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Mr. CRAUFURD's
 OPINION
 RESPECTING THE
 FINANCIAL SITUATION
 OF
 GREAT BRITAIN:

COLLECTED IN
 SEVERAL CONVERSATIONS.

BY A
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MR. CRAUFURD'S

OPINION,

&c.

IN passing through Holland, I was desirous of learning what Mr. Craufurd thought of our present critical situation with respect to the Bank, as I knew that he had made the study of every thing relative to money and public finance a particular object of his attention.

I addressed myself, therefore, to that gentleman for information on this subject, and I was much concerned at hearing him declare, that he thought the steps taken by the Cabinet

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Council as irremediable, and incalculable in all its consequences.

He observed, that the same means which must now be employed to recover from the fatal blow given to paper credit, might have been equally resorted to before the suspension of payment in the Bank of England took place, which would have prevented such an indelible stain being imprinted on its character for want of foresight, prudence, and regularity in its payments.

He declared, that one or other of the two following consequences must inevitably soon take place. The Bank paper must either be declared a legal tender by Parliament, and its emission limited, in order to prevent too great a depreciation, or the Bank must withdraw a part of its circulating notes, in order to give credit and stability to the remainder.

He admitted, indeed, that, in the first case, a partial act of bankruptcy towards the public creditors would take place; and that in the last case, a diminution in the circulating medium would arise, which would affect the revenue and the price of public funds. But

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he observed, that although the words *legal tender* had been studiously avoided by Mr. Pitt, yet, that in point of fact, the principle was in reality adopted by Parliament, and he, therefore, saw no further inconvenience likely to arise by adopting the words also, provided the emission of paper was limited. It appeared to him doubtful what quantity of Bank notes could be kept in circulation after the Bank should again commence payments in money; but there was every reason to suppose, that it would be much less than formerly, and this necessary consequence must, therefore, now be submitted to, in perpetuity, or for a great length of time, whereas if the country had been subjected to it six months sooner, the inconvenience would only have been temporary.

I asked him, how the Bank ought to have proceeded. He answered, the Bank should not have listened to the solicitations either of individuals or of government, but have contracted her affairs by diminishing the issue of bank-notes in a greater proportion than she found the coin of the country diminishing in the capital, or centre of circulation. This, he said, was perfectly practicable, by selling her

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transportable property against her own notes, while she kept paying her outstanding notes with the cash in her possession.

To suppose this impracticable, would be impeaching the management of the Bank Directors, in taking improper securities for the seventeen millions due to her, independent of her capital stock.

She might, therefore, have secured her credit and her stability by a momentary sacrifice; and although the inconvenience might have been very great to individuals and to government, yet the good effects would have very soon appeared in the confidence granted to her notes, and in the possibility of circulating again as many as might be found necessary.

Order and good faith in all public money transactions would then also have been preserved; but unfortunately there did not exist either a sufficient degree of courage to encounter a temporary inconvenience, or a competent degree of knowledge respecting money matters and public finance, for the critical situation, in which

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which a variety of circumstances had placed Great Britain.

I then requested Mr. Craufurd to give me his opinion respecting the cause of this scarcity of cash in England, which he immediately gave to the following effect:

“ During the last peace, I observed, that,
“ from the year 1787 to the year 1793 (a
“ period of six years), the existing revenue
“ increased above 2,400,000*l.* independent
“ of 800,000*l.* of new taxes raised in 1791
“ for the Spanish armament. This natural
“ increase of above 400,000*l.* *per ann.* as
“ well as the 3 *per cents.* getting up to 96
“ a 97, astonished me very much, as I did not
“ conceive that the increase of coin during
“ the peace could have produced such great
“ effects.

“ The secret and extensive fabrication of
“ money, called country bank-notes, appear-
“ ed afterwards, however, to have assisted
“ in producing this wonderful prosperity.

“ But these emitters of bank-notes in the
“ country did not attend to the necessity of
“ having

“ having an additional quantity of coin in the
“ country to support this new mass of paper,
“ and in 1793 many of these country banks
“ stopped payment.

