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MR. GOSCHEN'S FINANCE.

1887—1890.

Reprinted, with additions, from

THE CONTEMPORARY REVIEW.

MR. GOSCHEN'S FINANCE.

1887—1890.

BY

SIR THOMAS H. FARRER.

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P R E F A C E.

The following pages are reprinted from three articles in the *Contemporary Review*, which appeared in October, November, and December, 1890. In revising them for the press, I have done my best to fill up gaps and to correct mistakes; but am not sanguine enough, in dealing with matters so various and so complicated, to hope that there are no errors left. To various criticisms, public and private, I am much indebted, but they have been such as to strengthen my original conclusions with respect to the financial measures of the last four years. Some things—such as the conversion of the National Debt; the establishment of the Local Loans Fund; and the imposition of additional taxation on businesses and on speculation—have been done well and in a workmanlike manner. But in other matters—more important and more numerous—there have been displayed very different qualities—restless cleverness; rashness mingled with cowardice; good notions made abortive and mischievous by evil surroundings—in short, a policy of meddle and muddle. In saying this I do not refer exclusively or chiefly to such measures as the Wheel and Horse

Taxes, the Sugar Convention, or the Publicans' Compensation Clause, upon which judgment has already passed; but to other financial innovations which, though they have received Parliamentary sanction, are no less important and no less mischievous. The most important of these are the following, viz. :—

1. The reduction, in time of profound peace, and of reviving prosperity, by a sum of not less than £3,000,000 a year, of the annual sum, or New Sinking Fund, which, under the wise prudence of a Conservative predecessor, the nation had in less prosperous times set apart in order to discharge the interest and principal of the National Debt. (See Chap. I., pp. 12-17.)

2. The expenditure on Army and Navy, which is not only larger in amount than has ever been expended before in times of peace, but has been so charged upon the future and so withdrawn from the usual constitutional checks as to make it uncertain what the amount expended really is; when it will be repaid; and whether the surpluses claimed by the Chancellor of the Exchequer are real or fictitious. (See Chap. I., pp. 32-37.)

3. The extension and perpetuation of the system of subsidising local authorities by appropriating to them integral parts of the Imperial resources, instead of providing them with their own separate local funds, a system which is at once embarrassing to the Imperial Exchequer and demoralising to local authorities. (See Chap. II., pp. 73-92.)

4. The unfair distribution of these subsidies, when compared with the standard which Mr. Goschen himself established in 1870-1. In these years he proved, and the proof has been confirmed by subsequent experience, that it was the great towns, and especially London, which were suffering most from new rates, and which most needed relief; whereas the measures of the present Government have been such as to give the largest amount of relief to rural districts, and to give to the towns, and especially to London, a comparatively small proportion of these subsidies. (See Chap. II., pp. 93 *et seq.*)

5. The total absence of any attempt to give to the ratepayers of the great towns, and especially of London, the relief which, as Mr. Goschen proved in 1870, is the relief really wanted, viz., the transfer of a part of the burden of rates to the owners of land in those towns. (See Chap. II., pp. 95-97.)

6. The removal of existing checks on the expense of the Metropolitan Police, and the assumption of new and indefinite powers of taxing the Metropolis for this purpose. (See Chap. II., pp. 104-107.)

7. The meddling and unsatisfactory changes made in the levy and appropriation of the Death Duties. These changes, whilst admitting the existing injustice and confusion of this great branch of taxation, have aggravated that injustice and confusion, and have rendered it more difficult, if more necessary, to deal with the whole subject fairly and fully.

8. The confusion introduced into the National Accounts by the mingling of Imperial with Local

Funds, and by the withdrawal, both in the case of Local Finances and of Army and Navy Expenditure, of the ordinary constitutional checks. (See Chap. II., pp. 81-83; and Chap. III., pp. 154-157.)

Remission of Taxation and Reduction of Debt have been forced upon the Government by surpluses which they did not anticipate, and by prosperity with which they had about as much to do as Mrs. Partington's mop with the Atlantic Ocean, but the acts and omissions I have noticed above are their own.

If amongst these doings and misdoings I were to make a guess at the one which is likely to be most fatal to Mr. Goschen's reputation as a statesman, it is—that having had such an opportunity, as does not occur once in a century, of establishing the wholesome old English principle of Local Self-Government by a self-supporting system of Local Finance and Local Self-Taxation, he has preferred the easy and cowardly plan of subsidising Local Bodies by doles from Imperial Funds, ill selected, ill applied, and ill distributed—doles demoralising at once to the giver and to the receivers.

T. H. FARRER.

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FINANCE OF 1887-1890.

INTRODUCTORY.

SOME apology seems necessary for offering to the public the following short observations on a very large subject, more especially by one who has not made Finance his special study. As Chairman of the Taxation Committee of the London County Council, the writer has been obliged to pay attention to the subject of urban rating; to the loud complaints which are made on that subject; and to the remedies which have been proposed. In so doing he has been compelled to consider the measures by which the present Government have endeavoured to satisfy the demands of the ratepayer, and this has further led unavoidably to the consideration of Imperial as well as Local Finance, and of the relations between them, which have played so large a part in recent Budgets.

The four years of the present Ministry have been peculiar in many respects. Thanks to the reaction from 1880, and, *inter alia*, to the foreign policy of Lord Salisbury, they have been years of profound peace, undisturbed by the wars and rumours of wars

Subjects to
be con-
sidered.

Special
features of
the last four
years.

which troubled the minds of Chancellors of the Exchequer during the previous decade ; they have been years of reviving commercial prosperity, following a depression which lasted almost continuously from the subsidence of the boom of 1872 until 1887. They have been times in which great questions of Imperial and Local Government have come to the front, demanding a revision of their financial relations, and affording scope for financial reform of the utmost importance. The Ministers have had at their back a great majority, consisting not only of their own Conservative supporters, but of men powerful in experience, ability, and character, who, except on one point, were pledged to Liberal doctrines ; and in their Chancellor of the Exchequer they have had a financial leader whose qualities and acquirements, whose antecedents and character, naturally led the country to expect from him the most important fiscal reforms. In addition he was a statesman who, when on the Liberal side in politics, had given special attention to the subjects on which, as a Conservative, he has had to propose legislation, and who had, by his inquiries and his reasonings, done more than any living man to elicit the facts and illustrate the principles which ought to govern local taxation.

What has
been done ?

It is, therefore, peculiarly interesting to inquire, after the lapse of four years, what has been the result of these unequalled opportunities? Have we advanced public economy? Have we made the financial future of the nation more secure? Have we simplified the National Accounts? Have we rectified injustice in

taxation? Have we placed local taxation on a proper basis? Finally, what is it which remains to be done, or to be done next? To answer these questions fully and properly is beyond the scope of such a treatise as this, and, indeed, far beyond the powers of the present writer. All he can do is to state shortly and concisely certain reflections which have occurred to him in considering Mr. Goschen's Budgets; and also to indicate in a summary form certain suggestions concerning the further changes which are needed, especially as regards local taxation. As to these suggestions, he cannot state too strongly how imperfect he feels them to be; how much the principles they involve need criticism, and how much any plan for carrying them into effect will need elaboration. We are but at the very beginning of the reform of Local Government. The chief merit of the Local Government Act of 1888 is not so much what it has done as what it makes it necessary to do, and the best help anyone who has given thought to the subject can offer is to state fearlessly the conclusions to which he has come, so that they may be discussed and criticised.

The first of the three following chapters contains observations on certain leading points in the Imperial Finance of the last four years; and the consideration of the relations between Imperial and Local Finance is dealt with in the two following chapters. It will be found that the two subjects of Imperial and Local Finance are in frequent contact, and must, as regards many points, be treated together. But

Contents of
following
chapters.

it is convenient to separate them as far as possible, and to take, in the first instance, points which are less immediately connected with Local Government, reserving the subject of Local Taxation and the questions of Imperial Finance connected with it for subsequent consideration.

CHAPTER I.

IMPERIAL FINANCE.

1. National Debt (*a.* Conversion and Redemption ; *b.* Sinking Fund)—2. Army and Navy Expenditure—3. New Sources of Taxation.

THE features in the administration of Imperial Finance to which it is desirable to call attention may be considered under three heads, viz.,

First, the dealings with the National Debt. These have been of two kinds ; the annual charge has been diminished by conversion and redemption, and the provision for paying off principal has been altered by reducing the annual Sinking Fund.

Secondly, the expenditure on army and navy, which has been extraordinary, both in the actual amount and in the methods adopted.

Thirdly, the new sources of income which have been proposed or provided.

I propose to take these three subjects in order.

(1) THE CONVERSION AND REDEMPTION OF THE NATIONAL DEBT.

The general approval given to Mr. Goschen's scheme of Conversion and Redemption makes any ob-

1. National Debt. Conversion ; Sinking Fund.
2. Army and Navy expenditure.
3. New sources of income.

Conversion and redemption.

General
results.

servations of mine superfluous. But it may be well to quote from Mr. E. W. Hamilton's excellent account of the operation* the sentences in which he sums up the results. :—

“During the eighteen months which elapsed between April, 1888, and October, 1889, out of a total amount of Three per Cent. Stocks amounting to about £592,500,000, no less than about £565,500,000 were converted; about £5,725,000 remained in suspense; and about £19,250,000 were paid off at par, without being subjected to any piecemeal treatment; the balance having, in the meanwhile, been cancelled by the action of the ordinary Sinking Funds.

“Scarcely less striking than the magnitude of the operations was the absence of all disturbance in the money market while they were actively proceeding. There was no abnormal tightness due to them; there was no evidence of inconvenience caused in financial circles. Moreover, though there were grumbles from stockholders, as might have been expected, and at times expression was given to their feelings in somewhat strong terms, yet even by those directly affected by the operations no complaints of a serious nature were made.

“The last, but not least characteristic of these gigantic undertakings was that they were carried through with practically no additions to the nominal capital of the debt; and accordingly the advantage to the taxpayer was not purchased at the expense of burdens to be sustained by future generations.

“There remain to be stated the advantages which have resulted from the success attending the Conversion and Redemption operations.

“First and foremost is the great saving which has been effected in the necessary annual debt charge. The full

* *Conversion and Redemption.* (Eyre and Spottiswoode. 1889.)

effect of this saving during the first year has exceeded £1,000,000 ; and the saving during each of the next thirteen years will be about £1,400,000 (after allowance is made for the interest on the capital outlay connected with the conversion) ; while, after 1903-4, that saving will be doubled.

“In substitution for three principal Government Stocks, there has been created one great Stock of one denomination, amounting to about £530,000,000, which is in enjoyment of security from conversion until 1923, and on which, accordingly, the character of finality has been impressed. Fund-holders are no longer in a state of uncertainty and suspense. They know their position for more than a third of a century to come.

“They have also secured the advantage of receiving their interest quarterly ; and the payment of quarterly dividends is not only a convenience and attraction to some investors, but also secures a more even dividend charge throughout the year.

“In fine, a strict adherence to national faith, combined with due regard to the interests of the taxpaying community, has had its reward. The credit of the country has been raised ; its burdens have been lightened ; and its resources have been increased.”

It should be added that, out of the whole expenses of the conversion, which amounted to about £3,000,000, two-thirds, or about £2,000,000, were not added to the debt, but were paid out of surplus revenue.

One passage in Mr. Hamilton's summary I do not quote—that, namely, which relates to the effect of the conversion on Sir Stafford Northcote's Sinking Fund—because I have dealt with this subject in another part of this chapter. If Mr. Goschen's method of dealing with this particular part of the subject

Effect on
Sinking
Fund.

shows his weakness, the admirable way in which the whole operation was conducted is an excellent illustration of his strength. Indefatigable industry in mastering details; full and accurate knowledge of the particular subject; knowledge no less full and accurate of the City and the money-market; acquaintance with the men by whose help such an operation has to be carried through; all these qualities Mr. Goschen has brought to bear, and we see the result. And if we find that the wheels of the machinery were greased by a small commission or *douceur* (1s. 6d. per cent.) to stockbrokers, bankers, and solicitors who procured from their clients assents to the conversion, we can afford to forgive this compliance on the part of our Chancellor of the Exchequer with the ways of a very imperfect world, and to smile at the way in which the practical prudence of the City man has prevailed in his person over the purism of the economical philosopher. After all, it was probably not so much any small profit to be obtained from the commission, as the value attached by bankers to a large, simple, and easily convertible stock, which procured the favour of the great bankers.

Objections
by creditors.

There is, of course, another view of the conversion which may be taken by the nation's creditors; by widows, orphans, and others who have had their incomes reduced by a present $\frac{1}{2}$ per cent. and a prospective $\frac{1}{2}$ per cent. These persons find that the stock for which they could before the conversion have obtained par, or a little more, has been converted into another stock, which, since the completion of

the conversion, has been several pounds below par. They may well lament that they were induced by the blandishments of the Chancellor of the Exchequer, or the advice of their agents who received a *douceur* for their advice, to convert their stock instead of demanding cash for it.

