

CHAPTER II.

THE PROGRESS OF THE REVENUE AND DEBT FROM THE
REVOLUTION OF 1688 TO THE END OF THE REIGN
OF GEORGE II.

WITH the accession of the Stadtholder of Holland and his wife to the throne of England begins the modern period of our financial history. Holding the crown by a dubious title, William III. had at once to guard his possession and to try to keep the expense of guarding it from being felt by his subjects, large masses of whom were disaffected. One of the first things he did was to abolish the tax of hearth-money, thereby surrendering £240,000 per annum at a time when the income of the State had sunk considerably below the requirements of the Government. William had to defend his new kingdom and to enlist its forces in his wars with France, and the great expense he was thus put to compelled him, since he could not impose taxes, to borrow. Other English monarchs from the earliest date had done the like, but in the long-run the State had been none the worse, for the credit of the nation had never been pledged as it came to be under the system of funding introduced by William's ministers. For the first time in

our history, in 1694, the item "Interest and Management of the Public Debt" appears in the national accounts; but the debt had been growing rapidly before then, and no wonder. Annuities of £14 per annum for ninety-nine years were sold for as little as fifteen years' purchase. Lotteries were established, and sometimes a lottery premium was combined with a short annuity granted on the most wasteful terms. Some annuities, amounting in all to £22,800, sold at a low price on one, two, or three lives in 1694, were costing the nation £8027 per annum as late as 1782. Mainly to procure money for the Government, the Bank of England and the new East India Company were founded. They together paid £3,200,000 for their charters, but received 8 per cent interest on the money. The "tontine"¹ plan of raising money with reversion of benefits to the survivors of certain nominated lives was tried, though with but small success. In 1694, however, £1,000,000 was raised on annuities for sixteen years at £14 per cent by way of lottery. A great scarcity of coin in 1696, caused in part by the waste of wars and also by the recoinage of the called-in worn and clipped money then in progress, led to the first issue of exchequer bills. They were soon created for as small amounts as £5, but they were not at first successful. Subsequently modified and made receivable as taxes, these bills passed into considerable currency. The amount of them entered as outstanding in 1697 was £1,881,475. The bills bore interest only while in the hands of the public, and when paid into the Treasury had to be endorsed with the name of the payer and the date. This plan gave rise to frauds on

¹ From the name of its inventor, Tonti, an Italian.

the part of the Treasury officials, who, by means of false endorsements, pocketed large sums of public money. A Mr. Duncombe was said to have made £400,000 by this process, and was condemned in the Commons to a fine of nearly half that amount, but was saved by the casting vote of the Duke of Leeds in the Lords. The duke and others were supposed to have been bribed.

Through one channel or another, by various devices, the debt of the State was steadily and rapidly increased during William's reign. At his accession the net ordinary revenue of England was reputed to be about £1,600,000, and did not exceed £2,000,000, the population of England and Wales being computed at less than 5,774,000. In 1700, within twelve years that is, the revenue had been increased to £4,343,787, the population having grown by some 330,000. This was by much the largest income that the country had ever raised—except, perhaps, during the time of Cromwell's protectorate. Yet this great augmentation in the public resources did not suffice to meet the wants of the State, and the annual burden of the debt interest soon grew to exceed the entire net revenue in the days of James II. The first funded debt—the word “fund” then implying the special taxes or “funds” set apart for meeting the charge on the money borrowed, not as now the principal of that money itself—was the £1,200,000 borrowed from the Bank of England. Then followed the East India Company's loan of £2,000,000. In 1706 the debt of Charles II. to the bankers and goldsmiths of London was compounded for, and £664,263 of it added to the funded debt at 6 per cent. This forms part of our debt to this day. By an Act passed in 1697, “tallies