“ This destruction of paper money caused
“ a great deal of coin to be gradually drawn
“ from London into the country, but it was
“ in a great measure supplied again, by the
“ importation of bullion from abroad, in the
“ years 1793 and 1794.

“ Our public loans were exceedingly small
“ in 1793 and 1794; and as the taxes levied
“ in 1791, for the Spanish armament, were
“ applied towards their interest, very few
“ new taxes were found necessary until the
“ year 1795. Every thing may be said to
“ have gone on smoothly, and even prosper-
“ ously during the two first years of the war;
“ but in the latter end of the year 1794, bul-
“ lion began again to be exported from Eng-
“ land, and continued to be sent out until
“ the beginning of this year.

“ The years 1795 and 1796 have by
“ these means, as well as by enormous taxa-
“ tion, prepared the present disasters; be-
“ cause

“ cause the increasing price of every thing
“ was not supplied by additional money, and
“ that the new coinage in England was not
“ equal to the quantity which was constantly
“ melting down, or exported to various parts
“ of the Continent, as well as to Ireland,
“ the West Indies, &c.

“ The country banks appear, indeed, to
“ have been at work again, but have also of
“ late been draining the capital of money;
“ and the Bank of England finds itself now
“ in its turn, in the same situation as the
“ country banks in 1793, and must resort to
“ Hamburgh and Portugal for a supply of
“ money, in order to provide for that de-
“ crease in their notes, which must inevitably
“ now take place on recommencing their
“ payments.

“ The great run upon the Bank may in
“ some degree be attributed to alarm; but the
“ wisdom of the Bank Directors ought to
“ have prepared its situation for such an event,
“ just as much as a private banker is obliged
“ to attend to the possible circumstance of a
“ run upon him.

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“ From all this it is evident, that our pro-
 “ sperity during the peace was not founded
 “ upon solid grounds, but upon a precarious
 “ paper currency ; that a check upon this
 “ paper in 1793, was in a great degree sup-
 “ plied by money from abroad, in 1793 and
 “ 1794 ; but that such money was again ex-
 “ ported in 1795 and 1796, while additional
 “ taxation was calling for a further increase,
 “ in order to support the declining revenue.

“ It appears further, that the best paper
 “ money is now likely to experience a check,
 “ and that the circulating medium will, there-
 “ fore, not be adequate to the extraordinary
 “ demands, arising from the great expendi-
 “ ture of money during war, and the increas-
 “ ing price of every thing from taxation.

“ If new taxes are added this year, in-
 “ terest of money will continue to rise, and
 “ the revenue continue to suffer, as the im-
 “ portation of bullion will, in all probability,
 “ not be sufficient for our multiplied wants.”

I was astonished to hear Mr. Craufurd talk
 of our revenue being in a declining state, as I
 had

had understood, from Lord Auckland's state-
 ments, that it was rapidly increasing ; and I,
 therefore, requested an explanation on that
 point.

“ Lord Auckland,” he observed, “ had
 “ taken the average of three years, which had
 “ suffered very little by the taxation of
 “ this war, and had at the same time received
 “ all the benefits of the bullion imported in
 “ 1793 and 1794. The comparison was,
 “ therefore, not in point, and his Lordship
 “ would have given a juster idea of our situa-
 “ tion, by stating the revenue (land and malt
 “ tax excepted) to have produced from 5th
 “ April 1792 to 5th April 1793, the sum of
 “ 15,116,995*l.* and from the 5th April 1795
 “ to the 5th April 1796, only 15,935,466*l.*
 “ although four millions of new taxes had
 “ been added.

“ If we examine the state of the revenue
 “ from the 5th January 1796, to the 5th
 “ January 1797, we find it only 16,110,835*l.*
 “ and two millions more of new taxes were
 “ added in the latter end of 1796.

“ It is therefore necessary that the revenue
 “ increases 5,000,000*l. per ann.* in order to
 “ support the minister’s sinking fund systems,
 “ and put us comparatively in the same situa-
 “ tion as before the war.”

