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The Recent Progress of National Debts

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MARCH, 1874.

*The RECENT PROGRESS of NATIONAL DEBTS.**By R. DUDLEY BAXTER, M.A.*

[Read before the Statistical Society, 20th January, 1874.]

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I.—Introduction. Recent Progress of National Debts.

I BRING before you one of the most important subjects of National Statistics—National Debts. They have been incurred by almost every civilised nation, and have received during the last quarter of a century an immense extension and development. Their consequences upon Taxation and Commerce and the prosperity of nations are very serious, and will be felt for many generations. It is now twelve years since they were discussed before this Society by one of its most eminent members, Professor Leone Lévi. Even these twelve years have been a long interval in the history of national indebtedness. No institution has grown faster, or passed in different nations through so many stages of progress, or taught so many lessons of dearly bought experience. Let us endeavour to trace its recent progress, and some of the lessons which that progress affords, respecting prudent investment and national duty.

A new series of national debts dates from 1848. All before that belonged to the old régime. They were contracted for the most part in the days of sailing ships, and post roads, and semaphores, and were the result of that first great outburst of Democracy, which swept over America and Europe a little less than a century ago; which in Europe was merged into military despotism, and finally extinguished by the resuscitated Monarchies. The new Debts began with the second struggle of Democracy and Military Empire, in an era of

steamships and railroads and electric telegraphs, and accumulations of wealth; which spread before Governments facilities and temptations previously unknown, to tread that broad and easy downward road, whose consequences are described in the old distich—

“He that goes a borrowing
Goes a sorrowing.”

I was anxious to have given a table of the annual additions to National Debts from 1848 to the present time, but have found it impracticable to obtain reliable figures. Almost all statistics of National Debts are approximations, and not accurate totals. England and the United States furnish elaborate annual or even monthly statements of indebtedness; but other nations are much more careless and vague, and leave us to gather information as best we can from all sorts of unauthorised sources, in which the amounts of external Loans taken and paid up, the Floating Debt, the Home Debt, the Currency Debt, and the Guarantees of Railways or other public works, are often involved in confusion and obscurity. We can only give figures which afford an approximate idea of the progress of National borrowing.

The total National Debts were—

	£
In 1848 about	1,700,000,000
„ ’73 „	4,680,000,000
Thus the increase in twenty-five years was	2,980,000,000

an increase of nearly double the original debts.

But the rate of increase was very different before and after 1860.

Up to 1860, national borrowing was chiefly in Europe. There had been—

The Revolutions of 1848,
The Crimean War of 1854,
The French-Austrian War of 1859,

which caused most of the borrowing. But the total loans scarcely averaged—

	£
From 1848 to 1854	20,000,000 a-year.
„ ’55 „ ’60	50,000,000 „

After 1860 there were the following great wars—

American Civil War, 1861-65,
Prussian-Austrian War, 1866,
French-German War, 1870,

leading to immense loans in America and Europe. During these years an epidemic of borrowing set in all over the globe. Capital accumulated so rapidly, and capitalists were so ready and pressing

with their loans, that all the States of the civilised and uncivilised world rushed to borrow them. Russia, Austria, and France contracted new debts without intermission. The South European States, Portugal, Spain, Italy, and Turkey largely increased their indebtedness. Egypt began to imitate Turkey. The United States whipped creation in the vastness of their five years' borrowing. Mexico and all the Spanish and Portuguese States of South America flocked eagerly into the money market. Australia and New Zealand borrowed largely for public works. Some of these States borrowed for war, others for railways—but all borrowed.

The average increase from national debts from 1861 to 1873, has been 200,000,000*l.* a-year.

If this average is kept up for twenty-five years more, our total national debts will be again doubled, and will reach before the end of the century, in the year 1900, 10,000,000,000*l.* The annual charge of such a debt at 5 per cent. will be 500,000,000*l.*, an amount equal to the present aggregate public revenues of all the States of Europe and North America.

Such are the possibilities of the future progress of national debts. Are they probabilities? Shall we see national debts augment in an ever increasing ratio, like population, or the consumption of coal? Or are there reasons to think that borrowing will progress in a diminished ratio, from the increase of national prudence and the decrease of national credit? Let us examine more in detail the Debts and Credit of the various States, to ascertain their different burdens, and means of meeting them.

II.—*Classification of National Debts.*

The beginnings of national debts are almost always the same. An extraordinary expenditure is necessary, usually for warlike purposes, but sometimes for works of peace, which would press too hardly upon current revenue; and a loan is resorted to. The emergency continues through several years, necessitating further loans, negotiated on harder terms. It comes at last to an end, but leaves the national expenses permanently and considerably increased, partly by the interest of the debt, and partly by the inflated scale of expenditure which borrowed money constantly produces, both in the public service and in the nation. A strong and growing State will then impose sufficient taxation to prevent a continuance of borrowing, and even to provide surpluses for debt reduction. The credit of the nation rises, and the State is able to keep down the interest to the lowest rate current in the country, and bear its burden of debt on the easiest practicable terms, even if the debt itself is heavy, and should lead, as it did in the last century in the case of Holland, to loss of commerce and of political power.

But a declining or weakly governed State goes on with deficits and borrowing, to meet ordinary expenditure; and becomes continually more embarrassed in finances and compelled to borrow at higher rates. When the taxation becomes heavier than the nation can bear, credit comes to an end; perhaps political convulsion ensues; and the national debt vanishes in a national insolvency.

Hence there are four classes of indebted States, that should be carefully distinguished.

1. *The Economical States*, whose debts grow less in proportion to their resources.