But this is a partial criticism. The clients of the Chancellor of the Exchequer are the taxpayers of the nation, and amongst them are many more widows and orphans than there are among the holders of stock. He cannot be expected to be chivalrous; he has only to be just; and if there has been no sharp practice on his part, he is to be congratulated on his luck and his skill in catching the market at the moment which served his turn, and deserves the praise of his clients for making a good bargain for them.

There is also another view which may be taken by those who are anxious concerning the credit of the nation. It may be said that public faith in the "glorious simplicity of the Three per Cents." has been rudely shaken; that a Stock, which has already suffered a loss in interest of $\frac{1}{2}$ per cent., and which must in a few years suffer another similar loss, will no longer offer the same attractions to investors; that dealings in this Stock have fallen off, and will continue to fall off, and that the credit of the nation, as well as the conscience of the investing public, will suffer.

The answer to this criticism is that it is in a great degree speculative, whilst the present annual gain of

Objection
on the
ground of
national
credit.

£1,400,000, and of twice that sum after 1903, is certain. The lucky boom of which Mr. Goschen availed himself has been followed by an unusual reaction and depression, not only in Consols, but in all Stock Exchange securities, and we cannot, without much longer experience, tell whether Mr. Goschen's Consols have suffered or will suffer more in proportion than other securities, or whether they may not hereafter, when people have become used to them, be, when compared with other Stocks, as great favourites as the Three per Cents. have been. Moreover, it must be remembered that, if by the fall in Consols the National Credit suffers, so as to make it more expensive for the nation to borrow, the same fall makes it cheaper for the nation to buy up, pay off, and extinguish debt; and, consequently, so long as the nation is paying off debt, and not borrowing, it pays off debt on better terms than it would have been able to do if there had been no fall in its price.

THE REDUCTION OF THE SINKING FUND.

History of
the "New
Sinking
Fund."

The "New Sinking Fund," as it is called, consisted in 1887 of a fixed sum of £28,000,000 a year, which had, in 1875, been appropriated, at the instance of Sir Stafford Northcote, to the payment of interest and principal of the National Debt. This fixed sum Mr. Goschen reduced in 1887 to £26,000,000, and again in 1889 to £25,000,000; so that the annual charge devoted to the discharge of national liabilities will, by Mr. Goschen's action, be for the future

£3,000,000 less than the sum at which Sir Stafford Northcote fixed it. In doing this, and as a part of the same process, Mr. Goschen prolonged for a considerable period the terminable annuities by which, under arrangements made by Mr. Childers in 1883, debt was being paid off.

It is important to understand clearly what this means. It might be thought that Sir Stafford Northcote in 1875 imposed heavy additional burdens for the purpose of paying off debt. But this was not the case. The sum appropriated to the payment of principal and interest of the debt amounted to £28,750,000 in 1859, and though reduced in 1860, it had since that date never sunk below £26,000,000, and had gradually risen again to more than £27,000,000. To the amount so appropriated in 1874-5, which was about £27,000,000, Sir Stafford Northcote added only £900,000.* The satisfactory results which had been thus obtained were largely due to the wise policy of repaying principal by means of terminable annuities, some of which, as above noticed, Mr. Goschen, when reducing the "New Sinking Fund," postponed. But Sir Stafford Northcote foresaw that as the terminable annuities fell in, and as the principal of the debt thus became diminished, and with it the charge for interest, the temptation to use the surplus in relief of taxation rather than in repayment of debt would

* See Budget debates of 1887, and especially Mr. Childers' speech on April 25th. See also Mr. Sydney Buxton's Budget tables in Vol. II. of his *Finance and Politics*, pp. 334 and following.

be great; and it was in order to guard against this temptation that he pledged the country to the annual payment of a fixed sum, so that each year, as the capital was redeemed, and the charge for interest became less, a larger and an ever-increasing sum might be devoted to the reduction of the capital of the debt. Unfortunately for its working, this so-called "New Sinking Fund" was instituted at the end of a period of great prosperity and of considerable economy. The reaction from the boom of 1872-3 had begun; the long period of depression was commencing; and the elasticity of the Revenue was for the time being at an end. Shortly afterwards followed the Russo-Turkish war, followed by the Afghan war, the South African wars, and all the Egyptian troubles, involving not only increased expenditure, but a large increase of temporary debt. Notwithstanding these difficulties the New Sinking Fund was maintained at its full original amount; the Income-tax was raised; and in 1880 the original £28,000,000 was increased to £28,800,000, in order to pay off temporary loans. It was not until 1885 and 1886, under great stress of expenditure, that payments of debt were reduced, and the New Sinking Fund temporarily suspended; but nevertheless the amount appropriated to debt in 1886-7 was only just under £28,000,000. Moreover, this suspension was a mere temporary expedient, and in no way intended to be permanent.

Mr.
Goschen's
reductions

It was reserved for Mr. Goschen in 1887, and again in 1889, to declare that £28,000,000 is much too

large a sum for this wealthy nation to devote annually to the discharge and reduction of its liabilities, and finally to fix £25,000,000 as a sufficient sum for this purpose. These declarations were made, it is to be observed, when the clouds of war had passed away, when the long period of trade depression, which had existed almost continuously from 1873 to 1887, was at an end, and when there was actually an estimated excess of revenue over expenditure. Mr. Goschen's reasons for these retrograde steps are to be found in his Budget speech of 1887,* to which, in order that full justice may be done to him, reference should be made. In this place, it will only be possible to advert to them very shortly.

His first reason was the growing expansion of expenditure coupled with a growing want of elasticity in the Revenue. This want of elasticity was, it was said, especially shown in the produce of the Income-tax, and of the taxes on consumable articles, especially on alcoholic liquors.

His second reason was the growth of charges other than the debt charge, from £36,000,000 in 1874-5 to more than £48,000,000 in 1886-7, and the growth of the Income-tax from 2d. to 8d. These circumstances justified him, he alleged, in appealing to Sir Stafford Northcote's own authority, and he quoted words from the speech of Sir Stafford in 1875, in which that statesman said that "he had no doubt that under

* See *Hansard*, April 21st, 1887. Mr. Goschen's Budget speeches are also published separately in a very convenient form, with tables of accounts and estimates attached.

of this fund : his reasons.

1. Want of growth in Revenue.

2. Growth of Expenditure. Appeal to Sir S. Northcote's own authority.

ordinary circumstances, with the ordinary growth of Revenue, we should be very easily able, without any injustice to the country, to bring up the charges for debt to £28,000,000"; and further, that "if this should materially alter, it would be only right to remove what we then put on."

Mr. Goschen, it is to be observed, took as his year of comparison with 1887 the year 1874-5, *i.e.*, the year before the New Sinking Fund was actually proposed and established. Had he taken the subsequent years, 1875, 1876 and 1877, during which the New Sinking Fund was actually brought into operation, he would have been compelled to increase his £36,000,000 of charges other than the debt charge by £1,500,000 for 1875-6, and by £2,000,000 for the two subsequent years.* It is but fair to his predecessor that this should be mentioned, since Mr. Goschen's statement makes the difficulties with which he himself had to contend appear comparatively greater, and those with which his predecessor had to contend comparatively less than they would appear to be if the later years were taken.

What Sir S.
Northcote
really did
say.

It is not perhaps very material now to record what Sir Stafford Northcote said in 1875 and subsequent years; but when Mr. Goschen, who was not measured in his language towards Sir Stafford Northcote when that statesman was his political opponent, now quotes Sir Stafford Northcote as an authority for his present action, it is only just to state what Sir Stafford Northcote's opinions really

* See Mr. Childers' Return, No. 294 of 1889.

were. Now I defy anyone who looks to the general tenor of Sir Stafford Northcote's Budget speech of 1875* in which he proposed the New Sinking Fund; or to his action in raising the Income-tax in 1876 chiefly in order to maintain the payment of debt,† or to his subsequent action in respect of that Fund, at the time when the dire necessities of an unfortunate foreign policy had driven him into the financial expedient of postponing liabilities from year to year, to gather from them any indication of any such approval of the recent reduction of the New Sinking Fund as Mr. Goschen appears to claim.

Sir S. Northcote's most recent utterance on the subject, so far as I know, is in a speech on the Finance of the New Sinking Fund made at Barnstaple on March 27th, 1880,‡ at a time when the financial pressure above adverted to was fully developed, in which, after explaining that £800,000 had been added to the Fund in order to liquidate temporary loans, he emphatically defended the principle and maintenance of that Fund, under circumstances far more difficult than any Mr. Goschen has had to deal with :—

“In 1876 I proposed, and Parliament agreed to, an arrangement by which a fixed amount should be set apart, £28,000,000 every year, to pay the interest of the debt, and whatever remained over and above was to be applied to the redemption of the principal. Now, the effect of that is this—Every year, as you redeem a portion of the principal of the

* See his published speeches, p. 209.

† *Finance and Politics*, Vol. II., 221.

‡ Published speeches, p. 109.

debt, of course there is less interest to be paid upon it, and, therefore, if every year you set apart the same sum, it will go on redeeming more and more of the principal. We have now arrived at this point, that out of the £28,000,000 set apart every year, about £27,250,000 is required for interest, and, therefore, there is £750,000 available for discharge of the principal of the debt, that will go on increasing year by year until Parliament alters the arrangement by which £28,000,000 are set apart. Now, what has been proposed in regard to these £6,000,000 which have been converted into terminable annuities is simply this, that you shall go on extinguishing terminable annuities *partly by the action of the Sinking Fund, and partly by a considerable addition to the £28,000,000 which we raised to £28,800,000. We do not extinguish the Sinking Fund, we only apply a certain portion of it towards the extinction of that debt within a certain number of years. The action of the Sinking Fund will still go on, and it will not be exhausted—not nearly exhausted—by what the call on it now is. Therefore, it is entirely false to say that we have in any degree abandoned the principle of the Act of 1876, or that we have extinguished or suspended the Sinking Fund.*"

Merits of
the case
against Mr.
Goschen, as
stated in the
Budget
debates

So much for Sir S. Northcote and his opinion. As regards the merits of the case, they were exhaustively dealt with in the Budget debates of 1887.* If proposals for remission of taxation, when made by a Chancellor of the Exchequer, could ever be defeated by argument, Mr. Goschen would have been in a bad way. It was shown, for instance, that since 1860 the aggregate wealth of the country had almost doubled, whilst the whole burden of taxation had only increased by 15 or 16 per cent., and that the

* See especially speeches of Mr. Gladstone, Mr. Childers, and Mr. Sydney Buxton. *Hansard*, April 25th, 1887.

portion of this burden which was applicable to the charge of debt had not increased at all. It was shown that the Income-tax had been patiently and courageously borne for twenty years at 7d. in the £, and over, for the purpose of reducing other taxes and meeting an excess of expenditure. It was shown that in 1859-60, when the Income-tax was at 9d., producing only £1,100,000 per penny, the sum applied to debt was £28,649,000, or 20s. per head of population; that in 1870-1 it was £27,142,000, or 18s. per head; that in 1874-5 it was £26,495,000, or 16s. per head; that in 1880-1 it was £23,169,000, or 16s. per head; whilst in 1887-8 Mr. Goschen was fixing it at £25,800,000, or only 15s. 6d. per head. It was also shown that in 1887-8 the Income-tax was calculated to produce £2,000,000 per penny; and that the charge for debt, according to Mr. Goschen's calculations, was only to be three-fourths of the burden, either on the population per head or on the total revenue, which it had been in 1859-60. Lastly, it was shown that former inroads on the Sinking Fund had been made in order to meet special circumstances of difficulty and danger, whilst the year 1887-8, when Mr. Goschen was making his own exceptionally fatal inroad upon it, was not only a time of no special difficulty or danger, but one of peace and reviving prosperity, with a surplus (which proved to be much under-estimated) in hand.

To all these startling facts and figures Mr. Goschen made no real reply. He had no great scheme of reform *in petto*, such as Mr. Gladstone is said to

Failure to
reply to
these argu-
ments.

have had when he went out of office in 1874, or such as it is rumoured that Lord R. Churchill had at a later period. His great point was that Income-tax payers ought to be relieved. Now, there is no doubt much to be said for the poorest classes of Income-tax payers. But, as we shall see below, the repeal of 1d. of Income-tax might, with accurate estimates, have been effected without touching the New Sinking Fund; and even if it had been impossible to frame accurate estimates, or to find other resources, it would have been far better to retain the 8d. Income-tax for one or two years more than impatiently and hastily to deal a fatal blow to the New Sinking Fund.

Argument
from popular
opinion.

I am told that these are counsels of perfection; that no practical politician dares to keep up the Sinking Fund; that our people are impatient of their own burdens and careless about those of posterity; and that they would resent and punish by expulsion from office any statesman who was bold enough to keep up taxes in order to pay off a fair amount of debt.

