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[003_081]

Hints, respecting the mode of feeding the *Old*
Sinking Fund in *War-time*: proposing, that it be by
Interest, as in the case of the *new* Sinking Fund: not
by *principal*; that being a mere fiction, which
neither is nor ever can be realized* ¹

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* [Editor's Note, August 2019. Bentham developed the arguments of this work in the spring of 1800 while drafting 'Circulating Annuities'. In a brouillon for that work at UC i. 606, headed 'Annuity Notes. Ch. [^]. Advantages Moral & Political' (9 May 1800), Bentham sketched his argument, and noted that it had been 'Worked out in a separate paper'. The work is included at this point, that is out of chronological sequence of composition, on the ground that its generic discussion of the variety of sources for supply of, and contemporary classifications of, the finance for servicing or redeeming the national debt will help to orientate the reader in navigating through the detail of Bentham's plan.]

¹ According to a note at the head of Bentham's draft at UC iii. 64, copies were 'sent to M^r Pitt and M^r Rose by Herbert, Wednesday 23 July 1800'. John Herbert Koe (1783–1860) joined Bentham's household as an amanuensis in 1800. On 20 July 1801 Bentham sent the copy at BL Add. MS 31,235, fos. 23–7 to Henry Addington (1757–1844), first Viscount Sidmouth from 1805, Speaker of the House of Commons 1789–1801, leader of the administration as First Lord of the Treasury 1801–4, Lord President of the Council 1805, 1806–7 and 1812, Lord Privy Seal 1806, Home Secretary 1812–22, Minister without portfolio 1822–4: see *Correspondence (CW)*, vi. 418 & n. For further details see the Editorial Introduction, p. 000 above.

By the Act establishing the *first* Sinking Fund^a (26 G. 3. c. 31),² it being a Year of *Peace*, an appropriation was made of a million a Year in money, to be applied annually to the buying in of Stock: the mass of Annuities ‘thereon attendant’³ to be applied to the purchase of more Stock, and so on, upon the principle of interest upon interest.⁴

^a *Old* and *new* would serve when there were but *two*: but already the Sinking Funds are *six*.

1. The original *perpetual* Sinking Fund, of a *Million* per Year, for the Debt *prior* to the present War.⁵
2. The *second* or *customary* Sinking Fund, of £200,000 a Year: also for the Debt prior to the present War.⁶
3. The *third* Sinking Fund, for the Debt of the then approaching, and now present, war.⁷
4. The *fourth* Sinking Fund composed of the Stock bought in with the produce of the Sale of the *Land Tax*.⁸

² i.e. the Sinking Fund Act of 1786: see p. 000 n. above. [To note to UC cvii. 172, ‘Political Prospects’]

³ The quoted phrase does not, in fact, appear in the Act.

⁴ Bentham had in mind § 10 of the Sinking Fund Act of 1786, which provided that the annuities redeemed were not to be cancelled, but transferred to the names of the Commissioners for the Reduction of the National Debt, so that the accumulating interest might be applied to the further reduction of the debt.

⁵ i.e. that established by the Sinking Fund Act of 1786, and generally referred to as the ‘Old Sinking Fund’.

⁶ In 1792 the Reduction of National Debt Act (32 Geo. III, c. 12) had set aside an additional £400,000 out of that year’s anticipated surplus for use by the Commissioners for the Reduction of the National Debt. In 1793 the provision was repeated, but the amount set aside reduced to £200,000 (33 Geo. III, c. 22). An identical provision was enacted every year between 1793 and 1802 by successive Reduction of National Debt Acts.

⁷ i.e. the fund established by the Reduction of National Debt Act of 1792 (32 Geo. III, c. 55), and widely referred to as the ‘New Sinking Fund’: see p. 000 & n. above. [To notes to UC cvii. 172, ‘Political Prospects’]

⁸ The Land Tax Perpetuation Act of 1798 (38 Geo. III, c. 60, §§ 1, 9) changed the land tax from an annual levy on the value of landed property into a permanent tax, and provided that property holders might redeem—that is secure permanent exoneration from—the levy, in return for ‘so much Capital Stock of Public Annuities .^.^ as will yield an Annuity or Dividend exceeding the Amount of the Land

5. The *fifth* Sinking Fund, composed of the produce of the *Income Tax*.⁹

6. The *sixth* Sinking Fund: for such it may be regarded by natural destination (tho' not appropriated nor well capable of being appropriated by General Law): viz: the Fund composed of the annual eventual *surpluses* of the Public Income.