of loan"—the notched halved sticks by which, in those days and for long after, the Treasury raised money or emitted credits in anticipation of revenue—which were at a heavy discount, owing to the discredit of the Government, were "consolidated," and assigned certain taxes or funds to pay them off. The amount was £5,160,459 nominal. This, however, was hardly in its then shape an addition to the funded debt proper. It is treated in the Parliamentary returns as part of the floating debt, which amounted in that year to £13,322,925. Ireland felt as severely as England the effects of the struggle between William and the Jacobites, and on many occasions the Irish revenue had to be supplemented by large remittances from England. The average yearly income of Ireland during William's reign was £258,000 a year; but in 1692 the military expenditure alone of the island reached £833,000, and the average military expenditure exceeded the average income for the whole period of the reign by £9000 a year, leaving that much less than nothing for civil purposes. Yet in William's day began the fashion of quartering flocks of king's pensionaries on the Irish revenues. At his death the pensions paid in Ireland to his Huguenot followers who had settled there amounted to nearly £26,000 per annum.

The reign of Queen Anne was to the full as eventful as that of William III. Marlborough's wars dissipated the energies and resources of the country, and the public credit sank to a very low ebb. Floating obligations, tallies, etc., to the amount of many millions, were selling in the market at a discount of 40 per cent. To the amount of £9,178,000, including the navy debt

of £5,663,000, they were bought up by what would nowadays be called a syndicate, and this syndicate got these miscellaneous debts converted into perpetual stock bearing 6 per cent interest. In addition, it got a charter as the South Sea Company, a name of evil omen and sinister memory. This charter conferred monopoly trading privileges in the western seas akin to those conferred on the new East India Company in the East. From henceforth, for more than a century, the South Sea Company figures along with the Bank of England and the East India Company as creditors of the British Government.

Naturally the great additions made constantly to the national debt soon involved an increase of taxation. William began by taking burdens off, but ere long his financiers had to exercise as much ingenuity in finding sources of revenue as in devising attractive baits for lenders. Heavy additions were made to the custom duties, and excise duties on salt, on distilleries, and on malt, were first introduced in this reign, as well as sundry stamp duties on deeds, leases, etc., and on probates of wills. Sinclair* states that customs and excise together yielded net, and in almost equal halves, no less than £26,946,000 in the thirteen years from the Revolution to the accession of Anne. William had likewise to impose a land-tax, for which a new, but very imperfect, assessment was made. The adumbration of a land-tax that still forms part of our imperial revenue is to this day levied upon that valuation. The tax yielded over £19,000,000 in the period of which we speak, or a larger sum per annum than the country gets from it now, because it has been partially

redeemed. To reconcile the landlords, an Act was, for the first time, passed in 1689, granting bounties on corn exported. William III. also levied poll taxes; but they were not very productive nor very strictly collected.

For the year ended 29th September 1702, the year in which Anne succeeded to the throne, the net revenue of the Crown from all sources was £4,869,000, or more than double the highest estimate of the revenue of James II. Large as this was, it was exceeded by the expenditure. The mad war of the Spanish succession was just beginning, and William at the time of his death had been busy equipping his army. For a year or two the expenses of this war did not tell much on the national exchequer, and the revenue came in more freely, so that the deficits were slight; but as Marlborough drew more and more to the front in the struggle, the deficits increased, and Sinclair estimates that the amount borrowed during Anne's reign nearly equalled the amount received from taxes. In all, he says—and his figures are probably very near the truth—the Government received £122,373,000 during the twelve years she sat on the throne, and of that large total £59,853,000 was from loans. According to the Parliamentary return of 1869, the first year of her reign saw the revenue increased by fully £600,000. At her death in 1714, such had been the evil effects of Marlborough's campaigning, it had actually decreased, although in the interval taxation had been raised. The highest amount received in any one year from taxation was £5,748,000 in 1712, but the expenses of the State reached £15,000,000 the previous year. No wonder that at her death the total net debt of the State amounted to £35,923,000,

an increase of nearly £24,000,000 in about half as many years. That debt cost the nation, in interest, annuities, and management, £3,034,000 per annum; of which nearly two and a half millions was for the funded debt. This had grown, by the creation of 6, 5, and 4 per cent annuities and South Sea stock, to about £28,000,000. These figures, as also those of the revenue, are, it should be stated, uniformly for Great Britain, although the union of England and Scotland was not accomplished till 1707. Scotland, however, contributed but little to the gross revenue of Great Britain previous to the Union. Its average income for the three years ended Michaelmas 1705 was but £109,000, and at the date of the Union its public debt was but £160,000.

