

* See Ricardo, as above.

ishment. They are to be found in those very circumstances to which we had looked for the chief benefits of its institution; in its unvaried continuance, I mean, and rapidly progressive augmentation during so long a course of war. For in what did this augmentation really consist? What did it in fact accumulate? Not the wealth of the State, but its expenditure; not the resources of the country, but their comparatively unprofitable application to purposes of no present or sensible advantage. Year after year this fund claimed from the public treasury larger and larger payments; but its operations added nothing to the means of supplying these constantly increasing demands. For that purpose fresh provision was always to be made. And thus, throughout the whole of that long and perilous contest, were all our efforts, and sacrifices, and burthens continually multiplied by this project of imaginary benefit. And if, as was once boasted, the national distress itself accelerated the progress of that system, exactly in the same proportion was its pressure

aggravated on a community tasked almost beyond its strength.

This is, indeed, but in very different degrees, the necessary result, the inevitable self-counteraction of every such institution, in both the opposite cases, of a surplus, and of a deficient revenue; cases which this system so strangely confounds under the same provisions. Possessing an effective and permanent surplus, a state may maintain a sinking fund, even at compound interest, without resorting to still further taxation. The fixed allowance, and the successively redeemed annuities which compose the fund, will severally continue to be defrayed from the same revenues as before; and, by the progressive addition of those annuities to the fund itself, it may ultimately be carried to any extent not exceeding their amount. But even under these circumstances, favourable as they may seem, it is still evident that the nation will be making, year after year, greater and greater sacrifices for the maintenance of this establishment. The nominal capital of debt will, it is true, be lessened; but (which is alone of real importance,)

there will be no corresponding diminution of its annual charge, nor, consequently, of the taxes which support that charge. The same burthens will be continued; no longer applied to the payment of the public creditor, his claim being extinguished, but constituting the progressive augmentation of the sinking fund itself. And every succeeding period will thus increase, not indeed the total amount of the national taxation, but the proportion of it levied for the sole purpose of upholding this visionary project. Such is the sacrifice which that purpose must exact. And for this great, immediate, and increasing evil, what return does it offer? The hope only of a speculative good, deferred to some indefinite but distant period, and even in its ultimate effect, productive, as we have seen, of a very questionable and equivocal advantage.

Wisely, therefore, would the rulers of any community, in the most prosperous condition of its finances, cast off these artificial trammels, and apply themselves to the direct interests of those whose happiness is their primary and especial charge. Such a decision indeed

would be of no doubtful expediency, even if we could dismiss all present concern for the public welfare, and look only to the ultimate increase of wealth. All possible advantage of these operations, in whatever form conducted, must at last resolve itself into a diminution, more or less remote, of the public burthens; and to postpone for so long a period so great a good, when already partially within our reach, is to presume far too much on the powers of human foresight, and the stability of human institutions. An earlier, although more gradual, repeal of taxes, would spread its benefits in a thousand fertilizing channels over the wide field of social industry; and never could its absence be compensated by any forced direction given, after a dreary vacancy, to the produce of the same sources pent up till it bursts these artificial barriers.

So stands this question, even in the case of an actual and permanent surplus. But far different were the circumstances to which we had for so many years applied this policy; and, consequently, far otherwise had it affected

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our public happiness. Its progress had been marked by the growth, not of a surplus, but of a deficiency. Instead of merely prolonging at the same amount, but in a period of comparative ease, our previously existing burthens, it had compelled us, in our utmost need, to heap loans upon loans, and taxes upon taxes, in a series of unlimited accumulation.

During much the greater part of its existence, all its operations had been conducted under the pressure of a large deficiency of revenue: and that deficiency it never failed to increase by the full amount to which those operations were carried. This was indeed, under such circumstances, its inevitable consequence. Whenever in any country the interests of its unredeemed debt, and the charges of its civil and military services, exceed its income, there is already a deficiency which must be covered by taxation or loan. And if in this, the probable condition of all war,—the actual condition certainly of all wars which we have seen,—any attempt is made to pay off former debt, it is manifest that to the full extent of that endeavour, a new deficiency

