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LOANS AND SUBSIDIES IN TIME OF WAR 1793—1914

WHEN the great French wars began this country had already much experience as a paymaster of princes, but little, if any, experience as a lender to her allies. The traditional method of assistance was that of the subsidy, and the return which our subsidies brought was not interest, but sometimes mercenaries, sometimes a tacit recognition of eventual claims to territory or other political advantages. It is true that the Duke of Marlborough had helped to raise a loan for the Emperor in London; but the granting of loans was not an established practice in the eighteenth century. It is not therefore surprising that loans are comparatively seldom met with in the finance of the years 1793–1815; but, as will appear, it is possible that but for a particularly unfortunate experiment in lending during the earlier years of the struggle, the loan might have displaced the subsidy at that time.

The total amount paid out to allies and prospective allies between 1793 and 1816 was upwards of £57,000,000. Hardly any Power in Europe, except Turkey, is absent from the list. Even France appears once; for the Bourbons received £200,000—a loan, as it happens, not a subsidy—in 1814. Sometimes the smaller Powers are mentioned by name in the official summary of disbursements; occasionally there are such compendious entries as those of 1815–6, when nearly a million and three-quarters was paid to “minor Powers under engagements with the Duke of Wellington,” who seems to have had a pretty free hand.¹ Of the greater Powers Prussia appears on the list very early, in 1794. She was the only one who received a subsidy of more than a million in any single year before 1800. Russia's first

¹ I am using the House of Commons Paper, No. 466 of 1854, *Account of all sums . . . paid or advanced . . . to any foreign State from 1792 . . . up to the present time*. It is repeated in No. 180 of 1900. *Returns* (1) of advances by way of loan; (2) of payments by way of subsidy . . . and (3) of loans raised by foreign States of which the interest of capital has been guaranteed by Act of Parliament since 1792. Full details as to the very numerous “minor Powers” are given in the *Life of J. C. Herries*, Vol. II. Appendix.

appearance is in 1799, when Pitt was building up the second coalition. Her receipts at any one time in those years are only reckoned in hundreds of thousands. In fact, during Pitt's lifetime direct subsidising was not conducted on the grand scale.¹ The two most expensive subsidy years were 1794 and 1800. The total sum paid out in the former was just under £2,500,000 and in the latter £2,600,000. Compare these with the £2,900,000 of 1808, the £3,900,000 of 1812, the £8,000,000 odd of 1814, and the £10,000,000 of 1815.

A comparison of subsidies does not, however, exhaust the matter, and, in fact, the swollen subsidy roll of the nineteenth century is in part due to the unfortunate experiment in lending, or, rather, in guaranteeing loans already mentioned. As it was apparently the failure of this experiment which made successive Governments prefer the subsidy to the loan throughout the whole period of the great wars, its history deserves careful examination. In 1794 negotiations began for floating an Imperial (Austrian) loan in London. The amount was to be £4,600,000. In order to help an ally Great Britain undertook to guarantee the interest; and the guarantee was formally given by Act of Parliament (35 Geo. 3, c. 93). The loan took the form of imperial 3 per cent. annuities, plus a small twenty-five year annuity (£230,000), to expire in 1819. Every precaution was taken. The Emperor gave his bond and his creditors were specially authorised to sue him in his own courts.² But unfortunately by 1796, when the money was actually raised, the Emperor's position, both military and financial, was bad. This was the year in which Pitt paid £1,200,000 to Vienna without leave from Parliament, a proceeding which gave Fox an opportunity of threatening him with impeachment. To regularise the advance Pitt secured first covering votes and then an Act of Parliament (37 Geo. 3, c. 59), by which a further loan of £1,620,000 for the Emperor was authorised. This time the British Government guaranteed both interest and sinking fund, although technically the money was raised by a second issue of imperial 3 per cents. Pitt admitted in debate that part of the second loan went in interest on the first.³

Pitt had sent the unauthorised £1,200,000 to aid his ally at

¹ The best discussions of Pitt's borrowing, lending and subsidising are in Newmarch's articles in the *Statistical Journal*, 1855. *On the loans raised by Mr. Pitt during the first French War, 1793-1801*.

² See the discussions of 1795 (*Parliamentary History*, XXXII. 38), 1816 (*Hansard*, XXXII. 1027), and 1824 (*Hansard*, New Series, X. 310).

³ The discussions are in the *Parliamentary History*, XXXII. 38, 1262, 1330, 1391, XXXIII. 463. See also J. Holland Rose's *Pitt*, II., 304-5, where the second loan is said to have been £4,620,000. This is £3,000,000 too much.

a time of grave military stress. Unfortunately, in 1797 military stress ended in military collapse. Bonaparte's army of Italy fought its way to within eighty miles of Vienna, and the preliminaries of Leoben ended in the Treaty of Campo Formio. Austria was unable to meet her obligations, and the British Government had to take up its statutory burden of interest and sinking fund. The early dividends on the first loan had been met from the second; but from May 1st, 1797, all the charges on both were met from the consolidated fund. The imperial 3 per cents. became practically British 3 per cents.; and as they had not been issued at par funded debt to a nominal amount of £7,502,633 was created, besides the small terminable annuity.¹ Dr. Rose tells us that Austria's neglect to repay the loan "occasioned a bitter dispute which long held the two Powers apart";² but he does not mention that she never paid a penny of interest either.