2. *The Vigorous Borrowing States*, that borrow freely but not beyond their resources.

3. *The Over-borrowing and Declining States*, whose debts are heavy and continually increase more rapidly than their resources.

4. *The Defaulting or Insolvent States.*

I have prepared the tables that follow, classifying the different States according to their credit in the money markets of the world, as measured by the rate of interest which their stock can be purchased to pay; and also showing the increase in their debts since 1848. The classification by rate of interest on the price of the day appears to me more useful than any other for practical purposes of investment, because it embodies in a rough and ready way, the judgment of the monied world upon each security. It enables investors to see at a glance the rate of interest they want, and to form an idea of the risk they are running.

One usual test of National Debts is the amount of annual charge per head of population, which varies, for instance, from 8*d.* per head in British India, to 15*s.* 6*d.* in the United Kingdom. But this gives very little real information about the pressure or safety of the debt, because 8*d.* per head in India may be a heavier burden on the resources of the inhabitants than 15*s.* 6*d.* in England.

Another ordinary test is the ratio of the annual charge to the annual public revenue. But this is often misleading. For instance, the annual charge of the French debt is now about 32,000,000*l.*, which is nearly one-third of her expected revenue of 100,000,000*l.* This looks a better proportion than the English Debt charge of 24,000,000*l.* out of a revenue of 70,000,000*l.*; whereas really it is very much worse. It also looks a better proportion than 32,000,000*l.* out of 70,000,000*l.*, which would be the proportion if France had reduced her expenditure to 70,000,000*l.*, which of course is a fallacy.

No reliable information can be gained from either of the above tests without taking into consideration many other circumstances. I therefore prefer the tables of interest on price which you see before you. They fall naturally into four divisions, according to the

rates of interest which the stock of the different States can be bought to pay.

1. *States of Low Interest*, viz., 3 and 4 per cent.
2. *States of Moderate Interest*, viz., 5 to $6\frac{1}{2}$ per cent.
3. *States of High Interest*, viz., $6\frac{1}{2}$ to 10 per cent.
4. *States of Excessive Interest*, viz., above 10 per cent.

The first and second of these classes correspond with the first two classes before mentioned, but the third and fourth are not necessarily declining or defaulting.

TABLE I.—*Low Interest.*

Countries.	Debt.		Interest per Cent. on Market Price.
	1848.	1873.	
<i>3 per Cent. States—</i>	£	£	
United Kingdom	820,000,000	785,000,000	$3\frac{1}{4}$
Denmark	11,225,000	12,747,000*	$3\frac{1}{4}$
	831,225,000	797,747,000	—
<i>4 per Cent. States—</i>			
Holland	102,460,000	80,500,000*	4'0
Belgium	17,500,000	36,000,000*	4'0
German States	40,000,000	146,000,000*	4'0
India	50,000,000	130,000,000*	4'2
Canada	6,600,000	22,800,000*	4'6
Australasia	—	39,400,000*	4'6
(Victoria, New South Wales, Queens- land, South Australia, Tasmania, New Zealand.)			
Sweden	600,000	6,700,000*	4'9
	217,160,000	461,400,000	—

These are the capitalist and economical States, that pay off debt or borrow very moderately.

TABLE II.—*Moderate Interest.*

Countries.	Debt.		Interest per Cent. on Market Price.
	1848.	1873.	
<i>5 to $6\frac{1}{2}$ per Cent. States—</i>	£	£	
Morocco	—	500,000*	5'0
United States	48,000,000	{ 448,000,000 78,000,000* }	5'1
Brazil	7,000,000	63,000,000*	5'1
Russia	100,000,000	345,000,000*	5'3
France	182,000,000	900,000,000	5'3
Natal, Cape of Good Hope, } Mauritius and Ceylon }	—	4,020,000*	5'1
Chili	1,750,000	10,300,000*	5'7
Argentine Republic	2,150,000	16,300,000*	6'3
	340,900,000	1,865,120,000	—

* For note see next page.

These are the borrowing States, with good resources, whose credit is good in the money market.

TABLE III.—*High Interest.*

Countries.	Debt.		Interest per Cent. on Market Price.
	1848.	1868.	
<i>6½ and 7 per Cent. States—</i>	£	£	
Portugal	17,000,000	69,200,000*	6·7
Japan	—	8,645,000*	6·8
Hungary	—	17,570,000*	7·0
Austria	125,000,000	320,000,000*	7·5
Columbia	—	9,460,000*	7·4
Roumania	—	12,900,000*	7·8
	142,000,000	437,775,000	—
<i>8 to 10 per Cent. States—</i>			
Uruguay	—	8,000,000*	8·0
Italy	30,000,000	365,000,000*	8·2
Cuba	550,000	1,790,000*	8·2
Egypt	—	75,000,000*	9·0
Peru	2,500,000	38,000,000*	9·7
Ecuador	2,800,000	3,270,000†	10·0
Turkey	—	129,000,000*	10·7
	35,850,000	620,060,000	—

These are the States whose expenditure exceeds their income, or whose other circumstances show some risk to lenders.

TABLE IV.—*Excessive Interest.†*

Countries.	Debt.		Interest per Cent. on Market Price.
	1848.	1868.	
	£	£	
Guatemala	—	1,200,000	14·5
Bolivia	—	1,700,000*	15·0
Spain	113,000,000	373,000,000†	16·5
Mexico	10,000,000	79,000,000†	17·5
Costa Rica	—	3,400,000	22·0
Paraguay	—	3,000,000	25·0
Venezuela	—	16,700,000†	25·0
San Domingo	—	750,000†	—
Greece	10,000,000	12,000,000†	33·0
Honduras	—	6,000,000†	66·0
	133,000,000	496,750,000	—

* Part of debt for railways or public works. The total debts for these purposes are estimated at about 500,000,000*l.*

† I must acknowledge my indebtedness to the admirable tables of the "Economist" in its *Investor's Monthly Manual*, for the latest amounts of the debts and their quotations at the end of 1873; and also to Mr. Hyde Clarke for important corrections.