Of all this I do not believe one word. There was not, so far as I know, a whisper of public complaint against the New Sinking Fund at the time Mr. Goschen volunteered to reduce it. No such grievance was heard of on the hustings, in the Press, or in Parliament, and if it existed at all, it existed less in the opinion of the public than in the apprehensions of timid and time-serving politicians.

But it may be said, "Mr. Goschen's reductions

were received and welcomed." Of course they were! Argument from acceptance of reductions.
 When remission of taxation is offered by the Government the game is given up and opposition is in vain. If the appointed guardian of the public treasury throws open its doors and scatters its hoards, the people cannot be expected to hold their hands.

"If they be foul on whom the people trust,
 How can the baser brass escape the rust?"

or in the racy language of the older poet, how can we expect to have "a dirty shepherd and clean sheep"?

As regards Mr. Goschen's other special reasons above adverted to, it is instructive to compare the facts on which he relied with the subsequent results. Pessimistic forecasts compared with actual results:

The Treasury Minute justifying his proposals contains the following passage concerning the supposed inelasticity of the Income-tax:—

"When Sir Stafford Northcote made his proposal in 1875 to increase the debt charge, he had good reason to count on an increased yield per penny of Income-tax, for in the preceding twelve years the yield had risen from £1,249,000 to £1,945,000; in other words, more than 50 per cent. in twelve years. From the comparison just drawn it appears that the rise has only been from £1,945,000 to £1,990,000, or less than 3 per cent. in eleven years."*

Alas! for forecasts, and especially for these pessimistic forecasts! Whatever may have been their justification in the past, they proved utterly wrong in their application to the future. According to Mr. Goschen's Budget speeches the yield per penny of As regards Income-tax.

* Extract from Treasury Minute; Parliamentary Paper, No. 168 of 1887.

the Income-tax has risen in the four years 1887-8 to 1890-1 inclusive from £1,955,000 to £2,200,000, a rise of £245,000 or more than 12 per cent., an increase nearly as great as in the prosperous years preceding 1875.*

As regards
taxes on
consumable
articles.

Again, as regards the taxes on consumable articles, Mr. Goschen in 1887 and in subsequent years, when seeking to justify his inroads on the Sinking Fund, relied much on the want of elasticity in the revenues from alcoholic drinks. But in 1890† he had to express his astonishment at finding that “the increase in the consumption of alcohol last year, as compared with its predecessor, produced an increase of duty exceeding £1,800,000.” His astonishment must have been so great as to daze his judgment; for otherwise he would scarcely have ventured to propose a plan for dealing with the liquor trade which violated sound financial principles by applying the proceeds of general taxation to local purposes; which transgressed ordinary rules by raising money before determining its application; which, under the mask of an inefficient and inadequate reduction of facilities for drinking, would have given to present licences an increased value and an unprecedented monopoly; and which has done more to break up the union of parties by which the present Government is supported than any other mistake that they have made themselves,

* I have taken these figures from Mr. Goschen's Budget speeches.

† *Budget Speech of 1890*, p. 7; *Hansard*, April 17th.

or any assault that has been made on them by their enemies.

But the taxes on alcoholic liquors form but one item in the pessimistic views of finance by which Mr. Goschen has justified his reduction of the New Sinking Fund. The real criticism of these views and of that justification is to be found in a comparison of his Budget estimates with the actual results. They are as follow, as stated by himself: *—

	Estimated Surplus.	Actual Surplus.
1887-8 . . .	£289,000 ...	£2,378,609
1888-9 . . .	212,056 ...	2,798,000†
1889-90 . . .	183,000 ...	3,221,000
1890-1 . . .	233,000	

The results for the last year are, of course, yet unknown; but they will apparently, unless some change takes place, be stated in his next Budget as showing a very large unanticipated surplus. ‡

Now, if this had happened once or even twice it would have passed as accidental. But happening as it has done in every year of Mr. Goschen's Chancellorship, it certainly looks as if the habit of his mind were to under-estimate his resources and to provide himself with unnecessary surpluses; and as if in the course of this operation, and as one of the

* See the useful tables attached to Mr. Goschen's published Budget speeches.

† Of this, about £2,000,000, as above noticed, were applied to Conversion expenses.

‡ See articles in *Economist* of July 5th and October 4th, 1890, and January 3rd, 1891, which, while deprecating exaggerated expectations, admit a "very substantial growth of revenue in excess" of the estimate.

steps by which he had arrived at these results, he had needlessly and improvidently reduced his statutory obligation to repay debt.

Unexpected
surpluses
have com-
pelled pay-
ment of
debt.

Let us understand distinctly what this means. It is not that he has rendered himself unable to repay debt by repealing too many taxes, or by giving away too much money in aid of Local Taxation or otherwise. All or almost all that he has surrendered in this way might, and would have been equally well surrendered, if he had not diminished the efficacy and invaded the principle of the New Sinking Fund. The Revenue which, according to his own statements, he actually received was ample for both purposes. Nor is it that he has not paid off debt. The surpluses which have been realised over and above his estimates have been sufficient to pay off all that Sir Stafford's New Sinking Fund, if maintained intact, would have paid off, and more; and, except so far as they have been specially appropriated to other analogous purposes, they have, under the operation of the Old Sinking Fund (under which the realised surpluses of each year must be applied in reduction of debt), been actually applied in payment of debt. These surpluses have exceeded the £2,000,000 by which he diminished the New Sinking Fund in 1887-8 and in 1888-9, and the further £1,000,000 by which he diminished it in 1889-90. He himself has not been backward in claiming credit for "paying off more debt than has ever been paid off before in the same time."* Assuming his statement of liability

* See *Budget Speech of 1889*, p. 23.

to be correct and complete (which, as we shall see below, is a questionable assumption) we may allow him the credit of having actually made these payments. But we cannot give him the credit of having intended to make them. It is not the amount of debt which unforeseen prosperity enables a Chancellor of the Exchequer to pay off, but the amount which he specifically applies and induces the country to apply for this purpose which makes the character of a bold and successful financier.

Unsatisfactory nature of this mode of payment.

Moreover, the system, if it can be called a system, of paying off debt by a fluke is almost certain to break down. All may go on well whilst the estimates of Revenue are below the mark, as they have been for the last few years. Then, indeed, a surplus is realised, and the Chancellor of the Exchequer is able to plume himself on the repayment of debt and on having means in hand by which to frame popular Budgets for ensuing years. But the position will be very different when Budgets are again accurate, or when the elasticity of the Revenue disappears. The reduction of debt will then be comparatively small, while the temptation to further plunder the Sinking Fund as it recovers from Mr. Goschen's depredations will be almost irresistible.

It is sure to break down.

The real charge against Mr. Goschen's dealings with the New Sinking Fund is that he, the economist *par excellence*, the "canonised saint of financial purity," as Lord Randolph Churchill once called him, has now, as Tory Chancellor of the

Real charge is that Mr. Goschen has declared the country unable to pay.

Exchequer, proclaimed, in piping times of peace and prosperity, that £28,000,000 a year is too much for this great and wealthy country to devote annually to the payment of her enormous debt; that £25,000,000 is ample for this purpose; and that the plan which Sir Stafford Northcote had instituted for a permanent, steady, and steadily increasing repayment of debt is beyond the will or the power of the nation to accomplish. Indeed, we are now much worse off than we were before the establishment of the New Sinking Fund. We then paid a debt-charge at the rate of from £26,000,000 to £28,000,000 or £29,000,000 a year without any fixed limit. We have now, thanks to Mr. Goschen, set up an ideal limit of £25,000,000 only. A fatal precedent has been set for future Chancellors of the Exchequer, a precedent which is only too likely to call for speedy imitation.

Mr. Ritchie's defence of Mr. Goschen's estimates.

Mr. Ritchie, in his speech at Manchester on October 16th last, characterises my observations concerning Mr. Goschen's estimates of revenue as disingenuous, because, he says, the estimates are framed, not by the Chancellor of the Exchequer, but by the permanent Civil servants. But this, if true, clenches the case against Mr. Goschen. Mr. Ritchie says he trusted naturally, properly, and absolutely to his permanent advisers. In that case he must have believed in his estimates, and is excluded from any possible credit either for his unexpected surplus or for the reduction of debt which that surplus forced upon him. The best hypothesis for Mr. Goschen, and, perhaps, the true one, is that he did not believe the estimates

submitted to him and yet did not dare to refuse them; and that consequently, expecting a surplus, he did not wish to repay debt under the New Sinking Fund and under the old one at the same time. But if this was his part in the matter, it was not the part of a bold or straightforward Minister. In truth, the public will not and ought not to admit that the Chancellor of the Exchequer is not responsible for his estimates, and when for four successive years the estimates of one Minister are always in the same direction, there is surely ground for suspecting some peculiar idiosyncrasy in his character, some tendency towards extreme caution. Now, such an idiosyncrasy may be a very valuable quality, and its exercise may under some circumstances be a great public virtue. When extreme caution in estimating revenues is used for the purpose of economising expenditure we may give credit for the caution and welcome the surplus. But when it is accompanied by unprecedented expenditure; when it is used for the purpose of reducing the Sinking Fund; when surpluses are actually produced by the reduction of that Fund; still more when, as we shall see to be the case here, the future is at the same time being anticipated and debt is being incurred, we are justified in stigmatising the caution as weakness, and the surpluses as fallacious.

It is impossible to dissociate Mr. Goschen's Budget of 1887 from that of 1888. The reduction of the New Sinking Fund by £2,000,000 in 1887 has an obvious connection with the grant of half the Probate Duty, amounting to about the same sum, in aid of

Connection
of the Sink-
ing Fund
reduction
with the aid
to Local
Taxation.

local rates. Now, the new system of Local Government which we are establishing is quite sure to be expensive, whatever other advantages it may bring with it. Further claims are sure to be made upon the Exchequer. What more likely and what more easy than that local ratepayers should demand, and that Chancellors of the Exchequer should concede, the transfer to local purposes of the remainder of the Probate Duty, and that the gap thus caused in the Imperial Finances should be filled up by a further diminution of £2,000,000 or £3,000,000 of the annual debt charge. *Facilis descensus Averni*. Reasons as good as Mr. Goschen has given will not be wanting, and they will be supported by the weight of his great authority.

Effect
of Mr.
Goschen's
reductio
on the
future of
the Sinking
Fund.

Mr. Goschen seems indeed to think that he has himself, by reducing the New Sinking Fund, raised a barrier against future attacks on that Fund by some less scrupulous Minister. In replying to Lord Randolph Churchill, he said,* in a very pointed manner, that if the sum devoted to repayment of debt remained as large as Sir S. Northcote made it, it would be "a formidable and enticing sum at the disposal of a bold, daring, and enterprising Chancellor of the Exchequer." It is curious that so solid a man as Mr. Goschen should have thus replied to his versatile predecessor. It is still more curious that he should not see that, if the daring schemes which he contemplated as not impossible were really to come within the scope of practical politics, his own action and ex-

* See *Hansard*, April 21st, 1887, p. 370.

ample, and his own character as a prudent and able financier, would be the most valuable precedent that could be urged in their favour. To save the Sinking Fund he throws it overboard, frightened, like Cowper's silly sheep, by an empty noise.

“ He deems it wisest and most fit,
That to save life we jump into the pit.”

Would that we were able to continue the quotation. The poem goes on :

“ Him answered then his loving mate and true,
But more discreet than he, a Cambrian ewe,
How, leap into the pit our life to save ?
To save our life leap all into the grave ?

* * * *

Come fiend, come fury, giant, monster, blast
From earth or hell, we can but plunge at last.”

—From the *Needless Alarm*.

What a pity that his prudent leader could not act the part of the Cambrian ewe !

One other point remains to be noticed—viz., the relation of Mr. Goschen's successful conversion of the debt to the New Sinking Fund. Let us give it in his own words :—

“ At this point I would remind the Committee that last year I expressly reserved the application of the £1,000,000 to be saved in the present year—viz., the Conversion Scheme, and said that I did not wish to pledge myself or the Government as to whether the whole, or a portion, or none of it should be employed in the remission of taxation, or, on the other hand, in the diminution of public debt. ‘ But there,’ I said, ‘ it stands—a sum of £1,000,000, which will be added to the national resources in the year 1889-90, and it will be followed by a yet larger sum in the following year.’

Conversion
and the
Sinking
Fund.

As it has turned out, while the saving in the first year is £1,000,000, it will in subsequent years be £1,500,000. What I propose, therefore, is this. I propose that £1,000,000 of that saving should be annually applied to meet a portion of the deficit due to the Naval Defence Bill, while the £500,000 should be allowed to go to increase the fund available for the diminution of the debt. If I were to act according to precedent, I should be entitled to take the whole of the saving for the benefit of the taxpayers. In no Conversion Scheme has the saving effected on the interest been applied to increase the Sinking Fund. In the Conversion Scheme of 1834, my right hon. friend the member for South Edinburgh gave the whole net advantage of his conversion, such as it was, to the taxpayer. By my conversion operation, on the other hand, if my present proposal is accepted, there will be an amount of something like £500,000 a year added to the sum available for the reduction of the debt. The only argument which I can imagine may be pressed against this proposal is that I ought to give the whole of the saving to the reduction of the debt, because two years ago I diminished the amount available for that purpose by £1,500,000.