is created, to be provided for by a new resort to the same sources of supply. In all times of war, or of otherwise deficient revenue, this is the necessary condition of all sinking funds, with whatever art constructed, and covered under whatever name. Their whole amount, all their fixed allowances, all the redeemed annuities, and all the pretended accumulations of interest, by which they are increased, serve only in such a moment to swell the long schedule of taxation, and to impose on the community fresh difficulties superadded to those which its public service would otherwise create. Need I add, that in our own case, the mischief of these operations had been found, as it always would be found, very far to exceed the direct sacrifice which they exacted? They had crippled the whole power of the State; they had rendered all its operations both more difficult, and more costly. In addition to the war-loans, we had, year after year, sinking fund loans, rapidly increasing, and ultimately of very large amount. Both therefore were raised at greater disadvantage. To the new charge of interest created by the

former, a further and similar charge was superadded by the latter. To neither of these new services were the annuities to be redeemed by this increasing fund at all available. Both were to be met always by fresh taxes; and who has not observed that in proportion as our taxation was increased, its selection became more difficult, its pressure more severe, and its produce relatively less abundant?

The ultimate suspension of this fund has thus been the direct consequence of the endeavour to continue it throughout a period so peculiarly ill-suited to its operations. Too much was attempted. But that attempt was of the very essence of the establishment itself, whose provisions were expected to derive fresh strength from such difficulties; and may we not hope that this decisive experiment of its results will now lead to the total abandonment of a system so oppressive at once, and so inefficient?

But the extent to which so long a perseverance in it had already injured the public interests, cannot be fully estimated without

considering the subject in still another point of view: with reference, I mean, not only to these continually increasing loans, but also to the extraordinary taxation which was so largely resorted to for defraying the expenses of our two last wars. I speak not here of the expediency of such a system, as applicable to a real war-expenditure: that is a point which seems to me to depend wholly on local and temporary circumstances; on the condition and prospects of the country in which such a question may arise. But, in our own country, and in the periods of which we are now speaking, the expenditure for which we thus provided, was not limited to the charges of the wars in which we were engaged. We had undertaken to maintain, also, throughout the long and unforeseen duration of that great exigency, a rapidly increasing sinking fund; a fund, never to be made available to any present uses of the State,—no, not in its utmost necessities,—but continually to be augmented for the benefit of some remote posterity, by fresh sacrifices exacted from a people then actually struggling for independence and national

existence. Let then my reader determine for himself on these facts thus brought to his recollection, what proportion of the war-taxes, as they were then termed, how much of the income-tax for instance, or of the property-tax, was really levied, not for the maintenance of a war, whose maintenance would have justified any sacrifice, but to uphold during that war a system which superadded to its pressure this great mass of unnecessary burthen. Thus much at least is evident, that all the expenses of that war might still have been defrayed, and all its efforts made, with equal, I should rather say, with much more vigour and effect, had either these additional loans, or these additional taxes been spared to us by an earlier discontinuance of a system, from which we were at last driven by this unavoidable, but so long unforeseen and unimagined necessity!

**It is impossible to deny the truth of what is here stated, that it appears absurd to imagine a nation or community can enrich itself by buying up debts it owes to members of that community, with funds taken out of the pockets of their fellow subjects, members of the same community. - But is it not equally absurd to conceive that a community can as a body impoverish itself by borrowing certain portions of capital from some members of that community for the use of the whole, and giving in exchange obligations to pay the interest out of the revenues of the individuals? Members of the same community for whose immediate use the raising of that capital was thought necessary.*

CONCLUSION
If it is true that by the former operation a nation cannot enrich itself more than an individual can by shifting his purse from one pocket to another or his

Throughout the foregoing pages, all question of the indirect advantages so commonly attributed to a sinking fund, has been reserved always to the concluding portion of this Essay. Without the distinct and separate examination of these, I am well aware that a part only, and perhaps the least important part, is accomplished of my original design. Many, who will readily disclaim all hope of direct public benefit from a sinking fund, whether in peace or war, at simple or at compound interest, will nevertheless still firmly cling to its continuance or renewal. *They will admit, perhaps, without hesitation, that a nation can no more profit by thus trafficking with itself in its own securities, and buying debt with debt, and money with money, than an individual could by shifting his purse from one pocket to another, or his bank-notes from the upper drawer of his cabinet to the lower. But they

Bank Notes from the upper drawer of his cabinet to the lower do it not equally apparent that by the latter operation a nation can no more impoverish itself than an individual can by shifting his purse from one pocket to another, or by removing his bank notes from one drawer of his cabinet to another. It seems indisputable

that neither operation occasions the smallest change in the mass of wealth belonging to the community at large; by both an alteration is certainly made in the distribution of the property held by individuals belonging to the community, but if the wealth of the nation consists in the aggregate of the wealth of the individuals who belong to it, no transfer of wealth from one portion of the subjects into the hands of another portion of its subjects can

can either augment or diminish that aggregate which forms the mass of public wealth.