The significance of this Austrian loan episode in the history of Britain's financing of her allies only became public in 1816. On March 1st of that year Lord King—best known to economists as the man who told his tenants to pay their rents in gold—rose in the Lords to call attention to the burden of loans to foreign Powers, especially to the burden of this Austrian loan.³ He wanted papers; but his proposal was negatived. He also wanted to know whether any effort had been made at the Congress of Vienna to make the Emperor pay what he owed. Lord King reckoned that capital and interest now came to something like £14,000,000. Lord Liverpool, in reply, told some of the story of the loan and asked in effect how it would have been possible to press Austria in the matter, when we had been constantly asking her to fight again after she had been well beaten—Lodi, Marengo, Hohenlinden, Ulm, Austerlitz, Wagram. He did not make the indelicate reference or give the list of battles, but they were in everyone's mind. Austria, he argued, had suffered much, and generosity to her became us well. Incidentally, he pointed out that of late years we had always subsidised her, asking for no promises of interest or repayment. "He believed it became a maxim with every administration, after the experience of the Austrian loan, not to engage in any transaction of that kind." He believed that Lord Holland had refused Russia leave to borrow here "upon the acknowledged ground of the fate of the Austrian

¹ *Parliamentary History*, XXXIV. 1146. *Report on Public Income and Expenditure*, 1799.

² *Pitt II.* 305.

³ *Hansard*, XXXII. 1027.

loan." Lord Holland endorsed this,¹ but was of opinion that we might at least have asked for our money at the Congress. There for the time the matter rested.

It was not strictly correct to say that there had been no lending, only giving, since 1797; but the chief exception really illustrated the principle. In 1809 Portugal raised a loan of £600,000 here, a loan guaranteed by Act of Parliament (49 Geo. 3, c. 71). Portugal met all the charges on this loan, including the sinking fund, down to April, 1815. By a treaty of January 22nd in that year the whole burden was taken over by the United Kingdom.² Really this country had always carried it, for we advanced to Portugal by way of subsidy nearly £9,000,000 between 1798 and 1815, including one payment of some interest to-day—£100,000 for "Portuguese sufferers" in 1811-2. In 1812, the year of Moscow, we also gave £200,000 to the "Russian sufferers."

Two minor exceptions occurred in 1813 and 1814—loans of £200,000 each to Holland and France. These were direct loans made by Government, not guaranteed loans. No Act of Parliament was called for and both sums were repaid in due course.

One of the loans to which Lord King called attention in 1816 has had a long and curious history. Between 1780 and 1790, when Russia was no very good friend to England, she raised a loan in Holland through the great Dutch bankers, Hope and Co., of Amsterdam. At the Congress of Vienna English diplomacy was mainly responsible for the creation of the new Kingdom of the Netherlands, including Belgium. To secure Russian support for our policy we took over about £2,000,000 of Russia's liability and agreed to pay 6 per cent., including sinking fund, on it as from January 1st, 1816.³ The King of the Netherlands took over an equal amount. Lord Liverpool, when replying to Lord King, explained that we pledged ourselves to pay the interest only so long as Belgium remained united to Holland. In fact we paid it rather longer. After the Belgian Revolution of 1830 we did not insist on this clause, to which Liverpool had attached so much importance. The new arrangement was regularised by 2 & 3 William 4, c. 81. A good deal of the story is told in this Act. We agreed to the new arrangement because, in our view, the spirit of the convention of 1815 was that "Russia would on all questions concerning Belgium

¹ *Hansard*, XXXII. 1033.

² *Parliamentary Paper*, No. 180 of 1900, p. 4.

³ The convention was of May 19th, 1815, confirmed by Act of Parliament 55 Geo. 3. c. 115.

identify her policy with that which the Court of London had deemed the best adapted for the maintenance of a just Balance of Power in Europe''; and we believed that in fact she had done so and would continue to do so.