‡ Defaulting States.

These are the States of unsettled governments and finances, and threatened or actual default of interest.

III.—*Credit and Discredit; their Geographical Distribution.*

1. The remark that naturally first strikes the mind on looking at these tables is the wonderful variety in the rate of interest on investments. It ranges through the most delicate gradations from the extreme of credit to the extreme of discredit, from $3\frac{1}{4}$ per cent. on the greatest possible certainty of being paid in England and Holland, to a nominal 33 and 66 per cent. on the greatest possible certainty of not being paid in Greece and Honduras. It was a favourite maxim of the Duke of Wellington, that high interest means bad security. Here he would have seen his maxim, or rather the converse, that bad security requires high interest, carried out in the most perfect manner in the adjustment of prices, by the daily and hourly judgments of the Stock Exchange of the world. Here are absolutely safe investments at low interest for those most cautious of all investors—Trustees; and every variety of unsafe investments at high interest for those most incautious and rash of all investors—Clergymen and Widows.

2. The second remark is on the geographical distribution of the States of good and bad credit. It is so uniform and regular that a map might be coloured with zones of the different degrees of credit, round the centre of good credit, London. The countries of low interest are all in the North, and Teutonic, as England, Denmark, Holland, Belgium, Germany, Sweden, and Canada, but with one great exception to this Northern rule, the English Colonies,—which, whether near the North Pole, or the Equator, or the Antipodes, maintain the credit of their mother country.

The countries of moderate interest are the three great States, an Empire and two Republics, next to the northern zone of low interest—Russia, France, and the United States,—together with an Empire and two Republics,—Brazil, Chili, and the Argentine Confederation, in the more temperate regions of South America.

The countries of high interest are, first, and less high in rate, the Central States of Europe, Hungary, Austria, and Roumania, with outliers in Portugal, Japan, and Columbia; and second, and more extreme in rate, the Southern European States of Italy and Turkey, and the Turkish dependency Egypt; together with the South American States of Uruguay, Cuba, Peru, and Ecuador.

The countries of excessive and defaulting interest are the South European States of Spain and Greece, and a shoal of Spanish-American Colonies near the Equator.

The connection between a temperate climate and pecuniary thrift, and between a hot climate and pecuniary recklessness, is very

clearly demonstrated. The rate of interest rises with the thermometer, but cautious investors must beware of the blandishments of the sunny south.

Tennyson must surely have meant as an allegory his famous song on the "Swallow flying south," and must have been describing that financial swallow, British Capital, in her flights to Southern lands, when he sings—

"O tell her, Swallow, that thou knowest each,
That bright and fierce and fickle is the South
And dark and true and tender is the North."

See too how he expresses her longing to lavish loans of millions on the South—

"O Swallow, Swallow, if I could follow and light
Upon her lattice, I would pipe and trill
And cheep and twitter twenty million loves."

But how she ends by flying from the insecure South to her home of safety in the North.

"O tell her, Swallow, that thy brood is flown;
Tell her I do but wanton in the South,
But in the North long since my home is made."

3. Let us look now at the increase of debt. There has been an actual decrease in the States of lowest interest,—England as compared with 1848, and Denmark, Holland, Belgium, and the German Empire as compared with later dates.

There has been a considerable increase for public works in the British Colonies, but these works have added largely to their prosperity. India alone has had large loans for war as well.

There has been an enormous increase in the three great States of moderate interest; Russia, France, and the United States, as well as in Brazil, Chili, and the Argentine Republic, quintupling their debt of 1848. The immense resources of the first three countries, have alone enabled them to keep the interest of their war loans, down to this moderate figure.

The debts have tripled in the more southern zone of Austria and her neighbours, through her long wars and consequent fall in credit. But this is still more apparent in Italy, Turkey, and Egypt, where continual deficits and loans have multiplied nearly twenty fold the small debt of 1848, and have brought these States to the verge of ruin.

The debts have also tripled in the dangerous and defaulting States of Spain and her colonies, and have probably only stopped at this figure from the impossibility of further borrowing.

The magnitude of the increase of debts will be best shown by another classification. Two-thirds of the increase has been incurred by six great States—

		£
France, United States, Russia, Austria, Italy, and Spain, }	whose total debts have increased since 1848 from	600,000,000
To		2,800,000,000
Being an average increase per State of		375,000,000

The greater part of the remainder of the increase has been incurred by six smaller States—

		£
Turkey, Egypt, Portugal, Brazil, Peru, and Mexico, whose }	total debts have increased since 1848 from	36,000,000
To		433,000,000
Being an average increase per State of		66,000,000

This increase presses as severely on the smaller States as the 375,000,000*l.* on the larger; and the two show clearly, the enormous proportionate additions that have been made to the indebtedness of the chief States.

IV.—*Profit and Loss of Public Loans at Present Prices.*

What has been the profit or loss to the public on this great mass of loans at the present prices? This is a business question, that especially interests a nation of lenders like the English. It is difficult to answer with accuracy, since in many cases accurate information is not obtainable, and in others the great variety of loans issued at different prices, renders an average very difficult. The variations of the English, Dutch, and Belgian funds are small, and represent the fluctuations of the money market rather than any change in the intrinsic value of the securities. About Germany there are no accessible data. In France, the depreciation on the old 3 per cent. rentes from about 67 to 57 by the German war, is almost balanced by a rise of 9 per cent. on the 5 per cents. issued during and since the war. For the United States, I believe 20 per cent. is a fair average of the rise since the civil war. India is also very difficult to ascertain. Egypt is now about the original price of issue. The following is an approximate table:—

Increase of Value of Stocks.

