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OBSERVATIONS

ON

LORD GRENVILLE'S

ESSAY ON THE SINKING FUND.

BY

WALTER BOYD, ESQ. M.P.

LONDON :

JOHN HATCHARD AND SON, 187, PICCADILLY.

1828.

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OBSERVATIONS,

&c. &c.

FEW things have excited more astonishment than the Essay “On the supposed Advantages of a Sinking Fund,” by Lord Grenville.

That this statesman, who for so many years was the colleague of Mr. Pitt, and who, after the death of that minister, was more than a year at the head of the finances of England, should, in his old age, agitate in print, the question, whether the sinking fund has ever produced any advantages, is one of those singular and inexplicable circumstances, which, to be believed, must actually be seen. The noble Lord, however, has not only questioned the utility of this fund, which for so many years this country has considered as one of the principal pillars of her financial system—but he has represented it as altogether a delusion.

There is more than one species of delusion—one, which arises from the workings of our own imagination, and another which arises from fraud or imposture on the part of others. The man who

“ Sees Helen’s beauty in a brow of Egypt,”

is in love, and sees the object of his affection not as she really is, but such as his imagination paints her. When the hero of La Mancha attacks the windmills, he thinks them giants : and thus it often happens that when a man forms the idea of abuses, he misrepresents, or at least greatly exaggerates them.

Certain it is that the sinking fund, projected by the greatest and most disinterested minister that this country ever had, established by acts of parliament, and managed by a committee of gentlemen entitled to the highest respect and confidence ; whose whole transactions have been recorded in the books of the Bank of England, cannot be that establishment which Lord Grenville has represented as “ disguising from the “ country, and, in some degree, from the govern- “ ment, and from parliament itself, the real state “ of some of our most important interests,” and expressing his “ *regret that the British Parliament “ should at any time have LENT itself, under what- “ ever misapprehension, to a measure capable of pro- “ ducing these groundless impressions.*” Nobody knows better than Lord Grenville the import of *words*, and therefore he must feel that on this occasion he has actually libelled the legislature by insinuating that parliament had *lent itself* to any measure implying deception or concealment of the most important interests of the country.

To the sinking fund, as approved by parliament, and operating, as it really did, with universal approbation, it is impossible to apply the terms in which the noble Lord speaks of it. He must have formed the idea of an establishment operating like the penny in Dr. Price's famous arithmetical prodigy during 1800 years ; for his Lordship talks " of the magical vision which dazzles our senses " and confounds our imagination."

The sinking fund of which his Lordship formed the idea must have been something preternatural, and no wonder then that he has been roused from his *delusion*, for there never was in the formation of that fund, as it really existed, or in its operations, any thing that deserved that name.

That Lord Grenville had formed an erroneous idea of the sinking fund, appears from many parts of his pamphlet ; as, where he speaks of the purchase of annuities as being *all that the fund had effected* : and again, when he seems to express dissatisfaction that its operations had been supported by super-added taxation. If his Lordship had not reckoned upon something supernatural, how could he have expected such purchases without the aid of super-added taxation, as well as that of compound interest ?

The noble author has made various divisions and subdivisions of his Essay. The present writer will not follow him through all his details ; it will be sufficient for him to touch upon the most

prominent of the subjects, which form the substance of it. The noble Lord has laid down certain leading principles, which he considers absolutely necessary to the existence of a sinking fund; of which the chief one is a *surplus revenue*, and this he repeats again and again, through the whole of his pamphlet, as if it were impossible that a sinking fund could ever be useful where there did not exist a positive surplus revenue.

It cannot be denied that in order to establish a sinking fund, perfect in all its parts, it would be necessary that there should be a surplus revenue; but the writer of these pages has always thought that a sinking fund may effect a great deal of good, although it be not quite so perfect.

The inefficacy of sinking funds operating during war, and the inutility of borrowed sinking funds, are also two of the noble Lord's leading principles. It must be acknowledged that war impedes the progress of the sinking fund in buying up the public debts; because this country, in time of war, is under the necessity of greatly augmenting them, by the sums borrowed for defraying its expences. It has always appeared, however, to the writer of these observations, that a sinking fund is much more necessary in time of war than in time of peace. On the subject of borrowed sinking funds it is impossible to make any specific remarks, as no proof appears of any borrowed sinking fund having existed.

In order to preserve the credit of loans required for carrying on war, it is essentially necessary that the means of borrowing should not be liable to the possibility of being interrupted, as they might be, if the prices of the public funds were to fall very low ; or if they were to be reduced by the operations of interested individuals, or by the machinations of foreign enemies to a state of positive stagnation. It is in order to counteract these possible dangers that a sinking fund appears so essentially necessary in time of war.