Some interesting and curious items figure in the accounts of Queen Anne's reign, but we can mention only one. For seven years, down to the year of the queen's death, Marlborough's "house," or "palace," as it soon was called, of Blenheim, at Woodstock, appears in the national accounts for sums varying from £12,000 to £42,000, and reaching a total of £230,000, contributed to its building. What with his pickings and stealings on army contracts, his percentages on soldiers' pay, his large grants of money, and his perpetual pension, this great general was one of the costliest servants England ever had.

Ireland was rather less oppressed by military charges in Anne's reign than in that of her predecessor. The revenue improved somewhat, its average for the twelve years preceding 25th December 1714 being £309,000, whereas the average charge for military purposes was

brought down to £245,000. Something was thus left for the civil government, though not very much.

The thirteen years that George I. sat upon the throne were comparatively uneventful. There were no great wars to eat away the resources of the State; and the rising of the Jacobites, and the petty squabbles with Sweden and Spain, into which the king's Continental possessions led us, happily came to little. Nevertheless, such was the wasteful extravagance and corruption of public servants at that time that the entire revenue was not only eaten up, but the debt increased. In this reign the disgraceful scandals of the South Sea Bubble came to a head, involving nobles and high Government officials, including the then Chancellor of the Exchequer, in obloquy and ruin. He, a Secretary of State, and the directors, were all implicated in the fraudulent dealings,—amounting to seven and a half millions, it is said—committed with the Company's stock. The South Sea Company never did any business in the South Seas, but was from first to last merely a creditor of the Government, and a swindle. In 1714 the Government owed it £10,000,000, on which it received 6 per cent interest, and £8000 for management. Two years later the interest was lowered to 5 per cent, and three years later still, in 1719, the Company took over the residue of some lottery annuities, raising thereby the amount of its stock, and of the Government debt under this head, to £11,747,000. The annuity payable by the State on this debt, including £10,000 for management, came to £597,000. In the following year an Act was passed empowering the Company to consolidate the floating debts by allowing the State creditors to subscribe them

into South Sea stock, or, in the case of annuities, by their purchase at a price agreed on. The result of the transactions founded on this Act was the conversion of redeemable and irredeemable annuities to the capital value of £26,055,000 into South Sea stock. The total capital of the Company, for which the State thus became responsible, was raised to £37,802,000. As £33,963,000 of this bore interest at 5 per cent, the annuity of the Company amounted to £1,861,114, including "management;" but in a few years it was reduced to a uniform 4 per cent. For the privilege of carrying out this transaction the Company offered the Government a bonus of upwards of £7,000,000; but the money was never paid, for the "bubble" soon burst. In 1722 £4,000,000 of the South Sea stock was transferred to the Bank of England, and became part of its Government debt, which it is to this day.

We shall have to meet this curious product of the spirit of gambling and Government necessity again; but neither its affairs, nor that of the East India Company, with which the State had likewise many transactions, are of sufficient importance to demand detailed mention in a work like this. The East India Company's debt was not dealt with as soon as that of the South Sea Company; its loan of £3,200,000 to the Government standing at 5 per cent till 1731, and the Bank of England continued to draw 6 per cent interest on £1,600,000 of its total advances, amounting, including the transferred South Sea stock, to £10,100,000, for two years longer still, when the whole was brought down to 5 per cent.