“ Mr. CHILDERS : Two millions.

“ Mr. GOSCHEN : Yes, £2,000,000 ; I am obliged to my right hon. friend ; but I have explained before that I consider myself perfectly justified in the course then taken, and if, as I held, and hold, £5,000,000, besides the Old Sinking Fund, is a sufficient and ample annual provision for the reduction of debt, then I feel that if, out of the £1,500,000 which is saved by my conversion, I add £500,000 to that provision, I am doing as much as the most rigid financial purist could expect. I believe that a great majority, both in this House and out of it, will think that I have taken a reasonable, fair, and business-like course in applying this £1,000,000, as I propose to apply it, to meet a portion of the increased charge due to our naval defence plan. The effect will be to diminish the total fixed charge for debt from £26,000,000 to £25,000,000, but out of that £25,000,000

there will be as much devoted to the reduction of debt as is devoted now out of the £26,000,000, and after the present year there will be £500,000 more so devoted. Of the £25,000,000, £19,500,000 in round figures will go in payment of interest and £5,500,000 in reduction of debt."*

Again he says, in recording his own deeds :

" I have diminished the Sinking Fund by £1,500,000, originally by £2,000,000, but I replace £500,000."†

One might think, in reading these passages, that Mr. Goschen in 1889 was actually increasing the fixed sum put aside by Sir Stafford Northcote for payment of debt by £500,000 ! Nothing of the kind.

In 1887 it was £28,000,000, and he reduced it to £26,000,000 ; in 1889 it was £26,000,000, and he reduced it to £25,000,000. The position he assumes is that interest saved by conversion ought, as a matter of course, to go in reduction of taxation, and not to repayment of the principal of debt. For this position he gives no reason, except precedent ; but no precedent of an earlier date than 1875 is applicable to the New Sinking Fund, which did not exist before that year. The only precedent since 1876 was the conversion effected by Mr. Childers in 1884 ; but Mr. Childers did not reduce the £28,000,000, if he did not increase it. Moreover, the saving effected by his scheme was infinitesimal, since only £23,000,000 were converted under it, and those into $2\frac{3}{4}$ and $2\frac{1}{2}$ per cent. of larger nominal amounts ; and further, 1884 was still one of the barren years cursed by bad trade and African embarrassments. On the other

* *Budget Speech of 1889*, pp. 525, 526.

† *Ibid.*, p. 22.

hand, Mr. Goschen's very successful conversion coincided with times of peace and revived business.

Looking to the spirit of Sir Stafford Northcote's Sinking Fund, Mr. Goschen's position appears untenable. The New Sinking Fund was not founded on the principle that there should be annually voted so much for the interest and so much for reduction of the capital of the debt. The very essence of the scheme was, that the nation should feel itself bound to pay a fixed sum each year, exceeding the annual interest, and that the surplus, whatever it might be, should go to repayment of principal; and the merit of the scheme was that, as the payment for interest diminished, the repayment of principal would become larger and larger. Conversion is one principal method of reducing interest, and must have been contemplated in 1876. But not a word is to be found in Sir Stafford Northcote's speeches, or, so far as I know, in any speeches or literature on the subject, suggesting a reduction of the £28,000,000 in case of conversion; much less of a second reduction of a third million on the ground of conversion, when a previous reduction of £2,000,000 had been made within three years for the purpose of repealing taxation. Nor does any such suggestion appear to be consistent with the principle on which, as stated above in Sir S. Northcote's own words, the New Sinking Fund is based. The very least we might have expected from such a financier as Mr. Goschen is that he should have applied the whole £1,500,000 gained by his conversion towards making good his previous reduction of

£2,000,000." But no! We have heard of the man with a windfall, who was not sure how to make the best of it, but was quite sure that the worst possible thing he could do with it would be to fritter it away in payment of his debts. And yet our great economist, in taking credit for the large reductions of debt effected by the unsatisfactory method of under-estimated surpluses, can still say: "I suppose this story" (*i.e.*, a reduction of debt in three years of £23,323,000) "will be satisfactory, unless, indeed, there be members of this House or of the outside public who think that money may be better spent than in reducing the enormous liabilities which still lie upon us with regard to the National Debt." Brave words! if only the deeds had been as brave!

To sum up. The estimated surplus of 1887-8 was £289,000; the actual surplus was £2,378,609. The estimated surplus of 1888-9 was £212,056; the actual surplus was £2,798,000. The estimated surplus of 1889-90 was £183,000; the actual surplus was £3,221,000. These three surpluses amounted together to £8,397,609.* The fixed charge for payment of debt was reduced from 1887-8 inclusive by £2,000,000; and from 1889-90 inclusive by £3,000,000, making altogether £7,000,000, so that the surpluses in these

Summary of
dealings
with the
Debt.

* This amount, which would, if the Old Sinking Fund had been left undisturbed, have been applied in reduction of debt, was not all of it so applied; £2,000,000 was specially appropriated to payment of the expenses of Conversion, and considerable sums for other analogous purposes, so that the actual sum applied out of the surpluses in repayment of debt was considerably less than the above amount. See Sir W. Harcourt's return, No. 343 of 1890.

three years were more than the sums by which the fixed charge was reduced. But if the fixed charge had not been reduced, the apparent surpluses would have been less by £7,000,000; the superficial appearance of prosperity would have been less; and Chancellors of the Exchequer would have had smaller sums to play with in subsequent years; but, on the other hand, the nation would during this period of prosperity have been silently paying, and have been pledged for the future to pay, the very moderate fixed sum which the prudent management of 1876 had allocated, and which, until Mr. Goschen appeared on the scene, was devoted, to the payment of debt.

So to miscalculate the future in a time of peace and plenty as to produce an imaginary deficit; on the faith of this deficit to reduce by million after million the moderate fixed annual sum which a Conservative predecessor had appropriated to the payment of debt; to deal with the surplus thus created as if every obligation had been discharged, and as if it might in subsequent years be treated as a fixed rule that £25,000,000 a year is all we are able and willing to devote to our debts; and to show to future Chancellors of the Exchequer how easily they can produce surpluses by repealing obligations to reduce debt—may be good party politics, but it is not heroic finance.

ARMY AND NAVY EXPENDITURE.

Are the
above sur-
pluses r al

So far I have been arguing on the assumption that the surpluses of recent Budgets are, as Mr. Goschen

has represented them, real, trustworthy surpluses, available as *bond fide* assets. But is this the case? If not; if things are being made pleasant; if we are forestalling the future, and throwing new burdens on years to come, the charge against the finance of the present Government becomes much more serious.

In such a treatise as this it is impossible to do more than touch upon what has no doubt been Mr. Goschen's great difficulty, as it is the difficulty of all Chancellors of the Exchequer—viz., the demands for military and naval expenditure. Against war scares all Governments appear to be powerless. But the Army and Navy expenditure of the last four years has some peculiar features. In the first place, this period has been, unlike the previous decades, a time of profound peace. There have neither been wars nor rumours of wars. But the sums spent have been enormous, far exceeding the expenditure of most years of peace, and of many years of war.

The following are the figures of Army and Navy expenditure taken from Mr. Goschen's estimates* :—

For 1887-8	£30,871,000
1888-9	29,823,100
1889-90	32,451,000
1890-1	33,345,000

Peculiarity of last four years. Immense expenditure in time of peace.

Large expenditure out of Revenue.

The figures of actual expenditure for the first three of these years, as given in the Statistical Abstract, are as follows :—For 1887-8, £30,759,000; for 1888-9, £29,108,000; for 1889-90, £32,783,000.

But besides these sums, met by the revenues of

* See the tables appended to his published Budget speeches.

Further charges on the future: which are withdrawn from Parliamentary control.

the year, there is more. We have been, and are, spending still more money, which will have to be paid out of the income of future years. Under the arrangements of 1887-8 a debt of £2,600,000 for ports and coaling stations was charged upon the annual increased income of £570,000, which we expect to get from the Suez Canal Shares in 1894 and following years.* This anticipation of future income is, of course, precisely as much a sacrifice of the future to the present as if, instead of forestalling new revenue, we had incurred a debt. In the same year, and by the same Act, we charged future years with the payments for Australian ships of war. In 1889 the payment of £21,500,000 for the seventy new ships, which the scare of that year demanded, was spread over a period of from five to seven years.† It is said, indeed, that this £21,500,000 is to cover all the shipbuilding which will be required during these seven years, and that, consequently, there is no real forestalling of the future, but only a determination and equalisation of expenditure. But who shall assure us of this? Programmes of shipbuilding have in late years been changed almost as often as programmes of stage plays. Judging from past experience, and from the ever varying demands of naval experts and alarmists, it is not unreasonable to expect that before the ships now in construction are paid for, perhaps before they are completed, many of them will be so antiquated and obsolete as to raise a fresh

* 51 and 52 Vict., c. 32.

† 52 Vict., c. 8.

scare and give rise to a new demand. Even at the moment when I write admirals are demanding more cruisers.

Moreover, a large part of this £21,500,000 is charged, not upon moneys to be provided by Parliament, but upon the Consolidated Fund, thereby withdrawing the annual control over the expenditure from the House of Commons. Surely if there is one thing which past experience teaches, and which daily experience illustrates, it is that the fashion in ships is almost as changeable as that of ladies' bonnets; that plans for building them cannot be permanent; and that expenditure upon them ought on no account to be either thrown on the future or withdrawn from annual control, especially by a Government which has the good fortune to light on a period of peace and exceptional prosperity.

In addition to the above charges on the future, there is a further sum of £4,100,000 to be spent on barracks, of which £300,000 is to be paid out of revenue (*viz.*, in 1890-1), and the remainder to be borrowed as wanted, and charged on the future.*

How much of all these debts will be paid out of revenue in the years in which the money is spent, how much will be thrown on subsequent years, and for what number of years the burden will continue, it is impossible to make out, and this impossibility and consequent obscurity in accounts is one of the chief charges against Mr. Goschen's Finance. But a

* Barracks Act, 1890 (53 & 54 Vict., c. 25).

Mr. Shaw Lefevre's return of aggregate expenditure in present year, showing heavy burden on future years.

return moved for by Mr. Shaw Lefevre* is very instructive. From that return it appears that the estimated Army and Navy expenditure for the present financial year is as follows:—

Ordinary expenditure	£31,514,400	
Extraordinary expenditure, including—		
Imperial Defence Act, 1888	£1,127,951	} 6,807,033
Imperial Defence Act, 1889	5,279,082	
Barracks	200,000	
Volunteers	100,000	
	Total	38,321,433
Of which there is to be paid		
Out of Revenue of 1890-1		33,342,971
Out of Revenue of 1889-90		407,564

Total out of accrued, or accruing Revenue	33,750,535
Leaving to be paid in future years	4,570,898

It further appears that a large part of this expenditure had actually been incurred in 1889-90; that £1,500,000 was transferred from the Exchequer balances to the Naval Defence Fund in the same year, and that at the period when Mr. Goschen made his Budget speech it had to be restored to those balances. It was not, however, treated as a liability, and no notice is taken of it in Sir W. Harcourt's Return of the National Debt for 1890.†

Fictitious character of surplus.

So far, therefore, from there being any real surplus in the present year, there must, according to these figures, as pointed out by Sir W. Harcourt in his speech at Derby in August, 1890, be a heavy

* Parliamentary Paper, No. 200 of 1890.

† *Budget Speech*, 1890, p. 704; and Returns 378 and 343 of 1890.

deficiency, and this deficiency will have to be made good in future Budgets, whilst at the same time we shall no doubt again have to listen to self-congratulations on the way in which we are paying off debt.

It seems scarcely credible that this should be the Finance of a Chancellor of the Exchequer who, when Sir Stafford Northcote proposed to spread over two years the payment of £5,000,000 incurred during a period of commercial depression, and of special expenditure on account of wars and rumours of wars in Europe, in Asia, and in Africa, reproached that statesman with conduct "shabby, flabby, and inadequate to the occasion"—conduct wanting in that courage which was calculated to secure repute abroad and credit at home.*

Mr. Goschen
on Sir S.
Northcote's
Finance.

The whirligig of politics brings its revenges. Whatever may have been the demerits of former Conservative Chancellors of the Exchequer, we now see that a sound Liberal economist, turned into a Tory Minister with a powerful majority at his back, is at least as unsuccessful in securing permanent repayment of debt, or payment of present expenses out of present income, as the predecessor whom, when out of office, he condemned so vigorously.