By the Act establishing the *second* permanent Sinking Fund (32 G. 3. c. 55 § 2),¹⁰ War being then in contemplation, the form given, to the contribution destined for the redemption of the expected debt of the expected war, was adapted to a Year of War: the provision made accordingly is—that, upon the first Loan that shall thereafter be made, a perpetual annuity, to the amount of one per cent, upon the Stock created by that Loan, shall be created, payable in quarterly payments, the first payment to be made on the Quarter Day next after the passing of the Act authorizing that Loan, and be put into the hands of the Commissioners, to be employed in buying in the capital of such first Loan, and of all such further Loans as shall come to be made in the course of the War: and so in regard to all succeeding Loans. But this War-mode, designed for the establishing a fresh fund for the redemption of the debt about to be created in such *War Years*, (or as they may be termed *No-surplus Years*) as might thereafter ensue, was not extended and applied to the administering, during such future War Years or *No surplus Years*, the masses of supply allotted to the then already-existing Fund established in a *Year of surplus*. The consequence was—that, during all such *No surplus Years*, the *old* part of the Debt was left to be supplied in *one* way, the *new* part in another: the new part, in a mode suited to the time; the old part, in a mode *not* suited to the time: in a mode so far from being suited to the time, as to be in *effect* not *practicable*, though by the continuance of the same *forms*, the impracticability of it is screened from view.

Was the disparity in question the result of oversight or reflection? If of reflection, it must be that the benefit, derivable from the correction of the error, did

Tax to be redeemed .^.^ by One-tenth Part thereof, such Capital Stock to be transferred to the Commissioners appointed .^.^ for the Reduction of the National debt'.

⁹ Pitt's budget of December 1798 proposed a progressive income tax, which was implemented in January 1799 by the Duties on Income Act (39 Geo. III, c. 13). The Act prescribed (§ 120) that any surplus revenues raised were to be passed to the Commissioners for the Sinking Fund for the purchase of public annuities.

¹⁰ i.e. the National Debt Reduction Act of 1792: see p. 000 n. above. [To note to UC iii. 81]

not seem worth the trouble.

In a Year of War, (being a Year in which, there being an extra demand for money to a greater amount than the million in question, and no expectation of a surplus sufficient to answer that extra demand, the deficiency requires to be supplied in the way of Loan, that is by creating and selling fresh masses of Annuity) the operation and real effect, of the payment of the annual million secured to the old Sinking Fund, is as follows—

First, an extra million of *money* is on that account borrowed and thereupon received: and in return a million's worth of the fictitious capital called *Stock*, amounting, (according to the rate of Interest at which the money is borrowed—say for shortness 6 per cent) to 2 Millions of 3 per cents, with the mass of Annuity 'thereon attendant', viz: £60,000, is created and granted to the Lenders.

Secondly, with the million of money thus raised, another *million's worth* of Government Annuities, being, at that same rate of interest, the quantity attendant on two million of 3 per cent Stock, is bought in by the Commissioners, and kept in hand by them.

Result of the two operations taken together:

	£
Quantity added to the mass of National <i>Debt</i> due to individuals	2,000,000
Struck off from D ^o	2,000,000
<i>Neat</i> addition to D ^o	000
<i>Neat</i> defalcation from D ^o	<u>0</u>
	0

In like manner—

Quantity of saleable Stock created, and added to the total of marketable Stock	2,000,000
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D ^o taken from D ^o	2,000,000
<i>Neat</i> addition to the quantity, capable of furnishing supplies to the market, in the same proportion as the rest, and thence of contributing to <i>keep down</i> the <i>price</i> , and thence again to <i>increase</i> the rate of <i>interest</i> necessary to be given for money raised	0
<i>Neat</i> defalcation from D ^o	0
	0
Mass of perpetual redeemable Annuity created and put into the hands of the Commissioners of redemption per annum	60,000

In other words taken out of the *unappropriated* Sinking Fund (which at the same time is bound to furnish it) and transferred to the first of the *Appropriated* ones.

This then, being what *is* done at present, but in a *round-about, indirect, fictitious, and obscure* way, what is *proposed*, is—that in future the *same* thing should be done, but in a *direct, true and perspicuous* way; as is actually done in the other case—in the case of that portion of the Grant of a War-Year, which is made for the redemption of the Debt created in that same War-Year.

In a Year of *Peace* (it being supposed a Year actually affording a *surplus* to the amount in question) the mode suited to the *Season* might, and naturally would be, resumed: and then, to the effect produced (as above) by the appropriation of so much perpetual Annuity as above (rate of Interest, for simplicity of calculation merely, being supposed the same as in the above supposed War-Year) would be added the *further* results following viz:

1. <i>Neat</i> quantity struck off from the mass of National Debt due to individuals	2,000,000.
2. <i>Neat</i> defalcation from the quantity of marketable Stock capable of contributing to the load on the Market &c. as before	2,000,000.