The reign of George I. was notable for the first

attempt to introduce a sinking fund, or wonder-working plan for making the debt pay itself off by the automatic operation of compound interest, which unhappily had no appreciable effect in reducing the capital of the debt outstanding. Owing, however, to the reduction made in the interest of the various extravagant permanent annuities that had been created in the two previous reigns, the burden of the debt was a good deal lightened. In 1721 the total debt, funded and floating, amounted to £54,400,000, and the entire charges on it were £3,314,000 according to the return of 1869, including the small Irish debt which first appears in the accounts of 1717. The Parliamentary return of 1858, however, gives the debt charges as only £2,855,000; but the discrepancy may arise from sundry discounts and allowances for management being included in the later and more elaborate series of figures, or it may be due to the different dates covered by the accounts. Whichever total we take, the fact is established that the debt burden was reduced beyond the reduction of the capital due. At George I.'s death the total debt was £52,500,000. The valuable Parliamentary return of 1869 gives the charges as £2,783,000, and that of 1858 as £2,361,000, a proportionately greater reduction.

As I cannot quite clear up these discrepancies, I shall, save when exceptional circumstances cause me to do otherwise, always quote the figures of the 1858 return when dealing with debt statements alone. When comparisons of revenue and expenditure are made, it will be necessary to adhere to that of 1869. Substantially, I take it, both returns are right, only differently made up.

When George II. became king, in 1727, the debt of Great Britain was a little over £50,000,000, the population of England and Wales being computed at about 6,000,000, and, however reckoned, the annual charge upon it much exceeded the entire revenue of Great Britain previous to the Revolution. The country, however, was prosperous, and its industries slowly developing, so that the burden seems to have been borne without much difficulty.

Had the Government of George II. been prudent and economical, had we kept out of various Continental wars and busied ourselves with our own affairs, the debt might have been almost wiped out by 1760, the year of his death. As it was, this king's reign is notable for a greater increase of the debt than any of his immediate predecessors had ventured upon. Yet he began, in a manner, auspiciously. The country was at peace from his accession till the outbreak of the "Jenkins's ear" war with Spain in 1739; and during that time, in spite of corruption, bribery, the necessities of the king's foreign dominions, and the steadily swelling pension-list, the debt total was reduced until, when the war broke out, it was down to about £46,500,000, involving an annual charge of little more than £2,000,000. This reduction took place notwithstanding Walpole's diversion of the "sinking fund" to purposes other than the payment of debt, his reduction of the land-tax once to one shilling in the pound, and the waste of £1,453,400 in ten years on "secret service"—in other words, on corruption. Sinclair blames this minister, also, for neglecting to reduce the interest on the bulk of the debt from 4 to 3 per cent, at a time when the credit of

the State would have permitted this to have been done with economy.

From 1739, however, the debt and expenditure of the country advanced with great rapidity. Not content with fighting Spain, England, in 1742, took up the quarrel of Maria Theresa of Austria. Parliament voted her a subsidy of half a million in that year, and five millions for equipping an army to carry on the war. When peace was signed in 1748, the debt had risen to £77,500,000, and the gross charge upon it to £3,200,000, including the small Irish debt. The eight years of peace that followed did little to reduce this total, and when the Seven Years' War broke out in 1756, four years before the king's death, the debt immediately began again to grow. At his death, its total was £102,000,000, and the annual charge upon it, according to the Parliamentary return of 1858, which always includes the Irish debt, £3,576,000.

The cause of this enormous increase in the capital of the debt, beyond that of its annual charges, was the system, which grew up in this reign to be habitual, of raising all the capital needed at a low fixed rate of interest, no matter what the credit of the State might be. Whatever might be the extravagances of the earlier methods of obtaining money, they had at least this advantage, when permanent annuities were in question, that the nation was usually pledged to pay back no more capital than it had received. There were exceptions, but not many, and hence, when the credit of the State improved, as it always did in time of peace, it became possible to reduce the rate of interest. But when it became the habitual practice to borrow, nomi-

nally at 3, $3\frac{1}{2}$, or 4 per cent, no matter what the credit of the State might be, the inevitable result was a heavy and permanent increase in the liabilities of the State, over and above the actual cash it received. In other words, as the real rate at which the State could borrow might be 5 or 6 per cent, instead of 3 or 4, it followed that, when a 3 per cent stock was offered to the market, it sold at a discount which represented the then true credit of the country.