Country.	Average Rise of Price since Issue.	Increase of Value.
I. Low Interest States—		£
Denmark	75 to 91	2,000,000
India	10 per cent.	13,000,000
Canada	5 "	1,000,000
Australasia	10 "	4,000,000
Sweden	90 to 112	1,500,000
II. Moderate Interest States—		
Brazil	93 to 98	3,000,000
Russia	86 " 96	34,000,000
Natal, &c.	10 per cent.	400,000
United States	70 to 90	90,000,000
Chili	84 " 103	2,000,000
Argentine Republic ...	75 " 95	3,300,000
III. High Interest States—		
Japan	92 to 108	800,000
Roumania	85 " 95	1,300,000
Total increase	—	156,000,000

This is a rise in value or gain to the public of about 13 per cent. on the 1,200 millions of debt of the countries included in the list, leaving out of view England, Holland, Belgium, Germany, and France; and represents a very substantial profit to the lenders. But the loss account is larger.

Decrease of Value of Stocks.

Country.	Average Fall of Prices since Issue.	Decrease of Value.
III. High Interest States—		£
Portugal	48 to 44	2,800,000
Hungary	81 " 72	1,600,000
Austria	72 " 66	19,000,000
Columbia.....	86 " 81	500,000
Italy	71 " 61	36,000,000
Cuba	95 " 85	180,000
Peru	77 " 52	12,500,000
Turkey	60 " 52	10,000,000
IV. Excessive Interest—		
Guatemala	70 to 42	360,000
Bolivia.....	68 " 40	500,000
Spain	44 " 18	93,000,000
Mexico	60 " 9	40,000,000
Costa Rica	72 " 33	1,200,000
Paraguay.....	80 " 30	1,500,000
Venezuela	60 " 20	5,300,000
San Domingo	70 " 21	370,000
Greece	say 50 per cent.	6,000,000
Honduras	80 to 14	4,200,000
Total decrease	—	235,000,000

This decrease or loss is 16 per cent. on the 1,457 millions of debts included in the list, being the whole of Tables III and IV, except Japan, Roumania, and Egypt.

Thus the result of State borrowing and investors lending appears to be, that investors as a body have gained in value about 156,000,000*l.* and lost 235,000,000*l.*, being a clear loss of nearly 80,000,000*l.* The losses have been on a larger amount of stock than the gains, 1,450,000,000*l.*, as against 1,200,000,000*l.*; and a larger percentage on that stock, 16 per cent. as against 13 per cent.

It is remarkable that the increase of value should be almost entirely in the stocks at low and moderate interest, and the loss almost entirely on stocks at high and excessive interest. It is another proof of the wisdom of choosing investments at moderate interest, given by wealthy States with stable Governments.

It shows that lending to strong and trustworthy States at moderate interest is good business, because such stocks are sure to rise in price, as soon as the State gets through its emergency, and ceases to borrow. It shows also, that lending to weak or untrustworthy States at high interest is bad business, because such States are likely to go on borrowing, and their stocks to fall in value in the market.

V.—*The Probable Future of National Debts.*

Such has been the recent increase and results of national debts. What is their future progress likely to be?

1. It is impossible not to fear that lest the inability or unwillingness to meet engagements which has overtaken Spain and Greece and so many Spanish Colonies, with a total 500,000,000*l.* of debts, should also overtake some of the States whose securities are next highest in interest and lowest in value, forming the second part of Table III, with a total 600,000,000*l.* of debts. Most of them are States whose expenditure largely exceeds their income, and who are compelled to resort to constant loans, to balance their annual deficits, and pay their interest. Three of them have lately been in the market, with large loans that have not succeeded. The Stock Exchange practice of syndicates, which affords such facilities and assistance in launching loans, becomes an element of ultimate weakness and danger when the credit of a State is tottering, and the loan unmanageable in amount. Why do States go on borrowing instead of retrenching? We may pardon Turkey or Egypt or Peru for adopting such a short-sighted and half-civilised policy. But why does Italy, which yields to no nation in intelligence and genius, persist in a course of over-expenditure, that is plunging her every year deeper into debt and danger?

2. Austria is another country with a very large debt, and continual deficits. Mr. Martin tells us, in the "Statesman's Year Book," that from 1789 to 1871, a period of eighty-two years, there was not a year in which the revenue came up to the expenditure. The deficits have been nine and ten millions sterling in recent peace budgets. Such a habit of borrowing must weaken the strongest State, and prepare the way for loss of financial credit and political consideration. Austria ought not to continue to expose herself to the risk, that is now being run by Italy.

3. France is not free from the same danger. Her credit is greater, and the saving habits of her people lay up a store of wealth. But she is now bearing a burden of debt greater than that of any other nation, and at the same time is keeping up and even augmenting her war establishment. When England came out of the French war, in 1815, she had a load of debt of the same amount, 900,000,000*l.*, and greater in proportion to her resources. But England reduced her military and naval establishments to the lowest point, and from 1817 to 1850 her total expenditure never exceeded 52,000,000*l.*, out of which the charge of the debt was at first more than 32,000,000*l.* France, with an equal charge of her debt, insists on keeping up a total expenditure of 100,000,000*l.* England started with a monopoly of financial resources, and manufactures, and commerce. France starts with diminished manufactures, and a loss of her position as a financial centre. England found her debt intolerable, till the immense expansion of trade lightened her burden. France will find her debt a very heavy burden, even if her national susceptibilities do not lead her to make it still more crushing. It is to be feared that war budgets may drag her down to the financial position of Austria, if not to that of Italy.