There may be politicians to whom the future welfare of the nation is a trifle, if it conflicts with present popularity; there may be others who regard any steady effort to pay off debt as Utopian; and there are probably more who, knowing well what is brave and right and true, are led or driven by pres-

* See Mr. Goschen's speech, *Hansard*, April 28th, 1879.

sure or bad company into feeble and cowardly courses. But the antecedents and reputation of the present Chancellor of the Exchequer are such as led his admirers to hope for other things from him.

“Who would not grieve such Minister must be ;
Who will not weep if Atticus be he ?”

Military
scares not
due to the
masses, but
to the
classes, who
should,
therefore,
pay.

One further observation. The scares which have caused this expenditure of present, and the forestalling of the future, Revenue, are not owing to the recently established democracy. They have now, as on former occasions, originated with the services, with the clubs, with society, and with the London newspapers. So far as the democracy has shown any sign, it takes no interest in, or is opposed to, them ; and if there is any hope of resisting scares more effectually in the future than has been possible in the past, that hope lies in the growing power and sense of the democracy. This observation leads to a corollary which is of much importance from a purely financial point of view. It is often said that direct taxation, and especially graduated direct taxation, is dangerous with a democracy, because the masses will, under such a system of taxation, have the excitement of spending the money without feeling the burden of paying it. But in the case of naval and military expenditure it is not the masses, but the classes, who call for it ; and, therefore, if we wish to keep it within limits, it is upon the classes and not upon the masses that the burden should fall.

Direct taxation of capitalised property, whatever

may be its effect on domestic expenditure, need not be feared as an incentive to the worst and most dangerous of all forms of extravagance.

NEW SOURCES OF TAXATION.

Mr. Goschen is deeply impressed with the danger of leaving the Revenue to depend on too small a number of sources, and he has endeavoured to increase them. The general tendency of the last fifty years has, no doubt, been in the direction of simplicity; taxes on articles of consumption have been reduced to a very small number; direct taxation has increased; and the Income-tax has been used as an easy method of meeting growing wants. Mr. Goschen apparently thinks that this process has been carried too far, and he has used his great knowledge and ingenuity, sometimes successfully and sometimes unsuccessfully, to counteract it. The general arguments for and against such a course need not be repeated here. It is notorious that our greatest financiers since 1840 have made their reputation by simplifying our tariff, by imposing direct taxation, and by reducing taxes on industry and consumption.

Number and
variety of
Taxes a
simplicity.
A question
of principle

Mr Goschen's proposals for new taxation have, therefore, raised a serious question of principle, on which opinions may differ. But the fact that such a question exists renders it the more important to scrutinise those proposals in detail. Upon some of them there will be little or no adverse criticism,

Increase of
stamp
duties on
commercial
transac-
tions.

especially upon those which have extended the productive system of stamp duties on commercial transactions. His amendments of the law with respect to stamp duties on the transfer of debenture stocks and stock certificates; the voluntary composition in lieu of stamp duty on the transfer of shares or stock of companies or municipal corporations; the revision and extension of stamp duties on foreign and colonial securities, on mortgage of stock, on equitable mortgages, and on contract notes,* are matters to the policy of which most persons will assent, whilst Mr. Goschen's knowledge and industry are guarantees for their successful manipulation. His tax of £1 per £1,000 on the nominal capital of new joint-stock companies is still more important and more valuable. It produced £157,948 in the first year, and £294,274 in the second year; and, considering how little regard is paid to expense in starting new companies, and how large are the sums which are appropriated to founders and promoters, one can only regret with Mr. Goschen that the percentage appropriated to the State is not more than 2s. per £100.

Taxes on
consump-
tion.

As regards his proposals for new taxation of articles of use and consumption far greater doubts and difficulties arise. About the additional £300,000 raised upon beer in 1889 there is little or nothing to be said in the way of adverse criticism. But it is different with the Wheel Tax and Horse Tax, proposed, but not carried, in 1889; with the additional

* See *Thirty-third Report of Commissioners of Inland Revenue*. App. pp. vi. and vii.

wine duty imposed in the same year, and with the new duties on alcoholic drinks of 1890. To the wheel and horse taxes, which were to be imposed in aid of local rates, I shall recur in the following chapter, and shall show that they were taxes involving more than one element which made them not only unpopular, but really objectionable. To the new duties on alcoholic drinks imposed in 1890, and their application to Local purposes I shall also recur. On the other hand, the new wine duty must be admitted, even by those who doubted it at first (as I did), to be a success, for it produced £163,406 in the first year of its imposition,* and is levied upon what is distinctly a luxury of the richer classes. But the history of the tax is instructive. Originally it was imposed on all bottled wines, as being the more expensive wines. But, as everyone knows who has imported wine, wine is better bottled at Bordeaux than in London; and it is worth while to pay the extra cost of the carriage of bottles, even on the lightest dinner wines. After trying the original proposal, the Chancellor of the Exchequer modified his first tax by a second Act of the same Session, and altered it into an additional tax on sparkling wines alone. As these must all be bottled during the process, and at the place of manufacture, the question of bottling in the one country or the other does not arise; the distinction between these wines and other wines becomes palpable and easy of application, and the tax becomes

Wheel and horse tax.

Duty on sparkling wine.

* *Thirty-third Report of Customs*, p. 13.

a tax on a species of wine which is altogether a luxury of the well-to-do classes. The case illustrates the difficulty of imposing new taxation on imported articles when these conditions cannot be secured. But the more important lesson to be learnt from the history of this tax is the tendency of new taxes on articles of consumption to slide into Protection. English people buy wines bottled in France, because in France wines are bottled better than in England. With this notorious fact before him, the Chancellor of the Exchequer, in making his first proposal, was betrayed into saying: "It is possible that the bottling trade in England may receive a certain impetus, but I cannot conceive that that is an objection to the plan." Such words from such an economist as Mr. Goschen mean much in the eyes of an expectant trade, and give a very mischievous encouragement to Fair-traders. Their effect is well illustrated by the subsequent Report of the Commissioners of Customs, who, parrot-like, echo Mr. Goschen's false note by saying: "The duty was received by the wine trade in this country with satisfaction, as being calculated to transfer to the United Kingdom the share of the bottling industry which had hitherto been centred in the wine producing countries."*

Danger of protection in taxes of this kind.

Sugar Convention

Coupling Mr. Goschen's express desire to multiply sources of taxation with such utterances as these, is it unfair to reflect on what might have happened to a much more important article of consumption—sugar—if the proposals of the Government with re-

* *Thirty-third Report of Customs*, p. 16.

spect to the Sugar Convention had found favour with the nation? Fortunately, the proposals, introduced under a Free-trade mask, were, when that mask was stripped off, recognised to be so essentially Protectionist in character, and also, to use Mr. Henry Fowler's epithet, to be so grotesque, that the Government were frightened out of them before they were submitted to a vote in the House of Commons. But if they had been adopted, and if a differential tax for Protectionist purposes had been imposed on certain sugars, what would have been more easy than to extend the tax to all sugars, and thus broaden the basis of taxation by imposing a duty of a hybrid character on one of our chief articles of consumption? We have possibly escaped more than one retrograde step by defeating that insidious proposal.

The moral to be drawn from these new taxes of Mr. Goschen's is that, however desirable it may be to find new sources out of which to get revenue, it is also our bounden duty to criticise with extreme jealousy every fresh proposal for new forms of taxation, and especially every proposal for taxing articles of use and consumption.

New taxes on consumption should be jealously criticised.

Having said thus much on these proposals, it is but fair to remember that, warned by experience, Mr. Goschen has, as a fiscal improvement, taken off the extra tobacco duty imposed in 1878, and amounting to about 4d. per lb.; that he has lightened and improved the carriage duty; that he has reduced the duty on tea by 2d. a lb.; that he has reduced the duty on currants from 7s. to 2s. per cwt.; and that he has

Reduction of duties on tobacco, tea, currants, and gold and silver plate.

abolished the duty on gold and silver plate. Would that he had completed this last job by abolishing the antiquated and protective system of compulsory Hall-marking.

The new taxes on alcoholic liquors, the proposed wheel and horse taxes, and the additions to the Death Duties are noticed elsewhere in connection with Local Finance. Looking to what we shall have to say about them as well as to what has been said concerning the other new taxes above mentioned, Mr. Goschen's proposals for new taxes lead us to the same conclusion to which the consideration of other parts of the subject leads us—viz., that whilst the financial management of the last four years bears witness to a very unusual degree of skill, industry, and ingenuity, it does not display a corresponding amount of courage, of thoroughness, or of popular insight; and that, above all, it is open to the charge of weakness in the maintenance of principles which have been adopted by our greatest financiers, and of which we had reason to believe Mr. Goschen to be a convinced and resolute advocate.

CONCLUSION AS TO IMPERIAL FINANCE.

Conclusion as to Imperial Finance. It has been weak and obscure.

Revenue repeatedly under-estimated; current expenses repeatedly postponed; so that estimated deficits and surpluses are alike uncertain and untrustworthy; the fixed sum which had been made applicable to permanent debt largely diminished; taxes at the same time taken off; and subsidies to local

authorities largely increased ; these, so far as Imperial Finance is concerned, are characteristic features in the Budgets we have been examining. It is not too much to say of them that, in these respects, they have mystified the national accounts, and have sacrificed prudence to popularity.

It is obvious that this cursory review of Imperial Finance is altogether imperfect without a consideration of what has been done in the matter of local finance in its relations to Imperial Finance ; and of the changes which have been made in the Death Duties. With these subjects I shall deal in future chapters.

CHAPTER II.

LOCAL AND IMPERIAL FINANCE.

Loans from Imperial Exchequer for Local Purposes.—Grants out of Imperial Exchequer to Local Authorities.—History of these Grants.—Mr. Goschen's Case in 1870.—Case of Urban Ratepayers since 1870.—Measures of present Government.—Grants to Rural Districts in aid of Main Roads.—Transfer of Licence Duty and Probate and Drink Duties, and Reduction of Inhabited House Duty.—1. Embarrassing to Imperial Exchequer.—2. Weakening and Demoralising to Local Government.—3. Distribution Unjust.—Finance of Metropolitan Police.—Conclusion as to Local Finance.

Subjects
dealt with
in this
chapter²

IN the last chapter were considered the measures of the last four years, so far as they related to Imperial Finance alone. In the present chapter I propose to make some observations on the measures of the same period, so far as they relate to Local Finance and its connections with Imperial Finance.

I propose to consider, in the first place, the subject of loans made by the Imperial Exchequer to Local Authorities, and then to discuss the much more important subject of Grants made by the Imperial Exchequer to Local Authorities. To deal properly with this part of the question it will be necessary to consider the principles of these grants; the history

and nature of Local Taxation as examined and illustrated by Mr. Goschen in 1870-1872; the subsequent increase in Local Taxation; the action of the Government with respect to Local Grants from 1887 to 1890, including those of 1887; the proposed Van, Wheel, and Horse Tax; the allocation in aid of Local Rates of the Licence Duties and half the Probate Duty in 1888, and of a part of the duties on alcoholic liquors in 1890; concluding with certain criticisms on the system of subsidies thus introduced and extended.

LOANS FROM THE IMPERIAL EXCHEQUER FOR LOCAL PURPOSES—LOCAL LOANS FUND.

One of the first subjects to which Mr. Goschen directed his attention in his first Budget speech was the intricate subject of Local Loans—*i e.*, of loans made by the Imperial Exchequer to Local Authorities for local purposes. The practice of making such loans has grown up during the present century out of wants arising from time to time, and, like other similar practices, has been irregular and unsystematic; and though it has been, on the whole, useful and well managed, it has in some cases been attended with loss. It would be out of place here to attempt to give the details of this practice; details which Mr. Goschen states he found it difficult not only to explain but to understand. They are set forth with admirable clearness in a Treasury Minute,* which

Loans from
Imperial
Exchequer
for local
purposes.

* Parliamentary Paper No. 166 of 1887.

also explains in detail Mr. Goschen's plan for amending it.

Principle of local loans.

The underlying principle of the whole scheme is to make the national credit available for local wants; so that the nation becomes a borrower, on the one hand, of such funds as are needed for local purposes, and a lender, on the other, to such local authorities, and for such local objects, as may from time to time be authorised by Parliament. The loans are all made repayable by instalments of different amounts extending over different periods, and they bear various rates of interest. It is obvious that such a system as this is open to the gravest objections, unless the utmost care is taken that the security given to the nation for the money it lends is good, and that the interest paid by the local authority is sufficient to recoup to the nation the interest which it has to pay for the money it borrows, and all the expenses which it incurs. Unfortunately, this has not always been the case. Out of upwards of £100,000,000 which have been advanced by the nation, £12,000,000 have been remitted, of which £6,500,000 are now treated as gifts, and £5,500,000 as bad debts. Nor is this all. The money advanced by the nation for these loans has been borrowed or otherwise procured in different ways; and has been supplied to the different lending departments, and advanced by and repaid to them in different ways. Much confusion has resulted. Some improvement was made by Sir Stafford Northcote in separating the payment of interest from the repayment of

Imperfection of securities and confusion of accounts.

capital.* But under the arrangements as they existed prior to 1887 no account existed, or could exist, showing, as regards capital, the whole amounts borrowed and lent for the time being; and showing, as regards interest, the relation between the interest paid by the nation to its creditors, together with the annual expenses of management on the one hand, and the interest received by the nation from its debtors on the other. Mr. Goschen's Local Loans Fund scheme has remedied this defect.