This plan had, however, one questionable advantage. It made borrowing easy. From its earliest beginnings the stock market has dearly loved a stock at a discount, for the facilities of making gambling profits it affords. Thus, by surrendering to the lenders the reversionary interest, so to say, in the nation's credit, these lenders were able, when that credit rose, to reap enormous profits by selling their stock. In this way the country suffered great and permanent loss, for we pay, to this day, for the extravagant policy of the financial advisers of George II. and his successor. But the usurers and stock-jobbers were made the more eager lenders.

To this point, however, we shall also have to return. Meantime, and before entering on the momentous reign of George III., I must briefly trace the progress of the ordinary revenue of the United Kingdom. At the accession of George I. the net revenue of Great Britain was little more than £5,500,000. Of this customs provided £1,685,000, and excise £2,303,000, as against but £1,129,000 contributed by every description of assessed tax, including the land-tax. The post-office then produced only £95,300, and stamps but £142,000. The highest income the country

had ever enjoyed was that for the year ended 19th September 1717, when it reached £6,500,000. Generally it hovered at about £6,000,000 during this king's reign, but in 1726, the year before the king's death, the income fell to little more than £5,500,000, of which customs and excise contributed £4,085,000, and land and assessed taxes, duties on personal estates, pensions, and offices, including £4273 from a "tax on Papists," only £1,140,000. These, it must always be remembered, are the net figures, the gross burden on the people being considerably more, perhaps as much as another million.

A great increase of revenue is also noticeable in the second year of George II. — all financial years then ending on 29th September. It rose to £6,740,000, but immediately fell off again; and through remission of taxes, especially of the land-tax, sank in 1734 to less than £5,500,000. But the country was at peace and prospering, and the excise crept up in yield, almost year by year, until the outbreak of war threw the nation back, by draining it of men and money. One cause, however, of the maintenance of the yield of both excise and customs was the repeal of the Act passed in 1729 for the total abolition, at Christmas the following year, of all duties upon salt. Walpole could not afford to let both these and the land-tax go, so, to please the landowners, he reduced the latter to one shilling and reimposed the duties on salt, "by which the poor grievously suffered." Certain exemptions, however, were granted, lightening somewhat this load.

Under the stimulus of war necessities, taxes had to be reimposed and increased; and by 1749, thanks to

augmented customs receipts, and a larger income from land and assessed taxes, the net revenue reached £7,500,000. It fell away again in the succeeding years of peace; but the outbreak of the Seven Years' War in 1757 at once brought renewed pressure, under stimulus of which the revenue for the year ended 10th October 1761 attained the unprecedented total of £9,594,000. On the army, navy, and ordnance services alone the expenditure that year was £16,000,000, and the total outgo, exclusive of the debt manipulations, but including interest on the debt, was upwards of £21,000,000. George II., it is stated by Sir John Sinclair, received from taxation and sources other than debt no less than £217,217,000 in the thirty-three years of his reign, or an average of nearly £6,600,000 per annum, by much the largest income ever enjoyed by any monarch of this realm. Yet his ministers and he not only spent it all, but left the net debt of the nation £50,000,000 more than they found it. Roughly speaking, the net income of Great Britain was equal to about 20s. per head of the computed population, and the debt reached about £14 per head at the close of this king's reign.

The Irish revenue rose during this period—*i.e.* during the reigns of the first two Georges—from an average of £309,000 per annum to an average of about £495,000. At the death of George II. in 1760 the Irish debt was £281,538. The total military expenditure of the United Kingdom for that year, including £277,000 spent out of Irish resources, was £13,700,000. In the year 1761 it was £16,600,000. On an average, Ireland alone still spent, or was made to spend, the bulk of her revenue on the army; and from first to last the pen-

sions paid to French refugees in Ireland had up to the 25th March 1761 cost Ireland, or the English revenue through Ireland, nearly £600,000. This was altogether exclusive of the large subsidies paid to the Irish linen manufactures in which these French immigrants were deeply interested. In point of fact, Ireland was, during the whole of this time and for long after, a heavy burden upon the English Exchequer.