4. Russia has largely increased her debt, but has spent more than any other great State on the development of railways. Her system of lines is now nearly complete, and must add very largely to the commerce and strength of the Empire. She, like Austria, has had a long series of deficits, but the turning point seems now to have been reached, and, if no great war interferes, we may expect financial prosperity to raise the value of her securities.

5. The United States have been wonderful in their rapid accumulation of debt, and in its equally rapid reduction. Will they continue its diminution? Their growth in national wealth is so rapid, that its proportionate burden is rapidly diminishing. The maintenance of peace and economy, and the adoption of some of the principles of monetary and commercial legislation, will do more for the debt than even large surpluses.

6. England has made some progress in reducing her Debt, which now stands at 785,000,000*l.*, instead of the 900,000,000*l.*

of 1815. But, as in the United States, a great deal of this reduction was effected in the first years after the conclusion of the great Peace. Since 1860 her reductions have been larger than usual, but small in comparison with the United States. England's danger is that we shall not reduce our debt with sufficient rapidity during the period of prosperity, and that we shall have to face on unequal terms with exhausted coal and unexhausted debt, the competition of the immense mineral resources, and population, and energy of the future development of the United States.

7. The present character and tendencies of indebted nations lead to the expectation, that, unless the probable course of events is altered by great wars, the Northern half of Europe and the other borrowing countries will improve in the position of their national debts, and the Southern half deteriorate.

England, the United States, Russia, the German Empire, and their kindred States and Colonies, show signs of lessening their debts in proportion to their resources, and gradually outgrowing them.

France, Austria, Portugal, Italy, Turkey, and Egypt, and some of the solvent States of South America, unless they turn over a new leaf and manage to make both ends meet, so as to stop their constant borrowing, seem likely to go on increasing their debts and the danger of being overwhelmed by them.

Spain and many of her colonies are already overwhelmed.

VI.—*Conclusion.*

England, in the earlier period of national debts, used to be the great borrower of the world. Now she has dropped that character, and become the great lender. Every State, except Germany, is more or less aided by her capital, and returning her an annual tribute. No nation is so deeply interested in the credit and solvency of other borrowers. Is the total amount of national debts likely to go on increasing at the present ratio?

Unless the furies of war bereave mankind of reason, I cannot think it will increase so rapidly. The last twelve years have glutted the market, and our borrowers in southern climes have come nearly to the end of their credit. South America and the shores of the Mediterranean, can scarcely offer much further security. The Northern States have taken to reduction rather than increase. The fire seems likely to burn low for want of fuel.

But while there is a probability of decrease of national debts for unproductive objects, there will probably be a large increase of debts for productive purposes. English and German capital will be diffused continually over the world, but in the shape of railways,

and telegraphs, and harbours, and manufactories, and sanitary works, and all the great undertakings that are the offspring of the present age of science and civilisation. Probably the debts will be incurred less as State debts, and more as city and local debts. Or they will be lent in the form which is now becoming so common, of the capital of companies founded for each enterprise, with State guarantees of interest.

I trust that, when, twenty-five years hence, some other member of this Society sums up in my place the progress of international indebtedness, and refers, perhaps with curiosity, to the figures of this paper dug up from your archives, he may be able to say that from this period there commenced a new order of things, a great diminution of unproductive lending, with a great increase of loans for productive purposes; and that though the debts of the world may then have been doubled, the increase will have been chiefly expended in works which have augmented the wealth, and health, and intelligence, and happiness of the human race.

DISCUSSION *on* MR. DUDLEY BAXTER'S PAPER.

MR. JACOB FRANKLIN doubted whether the funded portion of our national debt could be regarded as greater than about 717 millions; for we, as well as Holland, have a $2\frac{1}{2}$ per cent. stock. He based his computation not on nominal capital, but on capitalisation at prevailing rates, of the annual charge for dividends, as set forth in the official finance accounts. In reply to an inquiry, he explained that some investors prefer a $2\frac{1}{2}$ to a 3 per cent. stock in view of possible repayment at par; but there is no obligation to redeem at par in either case. He considered, also, that in estimating national debts relatively, a point to be noted is the proportion of home investments to claims of foreign creditors. Thus, for instance, over 61 millions of our national debt is held for savings banks, and so much of the public funds as are held by life assurance companies, are also national savings. Moreover, certain miscellaneous items of account, indicate assets in excess of the liabilities chargeable upon our national debt in respect of them.

MR. HYDE CLARKE asked if the debts of the States of the American Union were included in the total given in the table.

MR. DUDLEY BAXTER said they were, but not the local debts.

MR. HYDE CLARKE said it was represented in the tables, that in 1848, Columbia, or New Grenada, had no debt, but had now a debt of 9,000,000*l.*; whereas, in 1848, the debt of what was then called Columbia consisted of the debts of the present Columbia, Ecuador, and Venezuela, and those three States had added very little to their debt since. By fresh borrowings, a considerable part of the apparent increase arose from the capitalisation of coupons. Guatemala, Bolivia, Costa Rica, and Paraguay were not now in default, although Guatemala not long ago did commit a default, and that of course told against her in the market price.