In the first place, a special and distinct form of National Debt, called Local Loans Stock, has been created, and, except for temporary purposes, all moneys to be advanced by the State are obtained by further issues of this stock; and, in the second place, a Local Loans Fund has been created, into which are paid all moneys thus borrowed, and all other moneys applicable to local loans (*i.e.*, interest and principal repaid, &c.), and out of which all advances to local borrowers and other outgoings are made. The capital account of this fund shows, on the receipt side, all moneys borrowed by the State for the purpose of local loans, and all instalments of capital repaid by local borrowers; and, on the payment side, all advances made to local borrowers, and also (in the form of cancellation of Local Loans Stock) all repayments of capital, if any, made by the State. The income account of the fund shows, on the receipt side, all the payments of interest made by local borrowers; and,

Establishment of Separate Local Loan Fund with separate debt.

* *Finance and Politics*, ii., 180-183.

on the payment side, the dividends on Local Loans Stock, the interest on temporary loans borrowed by the State, and expenses incurred in carrying on the business of the fund. In addition, a sum of £130,000 a year is charged to the income account as a sinking fund for the repayment of the five millions and a-half of bad debts above referred to. If, after making these payments, there is any surplus on the income account, it is carried to the capital account, and to that extent obviates the necessity of further borrowings. It is thus possible to see by a glance at this account what amount the nation has borrowed; what amount it has lent; what sums are overdue; and whether the annual incomings and outgoings show a surplus or a deficiency. Two annual accounts have been published, the one for the year ending March 31st, 1888, the other for the year ending March 31st, 1889.* From the latter account it appears that the Local Loans Three per Cent. Stock amounted to £40,953,767. The income account for 1887-8 showed, after the payment of all outgoings, a surplus of £78,576, which was transferred to the capital account in the accounts for the following year. The income account for 1888-9 shows no such surplus, but, on the contrary, a deficiency to the extent of about £18,000, so that this amount of annual expenses, which ought to have been paid out of income, remains unpaid. It appears to demand inquiry why there should be so great a difference between the two years—the one showing a surplus

Two annual accounts published. The later one shows a deficiency.

* Parliamentary Papers, 36 of 1889, and 93 of 1890.

of £78,000, the other a deficiency of £18,000. If the present deficiency does not arise from temporary or accidental circumstances, the conclusion seems to be that the interest charged by the State to local borrowers is insufficient, and that, if the fund is to remain solvent, the rate must be raised. If further experience proves this to be the case, it will be an illustration of the value of the new form of account.

The whole arrangement is one which reflects great credit on Mr. Goschen and the Treasury. A very important but very complicated subject has been disentangled and rearranged in such a manner as to make the results clear, and to leave with Parliament the responsibility of seeing that these results do not land the Local Loans Fund in insolvency. There are probably few statesmen except Mr. Goschen who would have combined the knowledge, the skill, and the perseverance necessary to make so good a job out of such a difficult, unpromising, and unpopular subject.

The scheme, judging by the results, appears open to one criticism. The present price of the 2½ per Cent. Consols (Goschen's) is about £95, whilst that of Local Loan Stock, which is a 3 per cent. stock, is only about £100 or £101. If the price of each were in proportion to the interest, that of Local Loan Stock ought, of course, to be higher than it is, and it is open to question whether the Local Loan Stock would not have borne a higher price if, instead of being a distinct stock, it had formed part of the large mass of 2½ per Cents. It is interesting to observe that Mr.

Criticism by
Mr. Glad-
stone.

Gladstone took this point in 1887. In suggesting that it would be better to make this (*i.e.*, the Local Loan Stock) a 2½ per cent. stock, he said: "Unquestionably a new 3 per cent. stock would not represent to the public credit in so good, legible, and cheap a form as the greater stocks."* It is clear that the price of any such stock depends upon its quantity and the facility of dealing with it, as well as upon its safety and the amount of annual return.

Grants out
of Ex-
chequer to
Local
Authorities

GRANTS OUT OF THE IMPERIAL EXCHEQUER TO LOCAL AUTHORITIES.

History and Nature of these Grants.

Their origin
and history.

This subject is, of course, far larger and more important than that of the loans. It raises most serious questions, not only of finance, but of social politics. These grants have long formed a difficulty with successive Governments. The burden of direct local taxation, in the form of rates upon the occupier, who almost always pays them in the first instance, and upon the landowner, who may, and in many cases does, lose rent in consequence, has been a constant grievance, and this grievance has of late years been aggravated by the new duties thrown on local authorities and the consequent increase in the rates. Under these circumstances, the pressure for relief out of the Imperial Exchequer has been such that few Governments have been willing, and none able, to withstand it. A system has consequently grown

* *Hansard*, April 25th, 1887, p. 440.

up of doling out from the Imperial pocket, in response to the most pressing applications, various annual sums, to be applied by local authorities to special purposes and in special ways dictated to them either by Parliament, or by some one of the offices of the Central Government. The sums annually charged on the public revenue in aid of local taxation—exclusive of the Education Grant—appear to have increased from a million and a-half in 1858 to upwards of six millions in 1887. The principal additions were made in the years 1866 to 1869, 1873 to 1875, and 1878 to 1882.* I am, however, unable to analyse these figures. They do not correspond with the grants in aid of local taxation in the Civil Service Estimates, or with any figures I can find in the Reports and Returns of the Local Government Board.

The evil of such a state of things is obvious. It places the Imperial Exchequer at the mercy of a combination in the House of Commons; it transfers the burden of local wants from the local backs which ought to bear it to the back of the nation which, as a general rule, ought not; it exempts local property from the burden of the expenditure by which that property benefits, and throws that burden on the industry, capital, and consumption of the whole country. But this transfer of burdens is, perhaps, the least part of the evil. The more serious consequence is the inroad it makes on the principle of local self-govern-

Their amount.

Evils of these grants.

Shifting of burdens.

Demoralisation of local government.

* See Mr. Childers' Return, Parliamentary Paper 294 of 1889, p. 5.

ment. When, and so far as, counties, towns, and districts manage their own business and pay for their expenses by means of taxes imposed by their own representatives on themselves, they are compelled carefully to examine their own wants; to measure them against their own resources; to ascertain accurately what is wanted, and to do that and no more; and to do it in the most efficient and economical way. It is in such a course of action that good local government consists; it is by such proceedings that public spirit, independence, self-control, and all the great qualities which make good citizens are tested and developed. The ideal condition of finance in a perfect system of local self-government is one in which each local authority levies its own taxes upon its own subjects within its own area; in which it has the power of applying the proceeds of these taxes, within certain limits fixed by general law, for the local advantage of its own citizens; and in which it has power to increase or diminish its taxes, at its own discretion, according to its means and its wants. If the present system of rating within a given area for the purposes of that area embraced all property within the area, and were just in its incidence on that property, it would fulfil these conditions. But we know that it does not. All purely personal property, as well as some of the largest and most important interests in land, escape from rating; and hence many of our present difficulties and the pressure for Imperial relief, bringing in its train the evil results referred to above.

Ideal of
local taxation.

It may be said that I have exaggerated this evil, because the local ratepayer is also an Imperial taxpayer, and consequently the discharge of local expenses out of Imperial taxes is not so much a transfer of a charge from one person to another as a transfer of the payment from one pocket to another pocket of the same person. This statement is true to a limited extent, but to a limited extent only. The class of persons who pay rates does not coincide with the class of persons who pay taxes, nor does the burden of rates coincide with the burden of taxes.

Departure from this ideal brings with it increase of aggregate burdens.

But so far as the statement is true, and, even assuming it to be universally true, the real evil of these grants remains. Where the local ratepayer pays his rate to his own local authority for certain specified objects, he knows for what purpose he is rated, and he has the motive, the knowledge, and the means necessary for controlling the outlay and for seeing that the money raised is properly expended. When he pays his tax into the huge public purse of the Chancellor of the Exchequer, and where his own Local Authority, instead of extracting its money directly from his pocket, draws it from that apparently inexhaustible reservoir, he has no motive, no knowledge, no means for exercising any such control. He thinks, and his Local Authority thinks, that what they get out of the big public pocket is so much to the good of the local community, and to the relief of the individual local ratepayer, and both forget that what they save in rates they lose in taxes. Indeed, the real result is that they lose much

more than they gain, because all apparent motives for economy being gone, the aggregate expenditure becomes much more extravagant, and the aggregate taxation becomes much heavier than it would have been if each ratepayer had felt its pressure and had used his judgment in controlling it.

Experience
in the past.

Let us now, whilst examining the changes of the last four years, see what guidance the experience of the past afforded; whether that guidance has been faithfully followed; and how far we have made any advance towards our ideal. In order to do this, we must go back as far as 1870. Long before that date the landed interest had complained of the rates. Indeed, it would be difficult to find a time at which the rates, and especially the poor rate, had not been a grievance to the landed interest. But to the old grievance complained of by that interest was added a far more serious grievance when the growth of population and the increasing needs of crowded humanity called for local improvements in urban districts, of which our ancestors never dreamed; and rates—paid by the occupying tenant—had to bear the burden. It was still the landed interest, however, which led the attack. Sir Massey Lopes, a county member, carried in 1871 against the Liberal Government of the day, by a majority of 241 to 195, a motion that

Complaints
by the
landed
interest in
1870; and by
the towns.

“it is the duty of the Government to inquire forthwith into the incidence of Imperial as well as Local Taxation, and to take such steps as shall insure that every description of property shall equitably contribute to the national burdens.”*

* See *Hansard*, February 28th, 1871.

And in 1872 he succeeded in carrying, by a majority of 259 to 159, a motion that

“ it is expedient to remedy the injustice of imposing taxation for national objects on one description of property only, and that, therefore, no legislation with respect to local taxation will be satisfactory which does not provide either in whole or in part for the relief of occupiers and owners in counties and boroughs from charges imposed on ratepayers for the administration of justice, police, and lunatics, the expenditure for such purposes being almost entirely independent of local control,”

thereby defeating an amendment, moved by Sir Thomas Acland, to the effect “ that rates for new objects, instead of falling directly upon the occupiers of rateable property, should be distributed in England, as in Scotland and Ireland, equitably between the owners and occupiers.”* The real meaning of these motions was, no doubt, that real property should be relieved from rates at the expense of the Imperial Exchequer; but it is probable that Sir Massey Lopes would not have been as successful as he was if the pressure of ratepaying occupiers in towns had not been united to that of the rural landowner.

In London the pressure of rates had, before 1870, been the subject of Parliamentary action.† In 1866 the Select Committee on Metropolitan Government, of which Mr. Ayrton was chairman, and of which Mr.

Especially
by London.

* *Hansard*, April 16th, 1872.

† Those who care to see the history of this movement, and especially of Mr. Goschen's part in it, more fully stated, will find it in the evidence given to the Town Holdings Committee Report of 1890, Parliamentary Paper No. 341.

Mill was a member, were told by Sir J. Thwaites, then chairman of the Metropolitan Board of Works, that the pressure of London rates was becoming intolerable, and that improvements must be stopped unless some new source of income could be found. The recommendation of that Committee was to the effect that "a portion of the charge for permanent improvements and works should be borne by the owners of the property in the Metropolis, the rate being in the first instance paid by the occupier, and subsequently deducted from his rent." In 1867 the same Committee repeated their recommendation—confining it to rates levied by the Metropolitan Board, and providing for the representation of owners on the Board by a selection from among the justices.

MR. GOSCHEN'S CASE IN 1870.

Report of
Committee
on Local
Taxation,
1870.

Mr.
Goschen's
Reports,
speeches,
and letters,
1871.

Under these circumstances Mr. Goschen, then President of the Poor Law Board in Mr. Gladstone's Government, stepped into the breach, and it is not too much to say that to his industry and acumen we owe the foundation, not only of accurate knowledge on the subject of local taxation, but of sound principles on which to reform it. The Report of the Select Committee on Local Taxation in 1870, of which he was chairman; his own Report to the House on the question of local taxation, dated March, 1871; and his subsequent letters and speeches are by far the most instructive documents which I have been able to discover on the subject. The opinions

and conclusions they contain are confirmed by the fact that, undismayed by his defeat in the divisions on Sir Massey Lopes's motions in 1871 and 1872, he republished them in a convenient form, with a confirmatory preface, in November, 1872.* No one who wishes to master the subject should neglect this book.