The great object of the illustrious statesman who projected, and supported with all his powers, the sinking fund established in 1786, was simply to discharge the debts of the country. Far from indulging the extravagant hopes of *enriching* the country, as Lord Grenville has supposed, he confined his ambition within the more moderate purpose of enabling it to be just towards its creditors. The sinking fund then established completely answered that purpose ; but, before it had existed more than seven years, there occurred, not an ordinary war, but such a system of hostility directed against this country as the world never saw before, and, in all probability, never will see again.

England had to encounter, single-handed, not only the open attacks of the enemy, but much dangerous disaffection at home.

In the year 1792 an Act was passed for creating a sinking fund of one per cent. per annum on the nominal capital of every new loan.

At the commencement of the war in 1793, Mr. Pitt found it necessary to borrow a sum of four millions and a half. He attempted to obtain this sum without any augmentation of capital—but, on these terms, no lender could be found; and, therefore, the loan was made in a three per cent. stock at 72, creating a nominal capital of £.6,250,000. bearing interest at three per cent. . . £.187,500 and one per cent. on the nominal capital 62,500

and thus establishing an annual charge
of £.250,000

or a little more than five and a half per cent. for both capital and interest. It is hardly possible to imagine a more excellent arrangement than this. Surely there is no incompatibility in such a loan with any one circumstance of our financial situation at the time it took place.

His Lordship says, that “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.” This assertion is in direct opposition to all the proceedings of parliament. Yet he says also in another part of his Essay, that “in the very first moment of

“ returning war, the failure of the original surplus
 “ of the sinking fund was defrayed by borrowing.”
 Now, if the noble Lord will take the trouble to
 look into the proceedings of Parliament on the
 loan proposed by Mr. Pitt in March 1793, (which
 was the first loan, “ in the very first moment of
 returning war,”) he will find that no part of that
 loan was applied, or was intended to be applied,
 to the sinking fund.

His Lordship does not surely mean that the one
 per cent. per annum on the nominal capital of the
 loan, which, by law, was to be set apart as a
 sinking fund for paying it off, was to be defrayed
 out of the loan then raised. It does not seem
 possible that he should have adopted so unfounded
 a notion; but he may have fallen into another
 mistake, derived from some of the authors, whose
 works may have led him to the discovery of the
 pretended delusion of the sinking fund; and in
 which it has been stated that the one per cent.
 sinking fund, if deducted from the loan, would
 have reduced the amount of the sum to be bor-
 rowed. It never appeared to the author of the
 present Observations that this would have been a
 wise or useful operation; and he is not aware
 that it ever has been practised.

Of all the parts of the noble Lord's Essay,
 those, in which he has given a minute description
 of the operations of the sinking fund, are the most

extraordinary. After stating the purchases made by the commissioners, he says: "If then the purchase of these annuities is all that has been effected, in what consists its benefit?" To this it may be answered, that a fund created for the purpose of buying up the public debts could do no more than buy them up as fast as its means permitted.—Did the noble Author expect more from it?

His Lordship, however, makes objection that these purchases proceeded from super-added taxation. When the public debt was annually increasing during twenty years, is the noble Lord serious in expressing his dissatisfaction that the sinking fund required additional taxation? Yet all this super-added taxation proceeded from the one per cent. on the nominal capitals of the loans, specially provided by parliament for paying them off.

The noble Lord digresses into a minute argument, to show that our debts do not consist in capitals but in annuities; and the pains taken to undeceive the public on this head (on which no man who understood the financial system of England could ever entertain a doubt) lead the reader to conclude that his Lordship has only very late in life acquired this knowledge. This must have been one of the things which his Lordship has learned whilst growing old; and yet the practice

of parliament on the subject of loans has always been, not to speak of *borrowing*, but of raising money by *sale of annuities*.

The noble Lord has stated on this subject that the country has sustained great injury by the improper notions generally entertained with regard to loans, debts, capital, and interest; "for," says his Lordship, "had it been remembered that our debt consists only in annuities, no such error could have been committed." His Lordship probably belongs to that school of financial philosophy, which teaches that the state ought never to give more in capital to lenders than the sum actually received. Of course there must be among the members of that school great heart-burnings in observing how much the nominal capital of our debt exceeds the proportion of the interest paid for it. His Lordship probably has forgotten, that on making a loan, the taste of the *lenders* must be consulted.