This representation of our annual revenue, and of our annual wants, appeared to me of as much importance to the public as the present situation of the Bank; and I therefore asked what remedy could be applied in the present state of the case, and the reason of each war costing so much more than the one that preceded it.

I added, that Thomas Paine seemed perfectly right in his statement respecting the accumulating expense of each succeeding war, and that there existed probably a mathematical reason for it, which Mr. Paine did not seem to have discovered.

Mr. Craufurd answered, that it arose simply and entirely from the accumulation of taxes, which increased most enormously, but in an imperceptible manner, the price of every article, and consequently the future
 peace

peace establishment, as well as the succeeding war expenses, for which no allowance was ever made in estimates: that the expenses of a future war were now incalculable and insupportable, as the evil of high prices had got to an ungovernable height; and that we might in vain boast hereafter of our ships and our failors, if the other component part of a marine, called money supplies, could not be raised in sufficient quantities. Our annual loans were double in their amount during this war of what they were during the last war; and as seven millions of new taxes will soon have been added, our future peace establishment, and the King’s civil list, must be considerably increased, in order to procure the necessary services from individuals.

He ridiculed all the idea of those *fallacious estimates* founded on an intended œconomy, which he said was, at best, but a very insufficient resource; and added, that it was perfectly impracticable in time of war, and even dangerous in time of peace, as it curtailed the necessary groundwork or preparation for defence and offence, which in a well-governed state ought never to be neglected.

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He declined giving any plan for removing the dangers which he foresaw, as the Bank Directors, or the Government (he could not say which were most to blame), had broke the main spring of all operations, by bringing discredit on paper money, without which Great Britain could not do, on account of the small quantity of coin which she possessed; but he handed me, as a justification of all the principles he had maintained on public finance, the annexed plan, No. I. which he had formed in 1784.

I observed in that plan two sorts of increase arising annually in the revenue or existing taxes, after taking off for five successive years one million of taxes, and understood completely the natural increase of 200,000*l.* as experience had shewn during the last peace; but it had really amounted to above 400,000*l.*

The plan had therefore been on that point one million sterling more favourable than he had stated; but I required some explanation respecting the artificial *caret* of 550,000*l. per ann.* by means of taking off one million of taxes *per ann.*

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He told me that this proceeded from every thing becoming cheaper, and the consumption of them increasing without any aid from additional coin, or the still more precarious support of paper money. By the operation of taking off taxes, money became *relatively* more plenty, and the expenses of Government became *absolutely* less.

Experience did not, to be sure, prove this, as the system of taking off taxes had unfortunately never been tried; but we had fully before us the bad effects of the inverse system; that is to say, of laying on new taxes, which immediately produced a considerable diminution in the produce of pre-existing taxes, and increased very rapidly the public expenses.

Mr. Craufurd added, I have already given to the public a mathematical deduction of the cause; but it can be of no avail, as long as the sinking fund phrenzy so generally prevails.

Prejudice and ignorance upon such a complicated subject are not easily overcome by a train of reasoning, which requires application to be understood; and my studies will therefore only serve hereafter for tracing the physical

tical causes of the fall of the British empire. I then observed, that the system which he proposed seemed to call for a perpetually increasing and never diminishing public debt, which must, in my opinion, sooner or later prove fatal, although the number of taxes and the public expenditure might, by his plan, be very considerably reduced.

Mr. Craufurd answered, that as long as the public estate, and consequently the growing revenue, increased in a greater, or even in the same proportion as the interest of the national debt, nothing fatal could possibly happen; and that the public expenditure being kept so much lower by a decrease in the number of taxes, would occasion the war loans to be infinitely less, and the national debt to increase less rapidly than it otherwise would do.

He added, You seem to think with the rest of mankind, that all public debts are irredeemable, except a sinking fund is created, in order to pay off or purchase the capital.

This is so palpable an error, that I cannot conceive how it ever entered into the human under-

standing. We have even the experience of a 70 or 75 years annuity selling for a sum equal to what a perpetual annuity redeemable at pleasure would obtain.