The first instalment of interest paid by us was £122,000. By 1853 the sinking fund had reduced this annual charge to £88,577.¹ By an unusual stipulation in one of the original conventions we were to go on paying interest even in case of war between Russia and Great Britain. So, like honest shopkeepers, we paid all through the Crimean War, and established an interesting precedent in international law.² By 1891 the capital was down to £520,000. In that year a terminable annuity was arranged to get rid of the liability; and in 1906—a familiar date in the political history of England—the last payment was made to the representatives of creditors who had helped Catherine of Russia in the days when we were staggering under the loss of our old Colonial Empire. At least we have duly footed our great-grand-fathers' bills.³

The later history of the Austrian loan provides an interesting companion picture. For some years after 1816 everyone seems to have forgotten about it. Suddenly, in 1823, the Emperor, moved, as the Chancellor of the Exchequer subsequently explained in the House, by his tender financial conscience, proposed to pay back £2,500,000 "in satisfaction of the whole of the British claims upon his Imperial Majesty," through Messrs. Barings and Rothschilds. Possibly our representatives at Vienna had something to do with this awakening of conscience. The agreement was embodied in a convention of November 17th, 1823; payment was spread over four years; the "original Letters of Octroi . . . and Imperial Bonds" were returned to the Austrian Government; and the final absorption of the balance of the loan in the 3 per cent. Consols was authorised by Act of Parliament.⁴ England was properly grateful, though Brougham did say that half-a-crown in the pound was not a very handsome composition for an Emperor, a remark which naturally irritated Metternich.⁵

The policy that had led to our taking over the Russian-Dutch loan was responsible also for a series of payments in 1818-20 which, though not strictly payments made in time of war, were

¹ *Parliamentary Paper*, No. 466 of 1854.

² Hall, *International Law*, p. 436 n.

³ The final payments appear, *i.e.*, in the *Statistical Abstracts*.

⁴ 5 Geo. 4. c 9., from which the words quoted above come.

⁵ *Hansard* (N.S.) X. 310, 358. See Spencer Walpole's *History of England*, II., 89. I have not thought it necessary to study the history of the Convention; the inquiry might be curious.

at any rate military payments. We were always anxious about the military strength of the new Kingdom of the United Netherlands, anxious that her frontiers should be defensible both east and south—more particularly south. So in the years named we paid out in three instalments a sum of rather more than £1,500,000 to be spent by the Dutch on fortifications. Just how they were spent is a question for diplomatic and military historians. The economist need only notice that the matter was regarded as so obviously a British interest that the money was paid outright, as subsidies, not as loans. This backwash from the military anxieties of the great wars was the only thing of its kind during the forty years' European peace that, for us, followed Waterloo. And we never subsidised an ally again, either during war or in direct view of war, throughout the nineteenth century—if the published returns may be trusted.¹

Of course, we never fought as members of a coalition again except in the Crimea; and in the Crimea our chief ally neither needed nor desired our financial assistance. But we had to assist our weaker comrades. We did not use the subsidy, but did use both the methods of lending which had been experimented with during the great wars, the loan direct and the guaranteed loan. The former method was adopted for Sardinia, when Cavour, with ulterior objects, sent a division to the Black Sea to help us. Two advances of £1,000,000 each were made to the King of Sardinia, under Acts of Parliament, 18 Vict., c. 17 and 19 & 20 Vict., c. 39. When the second fell due peace had been declared; but the British Government made the promised advance, because the expenses towards which it was to go had already been incurred by King Victor Emmanuel's army. Sardinia undertook to pay 3 per cent. interest and a sinking fund of 1 per cent. The payment was regularly made and the debt was taken over by the Government of United Italy. By 1899 the outstanding balance was only £213,000. The final payment was made in 1902, and in 1903 the final statement of account, now balanced and closed, was laid before Parliament. No doubt a fresh account has since been opened.

The Turk alone remains. With him we were more cautious in the 'fifties. We and the French guaranteed jointly and severally interest at the rate of 4 per cent. on a loan of £5,000,000 which he raised in 1855. According to the regular Parliamentary practice of those days a separate Act (18 & 19 Vict., c. 99) was passed to sanction the arrangement. During the twenty years

¹ The only subsidies in the 1900 return later than 1820 are a series paid to the Sultan of Muscat from 1877 to 1884. The whole sum was only £21,000.

after 1855 the Porte paid back more than £1,000,000 of the principal and our contingent liability was *pro tanto* reduced. Then comes the Russo-Turkish War of 1878, and the loan vanishes, as it were, into the financial darkness of the Ottoman debt in general; into which darkness there is no present need to follow it.

And that, in brief, but I think in sufficient, outline, is the whole story of British loans, and probably all that economists will care to know about British subsidies, in time of war or for war purposes during the hundred and twenty-one years between 1793, when the French had just overrun the Austrian Netherlands and had beheaded their King, to 1914, when another Power overran Belgium in order to get at the French, but did not behead its King. Our interests were affected in both cases. It might be argued that honour was only certainly involved in the second. But that is not finance. When turning to history for precedents and parallels the inquirer finds, somewhat to his surprise, that the expenditure in financing allies, which interest and perhaps honour necessitated from 1793 onwards, gives small guidance for the problems of to-morrow. There was so little, so very little, lending and so much subsidising. The imperial loans of 1795-7, Cavour's loans of 1854-5, and the few others hardly furnish an adequate body of precedent, and what precedents they do furnish are mixed. It is much to be hoped that the precedent of Italy's businesslike payment and not the Emperor's half-crown in the pound will prevail; though no doubt there are loans outstanding to-day which must eventually be turned into subsidies.

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