If this view of the subject is just and accurate it follows that a nation by borrowing from its own subjects can no more impoverish itself than it can enrich itself by raising funds from its subjects to purchase up the debts they created. — And that in truth a sinking fund whether arising from a surplus of Revenue or from taxes imposed for the purpose of creating it are still impressed with a deep sense of the

(a distinction which only denotes the period at which the tax was imposed which produces it) more remote and incidental, but, as they believe, unquestionable advantages of such an institution. Those advantages would indeed be differently described by different persons. They are supposed to consist in more than one particular; and they are of course more difficult of examination, in proportion as they are in their own nature, or in the accounts thus given of them, more vague and indeterminate. But they may mostly be reduced, I believe, under the four following heads:

1. By some this system is recommended— it was so, I believe last year, even by Mr. Canning himself—as a resource in unforeseen emergencies.

2. Many have insisted, and still insist much on its good effects, in raising and upholding the price of stocks.

3. Others again, men of great knowledge on these subjects, and high authority, strongly rely on the advantages which it affords in the compulsory accumulation of the national wealth, and in the forced diversion of that wealth from what they deem unprofitable

its advocates have foolishly supported it would effectually counteract.

Perhaps the material difference between raising money to defray the expenses of a war and raising it to sustain a sinking fund is, that the distribution of property amongst the individual members of the community is much more materially altered by this latter operation, than it would be

by raising it for the former: and this is a proposition however contradictory to the vulgar prejudice, of which all must be convinced who reflect that the sum of real surplus applied for the reduction of the national debt since the year 1816 was little above 20 millions which has had the effect of taking out of the pockets of that part of His Majesty's subjects who held the portion of the debt that bore a high interest

expenditure, into the mass of productive capital.*

4. A still more flattering, but much more general picture is drawn by others, of the increased confidence produced both at home and abroad in the stability of our financial system, when it is seen annually to allot such overwhelming sums to the reduction of debt; an operation so naturally considered at first view as an almost infallible symptom of increasing wealth.

To me it appears, but I speak here with all the deference with which I ought to speak in such a case, that there can be little difficulty, either in pointing out, or in unfolding the general topics by which these notions may be successfully opposed.

1. On the first it is obvious to remark, that it rests solely on what I cannot but call an inaccurate use of the principal term in the discussion. Any portion of income available for unforeseen exigencies, is manifestly not a sinking fund, but a disposable surplus of revenue. Such a surplus has its own advantages and

* See particularly Ricardo, Supplement to the Encyclopedia Britannica. Art. "Funding System."

£2,788,000 per annum and of at one time raising the value of upwards of 500 millions of 3 per cent stock 20 per cent; thus giving an addition of real value to the holders of 3 per cent stock of no less than 100 millions which operation by the reduction of interest created that scene of gambling speculation in the year 1821, which ended in a real loss of 15 millions involving the ruin of many of His Majesty's subjects.

disadvantages, but in both it essentially differs from a sinking fund. The one is appropriated, the other free.

2. On the second, we should, in the first place, absolutely deny that it can be either expedient, or just, to give to one species of property an artificial value, by burthens imposed for that purpose on all other property. But may it not also be confidently asserted that no such effect can, generally or permanently, be produced by the purchases of a sinking fund? Whatever raises the price of stocks, renders them comparatively a less profitable employment of money, and tends therefore to divert capital into other investments until the natural level be restored.