In a Year of War, if a single million be but borrowed for the War, neither of the above effects can, in the *nature of things*, be produced: because, by the supposition, the very sum you *pay* with *one* hand, you either *have borrowed* already, or immediately after will have to borrow, on that account, with the *other*: which, to the

amount of that sum, comes to exactly the same thing, as if you had neither *paid* nor *borrowed*.

One *supposition* there is—and but one—on which, in a War-Year or other Year of deficiency, to an amount equal to or exceeding the million, it is possible in the nature of things to make a real defalcation to the same amount from the mass of National Debt: and that is, if the whole amount of the extra demand for that Year, after reservation made of the Million, be *raised within the Year*, viz: by taxes, with or without other resources, but without borrowing.

[003_082]

NOT TO TYPESETTER: Please centre the following two lines of text.

Heads of Argument, suggesting the *inconveniences* resulting from the *present* mode, and consequently the *advantages* derivable from the proposed *change*.

I. Pecuniary Losses, <i>capable</i> of being liquidated	£. s. d.
1. By <i>Subscribers' Profit</i> , every Year, upon so much money raised or so much Stock created	^^^
2. By expence of <i>Bank management</i> , commencing upon the creation of the Stock, ceasing as soon as an equal quantity has been bought in	^^^
3. By difference (if any) in point of <i>interest</i> , between the day on which the first dividend in the Stock thus <i>created</i> is <i>paid</i> , and the day on which the first dividend in the Stock <i>bought in</i> with the money is <i>received</i>	^^^
4. By allowance (if any) to the Bank for <i>receiving</i> Subscription money upon this part of the Loan	^^^
II. Pecuniary Loss, <i>scarce</i> capable of being liquidated.	
5. Extra <i>Load</i> on the Market; viz: at the time of the contracting for the Loan: thence extra <i>price</i> paid in <i>Annuities</i> , for the <i>money</i> produced by the rest of the Loan	^^^

The load (it may be said) is removed afterwards, and the removal is capable of being foreseen and argued upon at the making of the Contract.—True: but still the

state of things is not altogether as if there were no such load. The gross—the *erroneous conception*—presents itself to a certainty, and at all times: the presence of the *corrective observation*, is but occasional and precarious.

III. <i>Inappretiable</i> inconveniences: but of a kind commonly adduced in Argument.
6. <i>Finances</i> , exhibited as so much <i>worse</i> than they are, by the addition made to the Loan— <i>people</i> , less in heart &c.
7. The War represented as by so much more <i>expensive</i> than it <i>is</i> :—Administration, the less popular: <i>people</i> , the less contented.—What if the <i>New Sinking Fund</i> had been fed in the same way? the <i>apparent</i> load would have been <i>apparently</i> intollerable. (<i>Per contra</i> the <i>apparent</i> amplitude of the <i>Old Sinking-Fund</i> would be so much the <i>less</i> , upon the <i>proposed</i> plan:—unless explained; for which a line or two in a preamble would suffice.)
8. <i>Inconsistency</i> , as compared with the <i>New Sinking Fund</i> :— <i>Fiction</i> , <i>Complication</i> , and <i>obscurity</i> . N.B. Nothing can be more simple than the calculation requisite for the proposed substitution:—viz: the substitution of an Annuity to the principal sum; of the £60,000, £50,000, £40,000, <i>a Year</i> &c. (as the case may be) to the million <i>once paid</i> . The calculation for which provision is <i>already</i> made by the Act (32 G. 3. c. 55 § [^^]), ¹¹ I mean the calculation for the allowance to be made for a mass of temporary Annuities, in <i>Long</i> , <i>Short</i> , or <i>Life</i> Annuities, is extremely <i>complicated</i> . ^b

^b From the form thus given to the allowance made to the Original or Peace Sinking Fund, the allowance to the War sinking Fund receives in an indirect way an *increase*: because, as the money, raised in each War-Year, to produce the allotment to the original Sinking Fund for that Year, is so much added to the total of money raised for the current service of that year, the *one per cent* perpetual annuity upon that part comes to be added to the rest.

The amount of this indirect addition is not inconsiderable: *as* for example—

Assumptions.	
Allowance to the original Sinking Fund in each given War-	

¹¹ See the Reduction of National Debt Act of 1792 (32 Geo. III, c. 55, §§ 3–4).