It is impossible here to give more than the briefest outlines of the facts and arguments adduced by Mr. Goschen. He discusses at great length the difficult and probably insoluble questions whether and in what places and to what extent the ultimate incidence of rates as at present levied is upon the owner or occupier; he points out that, whilst in certain cases and to some extent they certainly fall on the owner, there are other cases—*e.g.*, the case of rates imposed after the date of the contract of tenancy—in which they certainly fall on the occupier; whilst in many cases their ultimate incidence depends upon a number of complex and varying circumstances. The resolutions of the Committee of 1870, which are in substance those proposed by Mr. Goschen in his draft Report, are still so important as to be worth quoting at length. Those which are in point are as follows †—

“(1) That your Committee, without pledging themselves to the view that all rates should be dealt with in the same manner, are of opinion (a) That the existing system of local taxation, under which the exclusive charge of almost all

Resolutions
of Com-
mittee of
1870.

* *Local Taxation.* November, 1872. Macmillan.

† *Ibid.*, p. 174.

rates leviable upon rateable property for current expenditure, as well as for new objects and permanent works, is placed by law upon the occupiers, while the owners are generally exempt from any direct or immediate contributions in respect of such rates, is contrary to sound policy ; (b) that the evidence taken before your Committee shows that in many cases the burden of the rates, which are directly paid by the occupier, falls ultimately, either in part or wholly, upon the owner, who, nevertheless, has no share in their administration ; (c) that, in any reform in the existing system of local taxation, it is expedient to adjust the system of rating in such a manner that both owners and occupiers may be brought to feel an immediate interest in the increase or decrease of local expenditure, and in the administration of local affairs ; (d) that it is expedient to make owners as well as occupiers directly liable for a certain proportion of the rates ; (e) that, subject to equitable arrangements as regards existing contracts, the rates should be collected, as at present, from the occupier (except in the case of small tenements, for which the landlord can now, by law, be rated), power being given to the occupier to deduct from his rent the proportion of the rates to which the owner may be made liable, and provision being made to render persons having superior or intermediate interests liable to proportionate deductions from the rents received by them, as in the case of the Income-tax, with a like prohibition against agreements in contravention of the law."

In his own draft Report Mr. Goschen had recommended a fixed proportion, namely, "*half*," as the proportion that was to be deducted from the owner's rent. The Committee, it will be observed, only speak of a proportion ; they do not fix the proportion. After recommending that, in case of any division of rates between occupier and owner, owners should be represented on the rating bodies, and also recom-

mending a consolidation of existing rates, they proceed as follows :—

“(7) That whilst it is necessary to make provision for limiting, as far as practicable, the disturbance of existing contracts, it would be, on many grounds, undesirable, and almost impracticable, to extend the exemption of property held under leases from the operation of the proposed changes until the expiration of such leases. (8) That the exclusion of the owners of property held under long leases from the right of voting for local authorities after the proposed changes have taken effect in respect of other property would lead to much inconvenience and confusion, while, on the other hand, it would be inadmissible to allow them to vote unless they acquired an immediate interest in the rates. (9) That the difficulties of the case would be equitably met by exempting the owners of property held under lease from the proposed division of rates for a period of three years, and by providing that, after the expiration of that time, the occupiers of such property should be entitled, equally with all other occupiers, to deduct from the rent the proportionate part of the rates to which the owner may become liable, power being given to the owner at the same time to add to his rent a sum equivalent to the like proportionate part of the rates calculated on the average annual amount of the rates paid by the occupier during the three years above referred to.”

The conclusion of this Report was therefore distinctly to the effect that the most urgent measure required in order to meet the pressure of rates was to throw a large part of it directly on the owner, coupled, no doubt, with the recommendation that owners should be represented on the rating body.

Even more important than the Report of the Committee is Mr. Goschen's own Report to Parlia-

Conclusion,
to throw a
part of
burden of
rates on
owner.

Mr.
Goschen's
Report of
1871.

ment on Local Taxation, dated March, 1871.* In this Report he grappled with the history of rates ; he showed that they had been much misunderstood ; that it was the urban rates, and not the rural rates, which had of late years increased so much ; and that the rural rates were, to a great extent, hereditary burdens, whilst the urban rates were new taxes, arising out of modern wants, imposed on the occupiers of houses, and though benefiting the owner of the land, not falling, at any rate directly, upon him. His conclusions are so important that I give them in his own words.

Summary
of Mr.
Goschen's
Report of
1871.

Referring to the increase of rates since 1841, which was the date at which the imposition of the new rates may be said to have commenced, he says :†—

“1. The increase in local taxation in England and Wales has been very great—less than in other countries, but, nevertheless, so considerable as to justify the especial attention which it has aroused:

“2. Speaking broadly, the increase in direct local taxes has been from £8,000,000 to £16,000,000.

“3. The greater portion of this increase, at least £6,500,000, has fallen upon urban, not upon rural districts.

“4. Of the total increase, £2,000,000 are due to the Poor Rate, £5,000,000 to Town Improvement Rates, and £1,000,000 to Police and Miscellaneous Purposes.

“5. The increase in rateable value has, during the same period, been extraordinarily great, and has followed, to a certain extent, the course of the increase of local taxation, being greater in the urban and manufacturing than in the

* *Local Taxation*, p. 2.

† *Ibid.*, p. 50.

agricultural districts. Nevertheless, the increase of rates has approached more nearly to the increase in the rateable value in the four counties, Middlesex, Surrey, Lancashire, and West Riding, taken together, than in the remaining counties of England.

“6. The statistics of separate counties, the division of the country between urban and rural unions, the analysis of various kinds of rates, the comparison of the imposts on houses in England with corresponding burdens in other countries, the mode of valuation in England, as compared with that followed elsewhere—all point to the conclusion that house property in England is very heavily taxed.

“7. An historical retrospect seems to prove that, as regards the burdens on lands, they are not heavier than they have been at various periods of this century, nor as heavy as they are in most foreign countries, the increase in the special rates falling on lands, such as County and Highway Rates, having been insignificant as compared with the increase in urban rates. As regards the Poor Rate, the burden on lands in the country generally, whatever may be the case in special districts, has increased very slightly in amount, and not at all as regards the rate in the pound.

“8. The Poor Rate as regards towns has undoubtedly increased, and caused new burdens in many places. In those rural districts where the Poor Rate is now high, it has, with few exceptions, always been high, and constitutes an hereditary burden which has at all times been heavy; but which has gradually been lightened by the transfer of a portion of it to other kinds of property.

“9. The consideration of the increase in the burden of Local Taxation must be viewed in connection with results obtained by the expenditure incurred. Of the average increase of £8,000,000, that portion which is due to the Poor Rate, *i.e.*, £2,000,000, may be regarded as a lamentable increase of burden, except so far as it represents, not an increase in pauperism, but the more humane, and, at the same time, more costly treatment of the helpless, the sick,

and the insane. For the increase in the item of County Police, amounting to upwards of £500,000, it may be said that a distinct equivalent in value is secured. As regards the increase in Miscellaneous Purposes, amounting to about £500,000, spent on Registration, Vaccination, Burial Boards, and on some of the objects to which the county rate is applied, the same principle would apply. A small portion only of this sum is analogous to the Poor Rate, which is a burden imposed on taxpayers from which they may be said themselves to derive no benefit.

“There remain the £5,000,000 of urban rates, on which it has been necessary so often to dwell. This sum represents the municipal expenditure of our towns, the lighting and paving of the streets, sanitary improvements of every kind, and public works of various descriptions, from vast enterprises like the Thames Embankment, the main drainage of the Metropolis, and the many important works undertaken at a large outlay by Liverpool, Manchester, and other large growing towns of the North of England, to the smaller but innumerable operations which have been instituted by the seven hundred Local Boards established during the last ten years. A great portion of the outlay on these purposes must be regarded as remunerative in many senses, and as being not so much a burden as an investment.”

The details of the above figures are given in the earlier part of the Report; and amongst these details it may be noticed that, of the £5,000,000 of new urban rates which it mentions, £2,000,000 were new rates in London.* It may also be noticed that whilst throughout England and Wales the average rate was 2s. 7d. in 1841 and 3s. 4d. in 1868, yet that, excluding new rates, which, as Mr. Goschen pointed out, were chiefly urban rates, the average rates in 1868

* *Local Taxation*, p. 12.

were 2s. 6½d., so that the old rates, or what has been called the hereditary burden on land, had not then increased.*

All this points directly to the conclusion that the grievance of rates was not so much a grievance of the rural as of the urban districts; and that in these districts the real case was the case of the occupier as against the owner. Mr. Goschen does not shrink from these conclusions. He says, in reply to Sir Julian Goldsmid, who had attacked him on this point †—

Conclusion that the grievance was one of urban rather than of rural rates and the case one of occupier v. owner.

“I have certainly contended, on the strength of the figures in my Report, that urban ratepayers have a prior claim to relief as compared with the owners of agricultural land. As Mr. Mill says of local taxes on landed property, ‘as much of these burdens as is of old standing ought to be regarded as a prescriptive deduction or reservation for public purposes of a portion of the rent.’”

Then he ends the paragraph dealing with that argument by saying :—

“I may be allowed to express the earnest hope that in the measures which may be required to redress the grievances springing from increased local taxation, the opportunity may not be taken of shifting hereditary burdens to new shoulders.”

This, it must be remembered, was at the time when Sir Massey Lopes was pressing for assistance to the rates out of the public purse. Then he goes on to the question of the incidence of taxation :—

* *Local Taxation*, p. 21.

† *Ibid.*, p. 148.

Occupier
versus
owner.

“ This brings me to the only point in your letter, I think, upon which I have not yet touched, the question of rates as between the owner and the occupier. To defend my proposal as to the division of local rates between the landlord and the tenant would extend this letter beyond reasonable limits. I have fully argued the matter in the draft Report submitted by me to the Select Committee upon Local Taxation of 1870 ; and to that I would venture to refer you for a detailed exposition of my views of the advantages, both economical and administrative, which would result from such a division of the rates. I allude to this portion of your letter mainly because in it you briefly raise the question which, more than any other, it is essential to solve clearly and conclusively: who pays the rates, the owner or the occupier? I feel the deepest anxiety that this question should be thoroughly sifted by every one who takes part in the reform of local taxation. Unless it is correctly solved, we run an enormous risk of relieving the wrong people. And how little it is generally understood is patent from the fact that men who speak with authority upon the subject of rates will in one sentence dilate upon the unfairness of the whole of the £17,000,000 which is raised by rates being borne by real property, and in the next sincerely allege that the burden oppresses, above all, the poor occupiers of houses, and that it is these poor occupiers whom they mainly desire to relieve. They do not seem to see that every shilling which actually comes out of the pocket of the occupiers must be deducted from the alleged total borne by real property. If tenant farmers under long leases, or under agreements which no increase in the rates has disturbed, are paying several millions of the increased aggregate of rates; if the occupiers of houses, whose rent has not been reduced in consequence of the increase of rates, are paying several millions more, these millions ought indisputably to be deducted from the total burdens borne by real property. I have myself included the whole of the sum raised by rates under the title of burdens falling upon real

property, in deference to the general custom of treating rates in this manner. No one, however, could deny that real property bears an amount falling far short of the whole, the balance being paid from the profits of the tenant farmer and by the occupiers of houses, or, as I have elsewhere styled them, 'the consumers of a commodity called a house,' a commodity which I have frankly admitted to be very heavily taxed."

In his speech introducing the Local Government Bill in 1871, Mr. Goschen again referred to these points. He said :*—

Speech
of Mr.
Goschen,
1871.

"I now approach the third grievance, which I call specially that of the ratepayers, namely, the question between the owner and the occupier in consequence of the exclusive payment of rates by the latter. Considering this matter in connection with the evidence produced before the Select Committee last year, the Government have become more and more convinced that both justice and public policy require that the owner shall pay a certain portion of the taxes. At present, through the nature of the contracts made between the occupiers and the landlords, by which the former engaged to pay the whole of the rates, any increased rate which is not foreseen by either party falls entirely on the tenants. This is a question more seriously affecting the towns than the country districts ; but it is inexpedient in either case that the landlords should be allowed to contract with their tenants that the local authority should impose no taxation on them. With regard to Imperial taxation such a practice is not permitted ; for if it were legal to make contracts that the whole of the Income-tax should be paid by the tenants, the House of Commons would be hampered in its legislation, knowing that on any increase in the Income-tax the payment would fall, not on the landlords, who ought to pay their fair proportion, but exclusively on the occupiers.

Occupier
versus
owner.

* *Local Taxation*, p. 201.

