

**THE NATIONAL DEBT: ITS
ORIGIN AND POLITICAL
SIGNIFICANCE. THE STANHOPE
PRIZE ESSAY FOR 1870**

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The National Debt: Its Origin and Political Significance. The Stanhope prize essay for 1870 by T. S. Omond

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T. S. OMOND

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THE NATIONAL DEBT: ITS ORIGIN
AND POLITICAL SIGNIFICANCE.

THE
STANHOPE PRIZE ESSAY
FOR 1870.

BY
T. S. OMOND,
EXHIBITIONER OF BALLIOL.

"Veniam pro laude peto."



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T. AND G. SHRIMPTON.
1870.

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The National Debt : its Origin and Political Significance.

THE expenditure of a nation is necessarily greater in time of war than during peace. This temporary burden is naturally met by a temporary increase of taxation. But as this special pressure falls on the nation at the very time when its resources are least able to bear such a sudden strain, statesmen have conceived the idea of distributing the pressure over several years, by borrowing sums which are to be repaid gradually, when the return of peace has lessened the national expenditure, and at the same time increased its revenue. Thus, instead of providing beforehand for a rainy day, they adroitly contrive to enjoy the full fruits of provision during the season of storm, anticipating a period of sunshine when they shall justify their enjoyment. It is not two centuries since this policy was first adopted in England to any serious extent ; yet already, thanks to the great facilities which this plan presents for meeting emergencies, and the large amount of capital lying ready for investment, the National Debt has swelled to a sum which cannot be discharged for years, perhaps for generations, and the interest on which, so long ago as 1827, formed no less than half of our yearly expenditure*. But, strange to say, and in spite of the adverse predictions of some of our most eminent political economists, the country has wholly refused to be swamped by this enormous burden ; wealth and prosperity have increased in proportion to the increase of our debt ; so that, finally, very general credence has been obtained for the paradoxical-seeming proposition that the National Debt, so far from being an encumbrance and a sign of approaching dissolution, is actually one of the chief sources of our national greatness.

The possibility of creating these enormous loans speaks volumes for the confidence reposed in Government. Before the Revolution of 1688, no such confidence existed, no such pecuniary transactions were possible. Insurrections were

* "Edinburgh Review," vol. xlv. p. 397, (October, 1827).

easily stirred up, for they cost the country at large but little; and no one would lend money to the Red Rose, when next week the Whites might be on the throne. Nor was there the same necessity of borrowing. In those primitive times, the revenue derived from the Crown lands, together with the special payments due on certain occasions from feudal vassals, sufficed for the ordinary expenditure of royalty. The king was but one of the great lords; like them, he had his income, and, like them, his chief expense was the maintenance of his household. When the breaking out of war entailed on him unusual expenditure, it was provided for by a special and temporary addition to the Exchequer. The form which these supplies took was either a voluntary loan on the part of individuals, or a grant by Parliament of certain taxes, which were to be levied for that year only.

This inability of the Crown to levy taxes, without express Parliamentary authority, is one of the most remarkable features of all early European governments. The voluntary character of the "benevolences" contributed by private munificence is sufficiently established by the name, though Macaulay observes that our Plantagenet monarchs sometimes "begged in a tone not easily to be distinguished from that of command, and borrowed with small thought of repaying^b." The sole power of taxing was always vested in a legislative assembly, known variously as Parliament, Cortes, Estates, &c. It is easy to prove that this was the case in England, however often ambitious monarchs may have assumed the right. The famous statute of Edward I.^c laid down the principle clearly, and it is frequently appealed to in subsequent Acts, as in one of Charles I.^d, which begins: "Forasmuch as it is and hath been the ancient right of the subjects of this realm that no subsidy, custom, impost, or other charge whatsoever ought or may be laid or imposed upon any merchandise, exported or imported by subjects, denizens, or aliens, without common consent in Parliament." In the words of Blackstone, "it is the ancient, indisputable privilege and right of the House of Commons, that all grants of subsidies or Parliamentary aids do begin in their house, and are first bestowed by them^e." And many other passages might be adduced^f.

It is not, of course, meant that this privilege of Parlia-

^b Macaulay's History, vol. I. p. 15.

^c 34 Edw. I., cap. 4, headed "Statutum de Tallagio non Concedendo."

^d 16 Car. I., cap. 8.

^e Comm., bk. iv. cap. 1.

^f It is in fact conceded by all writers, though Hume attributes its origin to the weakness of the Lancastrian sovereigns, (Hist., chap. xix. end).

ment was invariably respected. In truth, its infringement brought on the great battle between Crown and Commons, which culminated in the overthrow of the Stuarts. Still such was the law of the land; and there are numerous instances on record, where a too open want of regard for it excited resistance and rebellion⁸. And during the French wars, our kings found Parliament so ready with their supplies, that they never thought of looking elsewhere; hence what was already possessed of legal right assumed the yet more inviolable sanctity of custom.

As yet, however, these taxes were only temporary. The necessity for levying them permanently arose from the same cause which predisposed the people to their permanent contribution. As the feudal system declined, the military service which it demanded became distasteful to the smaller vassals—hence the necessity for a standing army—and a habit became general of commuting that service for money—hence the means of maintaining a standing army. In France, it was not long before this payment, which was known as the *Taille*, became annual instead of occasional, and was extended from landholders to tenants of houses. As the superior vassals continued to serve, while ecclesiastics had always been exempt, the tax fell exclusively on the commons⁹. It was the province of the "Estates," upon emergencies, to extend it for a time to the other two orders.