Year (appropriated million, and customary £200,000 together) amount to	£1,200,000
Rate of Interest for that Year's Loan (say for the sake of round numbers) as before	6 per cent.
<i>Capital created</i> at that rate	£2,400,000
Result.	
An Annuity of one per cent on that capital amounts to	£24,000

Was this *indirect* addition *intended*?—If so, or if upon observation it should be thought fit to be continued, it would be easy to continue it in the *direct* mode.

The unprecedented clearness of the Financial Picture, is among the characteristic glories of the present Administration:—should any thing be left that can obscure it?

NOTE TO TYPESETTERS: Please insert a short rule centred, and then centre the following line of text.

Observations on the above Hints, by a Man of experience in Parliament.¹²

‘I return your Sinking Fund elucidations: they appear to be very correct and very clearly and briefly expressed.

‘Whether they would be adopted may depend on many circumstances.

‘1. The amount of the saving to result from the [change]¹³ should be *shewn*^c to be considerable: a change (*per se*) being objectionable.

^c Say rather, *should appear*: viz: to those to whom it belongs to judge: but in what degree it is so, *they* see, or may see, without my shewing, much better than

¹² i.e. Charles Abbot (1757–1829), Speaker of the House of Commons 1802–17, first Baron Colchester from 1817: see Abbot to Bentham, 16 July 1800, *Correspondence* vi. (CW), p. 329. The following eight paragraphs were reproduced from Abbot's letter. The accompanying notes are Bentham's.

¹³ MS ‘damage’ is almost certainly a slip.

I can shew. From *me*, the bare *hint*, if not superfluous, is quite sufficient.

‘2. The change being professedly for War Years, might there not be some objection to *proclaiming*^d the continuance of a War prospect, unless the gain was very considerable?

^d No ‘*proclaiming*’ in the case: none *would* be in the proposed Act: none *was* in the existing Act: the *contrary* would be proclaimed, if necessary, in the Speech introductory to the Act.—The existing Act was made at a time when the proclaiming the *commencement* of war was as much to be avoided, as *now* the *continuance*. The objection, if good, would be good against all regulations regarding war as *possible*.

‘3^{ly}. I do not think the indirect addition to the *War Sinking Fund* would be considered as very *objectionable*:^e that Fund, which goes on at Compound Interest for ever, being the favorite Fund—whereas what is called the *Old Sinking Fund* stops at a definite amount.¹⁴

^e I do not mention it as *such*, or likely to be *thought* such: but the less likely to be thought such, the less need of employing an indirect mode for bringing it to pass.

‘4. Your discrimination of the six Sinking Funds is also correct:¹⁵ but there is also a convenience in adhering to the popular distinction: because your 1st and 2^d apply to the *Old Debt* and therefore are called the *Old Sinking Fund*: your 3^d, being the Sinking Fund for the general War Debt, has acquired the name of the *New Sinking Fund*, and, being subjected to a peculiar system of regulations, may well continue so to be called.^f

^f Admitted, that in general discourse or writing, authoritative or unauthoritative, there would be neither use nor propriety in changing the established language on

¹⁴ The Sinking Fund Act of 1786 (26 Geo. III, c. 31, § 20) provided that when the annual income of the sinking fund reached £4m (which it would do after 27 years), all interest on the bonds redeemed thereafter would be cancelled, allowing taxes to be reduced accordingly.

¹⁵ See p. 000 n. above. [See this file, Bentham Note ^a]

this head. However, in the Closet, the *rapprochemens* in question may possibly have their use.¹⁶

‘Your 4th and 5th stand upon separate grounds: and for other reasons require a distinction to be preserved.

‘Your 6th may never become a Sinking Fund.’

NOTE TO TYPESETTERS: Please insert a short rule centred, and the centre the following line of text.

Reply.

These observations strike me in their full force: so much so, that, were it my province to decide, I am by no means clear that it would not appear to me best upon the whole to adhere to the negative, towards which they seem to lean.

I take the liberty, *without the participation of the commentator*, to submit comment and text together: flattering myself, that the discussion thus exhibited may perhaps be neither displeasing nor altogether uninteresting to those to whom it belongs to judge.

J^y Bentham.¹⁷

¹⁶ In the margin, Bentham has cancelled the following paragraph at this point: ‘So also was the Income Tax considered in part in the same light’, and noted that ‘it was inserted in both copies by inadvertence’. For the income tax as a sinking fund see p. 000 above.

¹⁷ Bentham has noted at this point: ‘Sent to M^r Secretary Rose .^.^.^.^.^ 1800.

‘Sent to Right Hon:^{ble} H. Addington .^.^.^.^.^ 20 July 1801.’

For further details see p. 000 n. above and the Editorial Introduction, p. 000 & n. above.