If all public debts were therefore constituted upon that principle, the financial machine might revolve upon its own axis after a period of 70 or 75 years, on account of the falling in of the annuities created during the first 70 or 75 following years, on a supposition that the expenses were the same.

It will perhaps be objected, that the whole public debt could not be constituted on a 70 or 75 years annuity; but there can be no difficulty in borrowing for the public a hundred pounds at the current interest of 5 or even 6 *per cent.* redeemable at pleasure; that is to say, when interest fell, instead of adopting that ruinous plan hitherto pursued, of selling 3 *per cents.* below par, and even as low as 53 *per cent.* which renders them truly eternal, as there is neither extinction after 70 or 75 years, or a possibility of reduction in the high interest to be looked for.

The only resource then left (according to the present system) for its annihilation is the raising additional taxes for the sinking fund, and buying up those 3 *per cents.* granted as low as 53 *per cent.* at the enormous rate of 96 a 97 (this actually took place in 1792), which is a species of commerce truly iniquitous amongst individuals, and is then very plainly to be traced to knavery; whereas in public debts its infamy is concealed, and arises from a perfect ignorance of what constitutes an equivalent value in all financial operations. That all the nations of Europe have been impoverished, and that the monied men have become so enormously rich, is not to be wondered at, when this specimen of financial knowledge in statesmen is attended to.

I then stated to Mr. Craufurd, that at any rate the 5 or 6 *per cents.* redeemable at pleasure, could only be reduced to 3 *per cents.* at lowest, after a series of years, and that these 3 *per cents.* must at any rate become eternal.

He answered by handing me the subjoined plan, No. II. by which it appears that the 3 *per cents.* may, with advantage to the holders,

holders, be converted again into a 70 or 75 years annuity, or a 5 or 6 *per cent.* annuity, redeemable at pleasure, and of course be ultimately extinguished in 70 a 75 years, or be further reducible. This operation is performed by sacrificing a part of the reduction of interest; that is to say, returning it again in a new form to the proprietors, in order to exonerate them for the consequences of their annuity being ultimately extinguished in 70 or 75 years, or reducible again to 3 *per cents.*

In this case a sacrifice to the public creditor cannot be matter of regret; but when additional interest is added for these conversions, in order to repair errors, it certainly operates as an additional burden, and becomes a subject of grief, because a previous knowledge of the principles of money might have prevented it. It formed, however, a part of Mr. Craufurd's plan in 1784, for the purpose of reducing considerably the national interest before the commencement of the present war.

Experience sufficiently proves, that all our public debts (which were redeemable at pleasure) might have been reduced at 3½ *per cent.* in the year 1792, even upon the erroneous
 C 2 system

system of taxation which was pursued ; but if the plan No. I. had then been adopted, they might, from the relatively greater plenty of money, have been reduced to 3 per cents. and have formed a considerable provision for the interest of the loans during this war, previous to the laying on again any part of the 5,000,000*l.* of taxes, which were taken off during the peace.

It appeared therefore perfectly clear to me, that we should have been free at this moment of all the seven millions of taxes levied since 1791, and that our expenditure would have been infinitely less than it has actually been, if Mr. Craufurd's had been adopted.

Without entering into all the *minutiae* of that gentleman's investigations of this subject, it is easy to perceive that we are in a complete state of ignorance respecting the *arcana* of finance, and that every nation could perpetually contribute what is necessary for its defence, without injury to individuals, or to the community.

In the first place, by commencing its system of public debts in such forms as to effect an

an extinction of its annuities in 70 or 75 years, or a reduction in its interests, as well as their further conversion, by returning a part of such reductions. In this case the national debt would never increase after the first 75 years, or even before that period, while every money-lender would be fairly and honourably dealt with by the public.

In the second place, by a given mass of taxation at the end, or before the expiration even of 75 years, producing naturally an annual increase, until that nation comes to maturity in population and industry, which would enable the government to take off taxes in proportion to the annual increase.