3. The third point involves a question of more extensive and important, but, if I do not greatly deceive myself, of not much more difficult investigation. The very benefits themselves which are relied on in this case, the forced accumulation, the compulsory saving, the artificial direction of private wealth, are all, as it seems to me, directly opposed to the first principles of political economy. Such en-

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deavours would lead us, and by no strained consequence, to the most exploded errors; the hoarding of a public treasure, or the imposition of sumptuary laws. The proper aim of legislation in these matters is not the multiplication of wealth, but the multiplication of that social happiness which is derived from wealth; and which consists essentially in its use: in its wise, and virtuous, but free use. And that this freedom, while it gives to wealth its highest value, has also been made, through the appointed constitution of our nature, the most effective instrument of its increase, is the beautiful discovery of modern science. The government which seeks to enrich its subjects by directly or indirectly narrowing their enjoyments, not only sacrifices the true objects of its care to the imaginary means of their attainment, but also powerfully countermines even its own misdirected purpose.

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4. On the fourth point, there is a still readier answer. The security at which a wise government will aim is to be looked for in actual, not in imagined strength. To the wisdom of domestic councils, to foreign authority

and influence, nothing is more detrimental than a trust reposed in unreal power.

Finally, in the conclusion of the whole inquiry, it may, I think, be undeniably demonstrated, that the great source of all error on this subject, if error it be, has been the spirit and love of system; one of the foremost of those *idols*, as Bacon terms them, by which the heart of man has, in all ages, been allured from the simple pursuit of truth. In the popular discussion of these matters, the wisdom has been, I believe, almost universally, but quite gratuitously assumed, of establishing in this respect an uniform, permanent, and, if it had been in our power, an inviolable course of policy. But to determine whether any, and what portion of national wealth shall, at any given time, be withdrawing by taxation from private use, for the reduction of public debt, is not a question of abstract science. No decision can more essentially depend on the contingent and fluctu-

ating consideration of ever-varying circumstances. None therefore can be fitter to be reserved for the annual reconsideration of a wise and cautious legislature. What then shall we say of a system which anticipates all such determinations for long periods and cycles of future years, having no reference to the chances or changes of human affairs, but regulating the eventful interests of a great community by an unbending arithmetical progression, or by the workings of a rule in algebra? If this be wise, why do we not also fix by the same principles the numbers of our fleets and armies, to be maintained unalterably in every contingency of peace or war, of profound security, or of fearful and imminent danger?

We are well assured, that the course of knowledge amongst us is not now retrograde, nor the spirit of patriotism declining. Well therefore may Parliament, in a matter of so great uncertainty, forbear to prescribe to future generations new plans and systems of finance! Well may that body to whose vigilance and wisdom the present safety and wel-

+ What Lord Shelburne said when the Bill of 1786 was carried to the House of Lords - "That it was a damned senseless, coxcombical piece of impudence to attempt legislating for posterity!"

fare of their fellow-subjects is committed, leave it to those who shall come after us to exercise on their own behalf a similar discretion! Other, and more urgent duties now claim from the legislature its undivided care. Much has been auspiciously begun, much is at this hour in progress, and much more yet remains to be accomplished, for the cultivation and improvement of those national interests which now lie before us in actual operation, or in immediate prospect; for the civil and religious freedom of all the members of the community; for their

“ Union, and firm faith, and firm accord ;”

for securing to them justice, not impartial only, but cheap, and speedy, and effective,— a blessing above all estimate; and for carrying to its utmost possible extent the unrestricted liberty of their industry and commerce. It is by the undeviating pursuit of this liberal and enlightened policy, advancing always with the advancing science of our country, that the surest of all foundations will be laid, not only for her present hap-

piness, but also for her future prosperity and glory.

Such is the bare and unshadowed outline of the view which I had taken of these interesting topics: such is the powerless skeleton of an argument, which, if clothed with however small a portion of the substance and energy of life, and animated, as it would have been, with the spirit of sincerity and public zeal, might, I once hoped, have been of some practical benefit in a deliberation, whose importance hardly can be over-rated, since it involves nothing less than the policy of now adding or not adding some millions to our annual taxation. But this task, undertaken from motives of which I still feel all the force, I have been compelled to suspend; and even if the power of resuming it should return, the inducement will probably have ceased. This great question will have been decided: and may its decision be such as may best promote the happiness of all!

Νικάη ὅ τι πᾶσιν ὑμῖν μέλλει συνόσειν!

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T. BENSLEY, Printer, Crane-court, Fleet-street.