It is well known, from very long experience, that among contractors, and other dealers in stocks, there is a great predilection in favour of a smaller interest with an augmentation of capital, over a higher interest without any such augmentation; and however much a statesman may, in deference to *popular notions*, wish to avoid granting an augmentation of capital, he generally finds it his interest to agree to it.

It has often been the lot of the writer of these

Observations, to discuss, at different periods of his life, the questions respecting augmentations of capital. On one occasion, upwards of thirty years ago, he stated, *in print*, his opinion: “ that “ it is not the *nominal capital* of a loan, to which “ a minister ought to look, but to the permanent “ interest which the country must pay for it, “ as the prices of the funds being equalized, it “ will not cost more to buy up £.133 6s. 8d. “ capital of three per cents. than to buy £.100 “ capital of four per cent.”

By way of illustrating the possibility of going very far wrong in preferring a smaller nominal capital to a larger one, he put the case that twenty-one millions might be necessary to be raised on loan, and that “ upon the principle of creating “ the least possible capital of debt, this sum “ should be raised in four per cents. at eighty- “ four, rather than in three per cents. at seventy; “ the consequence would be, that the loan in “ four per cents. would cost the country annually “ £.100,000 more than if it had been raised in “ the three per cents.; and those who know the “ astonishing effect of compound interest, need “ not be told that an annuity of £.100,000 for “ twenty-five years, improved at the rate of four “ per cent. per annum, would amount, at the end “ of that period, to £.4,164,590 16s.; all which, “ *besides the perpetual charge of £.100,000 per “ annum, thereafter*, would be lost to the country,

“ for the sake of having preferred a *smaller* to a
 “ *larger* nominal capital.” *

In that portion of his Essay, entitled “ Conclusion,” the noble Author has stated different arguments which may be adduced in favour of the sinking fund: one of which is, its utility in “ raising and upholding the price of stocks,” on which he says, he should “ absolutely deny that “ it can be either expedient or just to give to one “ species of property an artificial value, by bur- “ thens imposed for that purpose on all other “ property.—But,” says his Lordship, “ may “ it not be also 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 to divert capital into other investments, “ until the natural level be restored.” The noble author ought to have remembered that the contractors for the public loans have, for the last thirty years, entered into their engagements with the knowledge of the existence of the sinking fund, and on the faith of its being maintained, which undoubtedly led them to give higher prices

* An opponent of Mr. Pitt’s administration having stated that the employment of the sinking fund in four per cents. at 84 was more advantageous than in three per cents. at 70, the case mentioned of a loan in each of these funds at the prices stated, was adduced as a contrast to it.

for the loans than they would have given if no sinking fund had existed. This indifference as to the prices of the stocks may lead to suspicions affecting the good faith of the country, particularly as coming from a Nobleman, who at no very remote period was First Lord of the Treasury. The Author trusts the illustrious Duke, who now fills that high office, will not, during a period of peace, when money is abundant and stocks high, suffer the advice of Lord Grenville to influence his Grace so far as to consent to the abandonment of the sinking fund, an institution which in a possible, though not probable, reverse of circumstances, would afford precious resources to this country.

“ If we have learnt, (says the noble author,)
 “ from the improved knowledge of the present age;
 “ that this structure (meaning the sinking fund)
 “ which Mr. Pitt believed to be a main tower
 “ of our strength, rests on a basis unequal to its
 “ own support, shall we not act as he himself
 “ would 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-con-
 “ tradictory, and therefore manifestly delusive?”

To this it is replied, that Mr. Pitt never could

have arrived at such a conviction; for he would have known the whole circumstances of the case as they really existed, and not as Lord Grenville has represented them to be.