It was difficult to see the practical bearing of the last table. Ecuador, Honduras, Venezuela, San Domingo, and Mexico did not pay. For instance, Honduras was credited as paying interest, but, so far as he was aware, none was being paid on either the Honduras part of the federal debt of Central America, or the main part of the stock issued on the plea of a railway. On what ground was Greece credited with the payment of any interest? England, Russia, and France, the guaranteeing powers, paid the interest on a portion of the debt, but Greece had hardly paid a penny from the beginning of the guarantee to the present time, nor to her general creditors. The Greeks, however, took care to pay their own citizens on the local debt, but left foreign creditors unprotected. He could not follow Mr. Dudley Baxter with regard to the effect of market price. The market price of stocks was always fictitious, depending entirely on the small quantity brought into the market; but the stock of some of the defaulting States remained in the hands of the original subscribers, or their representatives, and had never been brought into the market. It was a matter of importance to treat this question of market price in a proper manner, for defaulting governments were in the habit of offering composition, on the basis of the market price. Having first depreciated the market by not complying with their obligations, they then tendered to their creditors a reduction, both of principal and interest, alleging that they were prepared to give ample compensation on the basis of the market price. He knew that a considerable part of the money for loans contracted in the London market, this being the money market of the world, was obtained from foreign investors, and was not, as supposed, the simple loan of English capital, while it was a well-known fact that many of the loans mentioned in Mr. Dudley Baxter's tables had been

afterwards sold to continental buyers at a profit. In the conversion of 10,000,000*l.* of Anglo-Austrian stock, it was found that only 1,000,000*l.* was held in this market, though a large proportion of the original loan must have been subscribed here. Of Columbian and Venezuelan, large portions were known to be held in Holland. The operations in foreign loans largely contributed to our national wealth. The paper did not clearly state the causes which were operating to produce the great increase of debts. Of course, in the case of certain States, a considerable portion of the increase was due to war expenses, but even here a portion was an addition to the national stock of wealth to all, in improved weapons and stores. With regard to Russia, it would be gratifying to hear that, for the first time in the financial history of that country, the deficit had been met, if it were reliable, but considering what continental budgets usually were, there was some reason to doubt whether it would not turn out that in this instance, as in the others, the ultimate result was a very large deficiency. The evidence which their honorary member M. Wolowski had brought forward, proved that Russian finance was in a very bad condition indeed. He should like to hear what proportion of the debts generally, had been applied to the construction of public works. So far as he could ascertain, the amount could not be less than 500,000,000*l.*, and possibly it was a great deal more. To arrive at any accurate result, it was necessary to know also how much had been raised for railways by local or municipal debts, or in the form of joint stock companies, because a country with a large debt might not really be worse off than another with a less debt, for this latter may have raised funds for public works from other sources than a national debt. He did not agree with Mr. Dudley Baxter in thinking that the borrowing for South America would cease, for the vast development which was taking place in that part of the world, would cause a great demand on the money market for public works. He believed that the debts of the various civilised nations, large as they now were, would have to be still further augmented in order to give due effect to the progress and development of civilisation. The general rise in prices throughout the world, consequent on the alteration which had taken place in the means of transport, while on the one hand it increased the revenues of a country like Turkey, would, on the other hand, increase the expenditure, and so embarrass the finance minister. Much of the effect on market prices was the result of the nefarious proceedings of local usurers, of unprincipled contractors, and illegitimate syndicates. Portugal, a few years ago, was in the condition of Spain, but had lately succeeded in emancipating herself, and in bringing the rate down to a little over 6 per cent., with a prospect of a still further reduction. One great source of the wealth of Holland, undoubtedly was her investments in various stocks, including some of those very bad ones, as Mr. Baxter considered, which figured in Table IV, and there was no reason to suppose that the wealth or enterprise of Holland had been by any means diminished in consequence.

Mr. J. COLES said that Mr. Dudley Baxter had made a slight mistake at the outset in assuming that the English were the most heavily taxed people on the earth. At present the French were paying nearly 1*l.* per head.

Mr. DUDLEY BAXTER. I did not take England as the highest. France is about 18*s.* 6*d.*

Mr. J. COLES said instead of the United States being set down at 5·5, as in Table II, there could be no doubt that taking the funded 5 per cent. loan, and throwing out those liable to redemption, the United States ought now to stand in Table I. While England could get money at 3 per cent., and lend it to the United States at 5 per cent., she would certainly be better able to cope with the United States, than if she called in the money she lent to the United States, to pay off her own debt.

Mr. M. N. ADLER said the return to the investor was in many cases higher than was stated in Mr. Dudley Baxter's tables, because most of the Foreign

States, having issued their loans at a discount, provided sinking funds by which their stocks were made repayable at par, certain drawings taking place every year. Turkey, for instance, had a sinking fund of 1 or 2 per cent. per annum for each of its loans, and therefore the return to the investor at the end of 1873 was really above 12 per cent. instead of 10·7. In the case of Peru, the operation of the sinking fund must have made the return something like 11 per cent., and for the recent loan as much as 14 per cent. Referring to a remark made by Mr. Hyde Clarke, Mr. Adler thought that the large Russian loans recently contracted, represented a good deal of productive expenditure applied to railways; as the credit of the State was better than that of the railway companies, the Government contracted the loans on their behalf, although in States whose credit was bad, companies had to be formed and debts created without State guarantee; in the case of governments of good credit, it paid better for the State to come forward as the borrower rather than the towns or local bodies, to promote industrial enterprise.