And, lastly, that by substituting from the beginning an annual loan for the peace establishments, as well as for the war establishments, taxes might be confined during those 75 years to the interest of all loans, and to the King's civil list, which would keep down the prices of every article as low as possible, as also the national debt during those 75 years.

Having been laid under no restraint of secrecy respecting these conversations, I thought it adviseable to publish them on my arrival in England, as they may possibly be of some use in this moment of danger.

No. 1.

No. 1.

Supporting the taxes (land and malt included) to have produced in 1784, or 1785, £.15,200,000

The interest of the national debt was about	—	—	£.9,200,000
The civil list and appropriated duties	—	—	1,000,000
The peace establishment	—	—	£.4,000,000
The sinking fund	—	—	1,000,000
			<hr/>
			5,000,000
			<hr/>
			15,200,000

The five millions for the peace establishment and sinking fund might have been gradually taken off, and the deficiency, which arose from the peace establishment during the 2d, 3d, 4th, and 5th years, would have been supplied by the following annual ordinary increase, and extraordinary or artificial increase in the remaining taxes by means of their number being decreased.

Take off	1st year, or in 1786,	£.1,000,000	1st year's natural increase	£.200,000	and artificial increase	£.550,000
	2d year, or in 1787,	1,000,000	2d year's ditto	200,000	and ditto	550,000
	3d year, or in 1788,	1,000,000	3d year's ditto	200,000	and ditto	550,000
	4th year, or in 1789,	1,000,000	4th year's ditto	200,000	and ditto	550,000
	5th year, or in 1790,	1,000,000	5th year's ditto	200,000	and ditto	550,000
				<hr/>		
				1,000,000		
				200,000		
				200,000		
				<hr/>		
				1,400,000		
				<hr/>		
				1791 6th year's increase	1,000,000	
				1792 7th year's increase	200,000	
					200,000	
					<hr/>	
					2,750,000	

Making together 4,150,000 l. annual increase; and as the ordinary increase appears to have been 1,000,000 l. more, there would have been a resource of above six millions *per annum* in the taxes, which had already existed; and in this surplus million above the peace establishment, to have made use of, before levying one shilling of those seven millions of taxes laid on since 1791. The peace establishment would, by this system, have been brought much below four millions; and if the 1,800,000 l. for the Spanish armament had been raised by a loan, the annual interest would only have increased 75,000 l. *per annum*. The true principles of finance point out also the expediency of expending the four millions for the peace establishment in interest of loans during war, and making those loans so much the greater, as the sum that was made use of for interest, by which means the taken-off taxes are not again levied, and every service is provided for during

No. II.

A Conversion of Three per Cents. into a Fund bearing higher Interest, while new Loans are obtained.

Suppose the 3 per cents. at 53 per cent. and 100 millions of them were taken by Government at 60 per cent. is	—	—	—	—	£.
New Loan 30,000,000 l.	—	—	—	—	60,000,000
	—	—	—	—	30,000,000
	—	—	—	—	90,000,000

To grant 90 millions at 6 per cent. interest, redeemable at pleasure, is 5,400,000 l. annual interest. If these 90 millions had been reduced (as might have been the case in 1792) to 3½ per cents. the annual interest would have been reduced to 3,150,000 l. of course a saving of 2,250,000 l. per annum would have arisen, in order to have been applied as interest for the loans of this war. If they could only have been reduced to 4 per cents. the saving would still have been 1,800,000 l. and the original sacrifice only 600,000 l. per annum, or the difference between 100 millions at 3 per cent. or 60 millions at 6 per cent. The original holders of the 3 per cents. were indemnified by getting 6-10ths per cent. more interest for eight years, with compound interest thereon, as well as a very high interest on the new loan with the bonus, and their original 3 per cents. when reduced to 4 per cents. again fill gave 2 18 per cent. and if reduced to 3½ per cent. only 2 18 per cent. If this advantage did not prove sufficient, more might have been given, provided the principles of equivalent value were attended to; and if a long annuity was granted instead of a perpetuity, the superior interest, with compound interest thereon for the term of its duration, would have procured the proprietors of the 3 per cents. their capital again before its expiration.