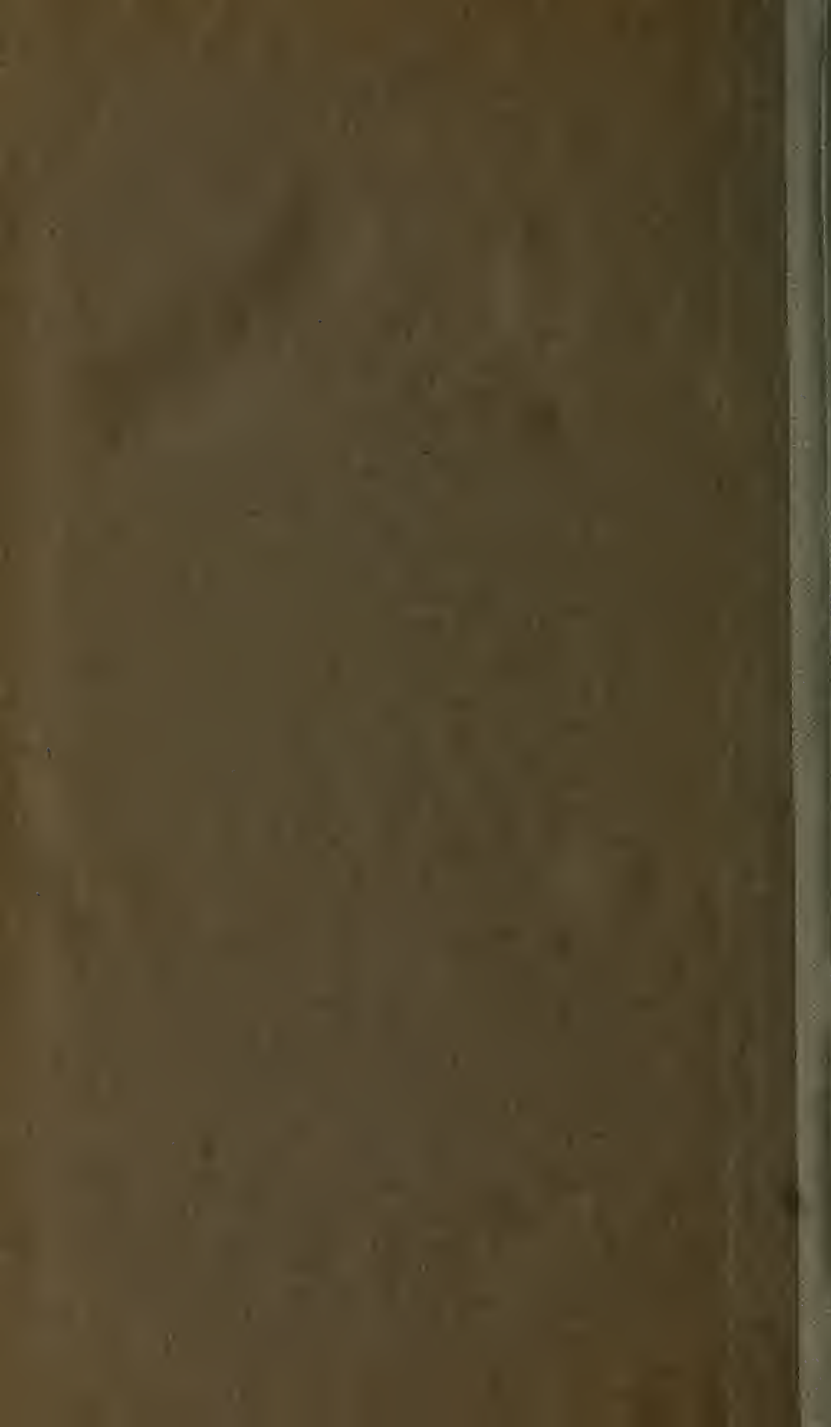
The noble author states, that the “ principle of “ unlimited accumulation was expressly excluded “ from the law of the sinking fund by a provision “ which limited to four millions the sinking fund “ then established; a wise precaution, showing “ an early and just apprehension of the evils since “ felt from an opposite policy.” This is the first time we have ever heard that the Commissioners have purchased too much stock.

His Lordship has frequently alluded to the improved knowledge of the present day, as if all the world were agreed on that improvement. Does Lord Grenville think that his Essay has added any thing to the stock of financial knowledge? He has misrepresented the sinking fund in all its parts—or rather he never has had a correct idea of it—and thus, upon his own delusion, he builds his system which recommends the abandonment of that fund. It has done all that ever was expected from it by persons seeing it as it existed, and it is now reduced to a comparatively small annual income of two or three millions, in consequence of its funds having been employed in 1813 in lieu of taxes to the amount of upwards of £.9,700,000.

The ample and very able Letter to Lord Grenville by Mr. Courtenay, has made the observations of the present writer much shorter than they would otherwise have been ; but having written in 1812, while a prisoner of war in France, and printed on his return to England in 1815, a pamphlet, which has a remarkable bearing on the present question, as relating to sinking funds operating in time of war, he has been induced to reprint it, and to annex it to his present Observations on Lord Grenville's Essay. It will be found useful in another respect, as tending to establish a correct measure, by which the progress of a sinking fund may be estimated.

Another very able, though anonymous letter, to the Duke of Wellington, on the same subject, has just been communicated to the author of the present Observations.





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