Mr. F. P. FELLOWES said a part of the debts of Belgium, India, Australasia, and Denmark had been incurred for railways and public works. If the English Government were to purchase the railways, though the amount of our debts would be greatly increased, the indebtedness of the country would really not be greater than at present, for the property possessed would be equivalent in value to the sum given for it. Nothing could really be known of the indebtedness of a nation, unless the assets of that nation were known, and it was for that reason he had advocated that the English Government should have a statement of the value of the property under their charge, with the increase or decrease year by year. Probably the assets of the English Government were equivalent to the national debt, but no one could tell for certain whether it was so or not. If the property in the possession of a Government, as Government property, was equivalent to its national debt, then the Government was not really in debt at all.

Mr. J. B. BROWN was of opinion that Germany and the United States, having now done with their great wars and giving their great energies to peaceful industry, would soon shake off their debts. He believed also that Austria, chastened by her adversities in Lombardy and at Sadowa, was now happily turning her attention, along with Hungary, to the development of their almost unbounded natural resources to an extent that, in all probability, within the next quarter of a century these great countries will be out of Table III and into Table I. It seems quite evident that those countries which are advancing most in intelligence, forgetting war in peaceful and more profitable pursuits, and paying most attention to education, would, in the future, be those in which the burden of a national debt would be most diminished.

Mr. W. TAYLER said he did not consider that England had paid off her debt to any very great extent, compared to her resources. In 1815 the debt was very large, and if only 1,000,000*l.* a-year had been continuously applied to its reduction we should now have stood in a proud position among the nations. He had had, recently, opportunities of judging of the present condition of Russia, and instead of being hurt by her apparently large debt, Russia had enormously benefited by it. Those who had not seen the progress which that vast empire had been making of late years, could not form any idea of it. She now had railroads from one end of the empire to the other, which experience has shown are the great pioneers of civilisation and commerce. The credit of a country should be the criterion of its indebtedness. There could be no doubt that England bore the largest proportion of the aggregate of national debts, as well as of taxation, but a great many States, particularly those of South America, were in the position of a man whose estates were mortgaged up to his chin, and in such cases, whether nations or private individuals, they were very likely to come to grief. He also should have been very glad to have seen embodied in Mr. Dudley Baxter's valuable paper, some statistics of the loans of those States which had repudiated or evaded their debts and obli-

tions in past times, and which had occasioned such great losses and suffering to many in this and other countries.

Mr. W. FOWLER, M.P., said that the mere amount of the debt of a nation was no criterion of its position, because the debt might have been incurred for most beneficent purposes. The old debts were unfortunately incurred for the worst possible purpose, the destruction of our fellow men. He regretted that English money was not more largely employed on works at home. Instead of lending so much to all sorts of Governments, good and bad, a great deal more might be most profitably used for such purposes as the draining of our own land. Mr. Dudley Baxter seemed to think, that England ought to make a gigantic effort to get rid of her debt. He himself would advise that it should be paid off rapidly, if he thought it would be a good investment of the money, but he had great doubt on that point. If he could invest money safely at 5 per cent., it could not possibly pay to invest it at $3\frac{1}{2}$; and if the people were taxed to pay off the national debt would not that be equivalent to investing their money at $3\frac{1}{2}$ per cent., instead of leaving them to make a much higher interest. Mr. Dudley Baxter said that if such a heavy debt continued, England would be in a very bad position when exposed to a greater competition with foreign countries. That was an argument for doing something towards paying off the debt, but it seemed to be forgotten that a large sum was actually paid off yearly. Something approaching to *2d.* in the pound income tax was every year paid off in the discharge of the terminable annuities, and when he remembered how heavily that tax pressed on the lower class of taxpayers, and that the future benefit to the country was purely a speculative matter, he hesitated to recommend that we should tax ourselves more heavily for the advantage of future generations. He was not yet convinced that such a proceeding would be a wise investment of the energies of the nation. The same argument might have been used in 1815, but was it not a fact that at the present moment the country was infinitely better able to pay the interest on the national debt than were our ancestors in 1815? Some people argued as if England had got to the top of the tree, and must necessarily go down instead of going up, but every year showed that there was an almost incalculable increase before us of prosperity and wealth, if those gigantic wars were avoided which had produced such terrible lists of national debts. He was not afraid of a national debt when that debt was wisely incurred, but he certainly feared national debts which only represented guns and gunpowder, gun cotton and dynamite, and other such instruments of destruction.

Mr. C. WALFORD suggested that Mr. Dudley Baxter would do good service, if he should on some future occasion raise the whole question of the effects of national debts upon the prosperity of nations. The countries having the largest debts were (with one or two marked exceptions) really the most well-to-do countries in the world.

Mr. J. BOGIE said the figures given by Mr. Dudley Baxter as representing the debt of India was 130,000,000*l.*, but that was certainly incorrect. It was nothing like that amount. Excluding the railway guarantee, it could not be more than 112,000,000*l.* or 113,000,000*l.* At the end of 1871, Sir R. Temple's figures showed a debt of 105,000,000*l.*, but that excluded the old East India Company's loan of 6,000,000*l.*, which was being gradually paid off. India was already in a sad plight, and it might be thought necessary to add some millions to the debt in consequence of the famine; let it not, then, be supposed that her present debt was higher than it really was.

Mr. H. M. HYNDMAN said it seemed to be taken for granted that Russia offered a good investment for English capital, and that her finances were now in a good position. If her loans had been used for productive purposes, certainly she would be better off than she was before she contracted them, but he had yet to

learn that her lines of railway were not constructed rather for strategical than for commercial purposes. Every step that Russia took in Central Asia entailed so much of deficit, and he did not believe that she had yet ceased to take steps in that direction. The increase of her debt would, therefore, rather tend to cripple than to benefit her.