In England, fortunately, the necessity of a standing army was not felt until the example of our continental neighbours had opened our eyes to its danger. To neutralise the accession of power which the Crown received from the possession of an army, Parliament insisted that the taxes necessitated by that possession should be paid to them. This, though so far a change, was unquestionably the proper and constitutional developement of the old principle that taxes, sanctioned by Parliament, be paid to the Crown; and its final triumph secured the victory of mixed over absolute monarchy in England. Our sovereigns were well aware of the importance of this movement, and resisted it strenuously¹. From the time of Elizabeth, when the defeat of the Spanish Armada left England free to turn its attention to home reforms, through well-nigh three generations the contest was carried on, "bequeathed from sire to son." The lead-

⁸ E.g. Mead's Letters, vol. iii. p. 392: "On Monday the judges sat in Westminster Hall to persuade the people to pay subsidies; but there arose a great tumultuous shout amongst them, 'A parliament, a parliament, else no subsidies!'" This was in Charles the First's time, but the same feeling appears during the reigns of the most absolute monarchs.

⁹ "France under Richelieu and Colbert," by J. H. Bridges, p. 78. The *Taille* became annual and permanent about the year A.D. 1445.

¹ De Lolme "On the Constitution of England," book i. chap. vi.

ing positions in that great campaign, from 1601 to 1688, are known to all. The limitation of Monopolies; the firm position which the weakness of James I. encouraged the Commons to take up; the famous Petition of Right; the yet more famous struggle against Ship-money; the interval from 1640 to 1660, when England was virtually ruled, first by an oligarchy, then by an absolute monarch; the return to the old Government, and renewal of the struggle between Crown and Commons; the French alliance, by which the last two Stuart kings avoided meeting Parliament; led up, at length, to the expulsion of the Stuarts, and the presentation of the Crown by Parliament to the Prince of Orange. Parliament had gained the victory, and remained unchallenged masters of the field. The right of taxation, the right of originating financial measures, was, from henceforth, theirs alone. Succeeding sovereigns, owing the sceptre virtually to their election, were little disposed to renew the struggle; and from that time there has never been any danger of the functions legally vested in the two Houses being over-ridden by exercise of the royal prerogative.

Parliament had gained the victory. But the resources of the country had been severely tried; and the war against the deposed monarch demanded fresh exertions. The customs' and excise duties were bringing in but half of what they had done before the Revolution: the land-tax had to be raised to four shillings in the pound¹. All was inadequate to meet the extraordinary sums which Parliament voted for the maintenance of the army with which William was supporting the Confederacy. Nearly £4,000,000 had been assigned between army and navy; the largest war-vote then on record. Montague and Godolphin exhausted every expedient in the endeavour to defray these sums from the yearly revenue, but the country was still too unsettled to stand a heavier taxation. At length they resolved to have recourse to an expedient which had been long in use on the Continent, and was not wholly unfamiliar to English statesmen. So early as A.D. 1334, the Government of Florence had set the example of borrowing money in time of distress, and repaying it when their troubles had ceased. "This Government," says Blackstone, "then owed about £60,000 sterling; and, being unable to pay it, formed the principal into an aggregate sum, called, metaphorically, a *mount*, or *bank*, the shares whereof were transferable, like our stock²." The Banks of St. George at Genoa, of Venice,

¹ "An Essay upon Ways and Means," (Francis Davenant?) pp. 35, 36, giving comparative tables.

² Commentaries, bk. 1. chap. 8.

and of Amsterdam, were instances of the same practice¹. The Popes had subsequently adopted a similar financial method in their sale of offices, receiving a net sum, and paying an annual salary². In France it had lately been introduced, against the earnest advice of Colbert³; and several European nations had adopted it. So long ago as the time of Henry IV. the English Government had been compelled to anticipate its resources⁴; and James II. had left behind him a debt of between six and seven hundred thousand pounds⁵. But this was a mere casual encumbrance, not reduced to any regular form. The financiers of 1693 determined to follow out the precedent systematically.

The expediency of this step has been often questioned by writers who regarded the National Debt as an unmixed evil and danger. The original scheme was ascribed to men of revolutionary character. Old-fashioned Tories used to credit Bishop Burnet with its invention; Swift and Bolingbroke inveighed against it as a bribe to the moneyed interest; while the Jacobites did not fail to assert that William III. had purposely created our pecuniary difficulties. But this is the injustice of men who judge by results. There was no choice left at the time. The Jacobites, watching eagerly for every means of arousing national discontent, would have made good use of the opportunity which any increase of an already burdensome taxation could not have failed to afford⁶. The country had to be humoured and kept quiet; while at the same time the expenditure had increased fourfold in the course of a few years. Not only was there ample precedent in English history, and encouragement in Continental, for the measure, but the facilities for carrying it out arose simultaneously with the necessity. Individuals were wealthy, though the country was in need. While the landed interest was sorely burdened, and the people taxed as high as they would bear, money was actually lying idle for want of a safe investment, or being squandered on chimerical projects. Under such circumstances, to have neglected the opportunity would not only have been foolish, it would have been suicidal. So far from the creation of our National Debt being hazardous and reprehensible, it was the imperative duty of William's ministers to create it.

¹ Hallam's *Middle Ages*, chap. ix. part ii.; Macaulay's *History*, chap. xx. p. 55.

² Ranke's *History of the Popes*, i. 4, 2.

³ Bridges, p. 86.

⁴ Hume, vol. iii. chap. xxi., end.

⁵ Hamilton "On the National Debt," 3rd edition, p. 92. This debt, known as the "Banker's Debt," was incorporated with the others in 1716. *Ibid.*, p. 66.

⁶ The most absolute monarchs are cautious how they irritate their subjects by increase of taxation. Even the Sultans seldom levy taxes. Hume, "Essay on Taxes;" Brougham, "Political Philosophy," part i. chap. iii.