Sir GEORGE BALFOUR, M.P., stated that he rose to explain the statement made by Mr. Bogie, that the Indian debt was overstated by Mr. Baxter at 130,000,000*l*. This probably arose from looking at the debt in India alone, without the other debts. By including the debt incurred at home with that in India, and adding the capital of 10 millions of the East India Company, which is guaranteed 10 per cent. and therefore more than equal to 12,000,000*l*. at 4 per cent., then the total debt of India at home and abroad may be stated at near 140,000,000*l*. But to this debt must be added the liability incurred for railways constructed in India; this expenditure being guaranteed a minimum rate of interest, and about 4 millions being this year paid by the Government of India, the railway debt may be assumed at 80 millions, thereby raising the total debt of India to fully 220 millions. But, so far from regarding that amount as an objection to further debt being incurred, he would gladly see additional money raised on loan, on the condition that it was specially appropriated, and judiciously expended on productive works. It should be borne in mind that, with an outlay of capital at the rate of about 30*s*. per acre, spread over an extensive area, a series of waterworks could be constructed so as to provide not only canals but also increase the products of the soil fourfold, and effectually guard against droughts; with this expenditure an acre of land would yield sufficient food for four souls, so that if sufficient capital had been employed on irrigation works, the present expected famine would have been prevented.

He was also desirous of suggesting to Mr. Baxter to include amongst the debts of this country the local debts incurred in various localities on the security of local rates and taxes. The local taxation accounts of the last three years show that the local debts have sprung up from 59 millions in 1869-70 to 69 millions in 1871-72, and that this debt is yearly on the increase; the receipts from purely local rates only amount to about 22 millions, whereas the yearly expenditure was nearly 32 millions, the difference being made good by miscellaneous collections, aids from the imperial treasury, but especially by loans. Unless this debt, which alone referred to England and Wales, were brought into our accounts as part of the debt liabilities of this country, so as to be strictly credited and controlled, he was afraid that some localities of our country would soon be brought to the same condition as some of the American States, of either repudiating the debts or defaulting in paying interest, as in the case of many of our road debts.

With regard to the remarks made as to the importance of paying off a part of our debt, he readily admitted that this was a most desirable object to keep in view, but he could not fail to agree with the excellent remarks of the honourable member for Cambridge (Mr. Fowler), that so long as the national wealth was on the increase, and the ability of the people increased to bear the burthen of our debt, and necessarily with additional facilities for meeting this liability in case of need, he would prefer the application of any funds that may be available, not in paying off debt, but in removing obstructions to our trade and manufactures, by doing away with taxes and dues, which still greatly impede us. He viewed the financial changes which, of late years, had been effected as wise and prudent measures, having largely increased our industry and our wealth, thereby multiplying our means to pay off the debt when the fiscal changes have all been carried out, and, above all, enabling us to run the race of competition with other nations, with a fair chance of winning.

Mr. F. HENDRIKS recommended that some attempt should be made to ascertain certain useful statistical information, of which there is an absolute dearth at

present, namely, the amount of interest which England drew from other countries in respect of loans raised in London, and charged with dividends payable there. This, he thought, might, without any great difficulty, be accomplished by a proper arrangement and publication by Government of the income tax returns required from the loan contractors and agents charged with the periodical payment of interest on such loans, and who themselves deducted income tax from the proprietors of the loans on cashing their coupons.

Mr. W. G. LUMLEY, advertng to the money borrowed for local purposes, said the money that had been so borrowed in England had been applied to produce a more or less beneficial return in the improvement of streets, supplying gas and water, paving streets, and the like, and not in useless subjects, such as guns and gunpowder, and other warlike matters. Moreover, the loans had been repaid with punctuality, and by annual instalments. The workhouses of most of the unions had been built out of borrowed money, which had been for the most part repaid.

The Right Hon. H. C. E. CHILDERS, M.P., said that the lecturer had skilfully avoided adherence to either of the extreme doctrines about the national debt, the duty of rapidly reducing it, or the impolicy of applying for that purpose money which was more profitable in the people's pockets. But the policy of English statesmen, since the great war, had been something between the two, namely, to gradually diminish the debt by two operations, by the natural increment of the revenue from year to year, and by keeping up a certain amount of terminable annuities, at this time amounting to nearly 5 millions per annum. He thought the lecturer had hardly recognised the extent of recent reductions. Since the Crimean war the debt had been paid off more rapidly than before that time. Since 1857, the capital of the debt had been reduced by no less than 50,000,000*l.*, besides the 10,000,000*l.* which had been applied to the purchase of the telegraphs, and from 5,000,000*l.* or 7,000,000*l.* had been lent for remunerative purposes out of money borrowed; so that somewhere about 4,000,000*l.* a-year had been paid off. The question as to how much is held by us in foreign loans is very interesting. It is connected with that daily increasing difference between our imports and exports, the excess of the former being the contribution under which we are placing foreign nations, by our profitable investments abroad. It would be exceedingly interesting to have information with regard to the amount of interest on foreign stock which was received in England, but he doubted whether it would be practicable to obtain it by means of the income tax returns. He was also afraid that Mr. Fellows' suggestion with regard to assets, would after all hardly offer a guide in the statistics of the debt, for the credit of that debt depended not on the assets of the Government but on those of the country. Still it would be very desirable to have accurately audited accounts of capital (as distinct from income), receipts, and expenditure, and he believed that this could be done without at all disturbing the form in which public money was appropriated by Parliament.

Mr. DUDLEY BAXTER replied, but as the report of his reply was not received when it became necessary to send the *Journal* to press, to secure its timely publication, it is, of necessity and with regret, omitted.