The result of the present state of things has been that many great improvements in the Metropolis, in Liverpool, in Manchester, and in other large towns, have been made within the last ten years exclusively at the cost of the occupiers, without the landlord contributing a single shilling towards the expenses. The Government have decided that such an anomalous state of things shall no longer exist, and a provision rendering void any engagements by which owners contract themselves out of the payment of local taxation is embodied in this Bill. The division of rates between owners and occupiers is not a new proposal, for a similar provision exists in Scotland and Ireland. In England alone the exclusive payment of rates by the occupiers has been maintained, and I will point out to the House one of the consequences which flow from such a system. Landlords, not being considered ratepayers, have no share at all in the administration of the money raised by rates, although I feel sure that the House will agree with me that it is important, both for the interest of the public and for the good administration of affairs, that they should take a direct and practical interest in all the great works paid for out of the rates. It may be said that if the tenant pays an increased rate he gets a deduction of rent on account of it; but for every small increase of rate the tenant cannot go to the landlord and tell him he must reduce the rent."

Proposals to throw part of burden of rates on owner, and to transfer Inhabited House Duty to local authorities.

In addition to the relief given to the urban ratepayer by a transfer of part of the burden of rates from occupier to owner, Mr. Goschen also proposed by the Local Government Bill of 1871 to hand over to local authorities the Inhabited House Duty. This transfer was in entire accordance with the principles he then professed. The Inhabited House Duty is a local tax; it can be collected by the local authority; and, above all, it is largest, and its

transfer would give most relief in the cases where relief is most wanted, viz., in the great towns, and especially in London.

THE CASE OF THE URBAN RATEPAYERS SINCE 1870.

It would be impossible to give here any complete history of rates since the time when Mr. Goschen issued these memorable Reports and made these excellent speeches. But if his case was strong then, it is much stronger now. To the debt of the London County Council I will refer later on. As regards the increase of rates generally, I may refer to the nineteenth Report of the Local Government Board.* After giving a table containing the aggregate amounts received from public rates by local authorities in 1873-4, 1878-9, 1883-4, 1885-6, 1886-7, 1887-8, the Report proceeds as follows :†—

“ It appears from these figures that between 1873-4 and 1887-8 there has been an increase of £8,288,699, or 43·8 per cent., in the amounts of the public rates entered in the returns as having been levied to meet the expenditure of the above-mentioned local authorities, and that the greater proportion of this increase is attributable to the rates which have been raised for the expenditure of Urban and Rural Sanitary Authorities, School Boards, the Metropolitan Board of Works, and, to a lesser extent, the Metropolitan Vestries and District Boards. The additional rates levied for these purposes in 1887-8, as compared with 1878-9, amounted to £4,230,776, being equal to 78·3 per cent. of the total increase of £5,405,413, whilst as compared with 1873-4 they amounted

* Parliamentary Paper, c. 6141, 1890.
P. clxxviii.

to £7,439,991, which was equal to 89·8 per cent. of the total increase of £8,288,699. Most of the remainder of the increase in the amount of rates levied in 1887-8, as compared with 1873-4, is to be attributed to the additional rates levied to provide for the expenditure of Poor Law Authorities and the Commissioners of Police in the Metropolis. The reduction shown by the table in the rates levied by Highway Authorities in rural districts in 1887-8, as compared with 1878-9, is no doubt partly due to the relief afforded to these authorities by the grant made from the Imperial funds in aid of the expenditure on main roads.

“In the next table we have endeavoured to distinguish as far as possible, in accordance with the method adopted in previous Reports, the public rates levied in urban districts from those levied in rural districts.”

Conversion
of rural into
urban dis-
tricts.

The Report then points out that the figures denoting urban rates are increased not only by the increase of those rates in districts which were urban districts in 1873, but by the conversion of what used to be rural districts into urban sanitary districts, from which the conclusion is drawn in the Report that rural rates have probably increased more than they appear to do by the figures. A more important conclusion from the same facts would seem to be that urban districts are on the increase, and that in dealing with the question of rates it is the position of the rate-paying occupier in towns, and his relation to the owner of land in towns, which are becoming day by day more important social and political factors. The Report then gives the table above referred to, of which the following is a summary, showing the rates in 1873-4, as compared with 1887-8:—

Increase of
rates much
greater in
town than
in country
since 1873.

(1) <i>Urban Authorities,</i>	1873-4.	1887-8.
including—		
(a) <i>Extra-Metropolitan</i> . . .	£4,617,763 ...	£8,049,808
(b) <i>Metropolitan</i> . . .	3,907,913 ...	6,970,732
(2) <i>Urban and Rural.</i> . . .	8,663,610 ...	10,295,427
(3) <i>Rural.</i>	1,716,851 ...	1,878,869

upon which the comment in the Report is as follows:—

“From these figures it appears that between 1873-4 and 1887-8, while the public rates levied in the Metropolis increased to the extent of £3,062,819, or 78·4 per cent., and those levied exclusively in urban districts outside the Metropolis to the extent of £3,432,045, or 74·3 per cent., those levied partly in urban and partly in rural districts increased only to the extent of £1,631,817, or 18·8 per cent., and those levied exclusively in rural districts to the extent of £162,018, or 9·4 per cent.”

From the same Report* it appears that the rateable value of lands assessed to the Poor Rate in England had increased from £115,646,631 in 1874 to £149,696,812, showing throughout England a much smaller proportionate increase in aggregate value than in rates. In the Metropolis the aggregate rateable value had increased from £20,672,765 in 1874 to £31,005,876 in 1888, or 50·0 per cent., whilst Metropolitan rates had increased by 76·8 per cent.†

But the figures, as stated in this Report, must not be taken as stating the whole case of the Metropolis. It is certain that, on the quinquennial valuations

Rates further increased in London by more accurate valuation.

* P. clxxxii.
 † Pp. clxxx. and clxxxiv.

made under the Metropolis Valuation Act, the rateable value has made great jumps; and it is probable that the increase has arisen, not only from an actual increase in value, but from the more careful, stringent, and accurate valuations made under that Act.* If that is the case, the proportionate increase of the burden of Metropolitan rates on the actual value of property in the Metropolis must be still greater than is shown by the above figures. Rates may be raised by a rise in valuation without actual rise in value, as much as by a rise in the rate itself.

Increase of
local debt,
especially in
London.

The debts of local authorities have increased in the same period from £92,820,100 in 1874 to £192,222,099 in 1888, or by more than 100 per cent.† The debt of the Metropolis for the earlier year is not given; but it appears that the outstanding debt of London in 1879-80 was £28,277,846, and £39,664,944 in 1887-8—*i.e.*, it had increased in eight years by considerably more than a third.‡ The debts of the rest of the country had increased from £108,656,225 to £152,557,155, of which increase the greater part had no doubt been incurred by urban authorities. In addition, it must not be forgotten that the present generation of ratepayers have not only laid this burden on themselves and their successors, but have also paid off a large amount of debt. The debt of the Metropolitan Board in 1866, when Sir J. Thwaites told the Select Committee that the pressure was intolerable, was £3,500,000, and they had then paid off £1,000,000 out of rates. The Metropolitan Board

* P. clxxxvi.

† P. clxxx.

‡ P. 594.

of Works and the London County Council have between 1873 and 1889 raised by rates between £4,000,000 and £5,000,000 for the purpose of redeeming debt, notwithstanding which their net debt has increased in the same period from £7,000,000 to £17,000,000, and the proportion of their debt to rateable value has increased from 38 per cent. to 56 per cent.*

Those who desire further information on these points will find it in the Local Taxation Returns and in the evidence given to the Committee on Town Holdings. But enough has been said to show that the arguments so ably put forward by Mr. Goschen in 1870-2 have been greatly reinforced since that time. If the grievance of the ratepayer was then a grievance of the urban rather than of the rural ratepayer, and if the claim of the urban ratepayer was then a claim of the ratepaying occupier *versus* the landowner, that grievance and that claim are much greater now. Mr. Goschen's case of 1870 has been much strengthened by all that has happened since. What has he when in power, what has his Government done to meet it? Let us see!

MEASURES OF THE PRESENT GOVERNMENT.

GRANT IN AID OF MAIN ROADS AND PROPOSED WHEEL AND HORSE TAXES.

Mr. Goschen's first proposal as Chancellor of the Exchequer in connection with this subject was made

Grant in
1887 to rural
districts in
aid of main
roads.

* See App. to Report of Town Holdings Committee, 1890. Parliamentary Paper No. 341, p. 350.

in his Budget speech of 1887. It was a proposal to hand over the carriage tax, amounting to about £560,000 a year, to local authorities in lieu of the sum then granted in aid of the maintenance of the main roads; and, as this could not be effected till 1888, he proposed in the meantime to give a large additional grant from the Exchequer as an increased grant in aid of the maintenance of roads.* This proposal was received with approval by some of the county members; and with a chorus of disapproval by Lord R. Churchill, Mr. H. Fowler, Sir J. Lubbock, Sir J. Pease, Mr. Gladstone, and others.† The grounds of disapproval were twofold; first, that it was undesirable to extend the objectionable practice of grants in aid whilst local government remained unrepresentative in the counties; and secondly, because the proposed additional grant would be in relief, not of the urban ratepayers, whom Mr. Goschen had proved to require relief, but of the rural landowners, who, under changed political circumstances, had become Mr. Goschen's new clients. In spite of remonstrances, however, this additional grant was made, and the sum given for main roads rose from the £237,123 of 1886 to the £538,679 of 1887-8, and had, of course, the effect of relieving the rates in rural districts.‡ Nor did the effect of Mr. Goschen's new grant in aid expire with the grant. The Exchequer

* Budget Speech of 1887, p. 21.

† Budget Debates, 1887.

‡ See 18th Report of Local Government Board, pp. xxxix. and clxxix. ; and see as to the distribution of the grant, Table, pp. 423 and 425, in the Appendix to the same Report, from which it appears that London only received £3,559.

contribution of 1858, and the more recent contribution of 1890, are still distributed among local authorities in the proportions in which the Exchequer grants were distributed, and as the grants for main roads formed nearly one-fifth of the whole subsidy, the addition made in 1887 remains a permanent additional grant to rural at the expense of urban, and especially of Metropolitan districts. Mr. Goschen's first act as Tory Chancellor of the Exchequer was thus a direct breach of the policy which, in 1870, as Liberal President of the Local Government Board, he had proved to be just.

Effect on present Exchequer contribution; contrary to Mr. Goschen's principles of 1870.

In the following year, the Budget proposals of 1888 embraced the financial arrangements connected with Mr. Ritchie's Local Government Bill, and amongst them the scheme of the new Wheel and Horse Tax. The new taxes were estimated to produce, as to the Wheel Tax, £300,000, and as to the Horse Tax, £540,000, making together £840,000, and this sum, according to the official statement of proposed financial arrangements of 1888,* was to be applied towards the maintenance of main roads. From these taxes carts and waggons used on farms, and horses used in trade and agriculture, were to be exempt. Now, in favour of the Wheel Tax, and possibly of the Horse Tax, looked at apart from other taxation, and assuming them to be applied fairly and equally to all vehicles and horses using the roads, there was really a strong argument, viz., that vans, carts, and carriages from the towns use the country roads, which

In 1888 proposals for Wheel and Horse Tax.

* Parliamentary Paper, c. 5344 of 1888.

Moral objections to these taxes.

are maintained by rural rates and not by urban rates, and which ought to be maintained by those who use them. But, on the other hand, there were two formidable objections to both these taxes. In the first place, as had been shown by experience in the case of the old Horse Tax repealed in 1874, there were strong objections, moral as well as fiscal, to a tax honeycombed with exemptions, as both these taxes would be. Carts and horses used in farming, and horses used in trade, were to be exempt, an exemption which in itself, so far as they use the roads, would be unjust. But when we ask, "What is a horse or carriage used for farming purposes or for trade purposes, and what is a horse or carriage used for other purposes?" we raise questions which it is not easy for an honest man to answer, and easy for a dishonest man to answer in a dishonest way. Moreover, exemptions always grow. If a farming horse or cart is to be exempt, why not the dogcart of the village lawyer, or doctor, or minister of religion? Why not the chaise or vehicle which conveys any man or his goods on the needs of his business or of his household? Objections such as these made Sir S. Northcote's repeal of the Horse Duty in 1874 an immense relief, and it argues a strange indifference to the teachings of experience that another Conservative Chancellor of the Exchequer should, in 1890, without financial pressure, seek to re-enact it.*

* For exemptions from the old tax originally imposed by Mr. Pitt, see *Finance and Politics*, Vol. II., p. 188.

But there was a still stronger political reason ^{Political objections.} against these taxes. They were in effect to a great extent taxation imposed on the dwellers in towns for the relief of owners of land in the country—taxation of persons already oppressed, as Mr. Goschen had shown in 1870, with the new, heavy, and increased burden of urban rates, for the benefit of the persons who paid the old county or rural rates. It was, at the same time, a move likely to succeed, if the past tendencies of the House of Commons alone were looked to. For it was, on the whole, the pressure of country ratepayers which had been too strong for Mr. Goschen in 1871, and for Government after Government afterwards. On this occasion, however, the move did not succeed. The proposed taxes had to be dropped, though they were proposed by an able Minister, whose conversion to them ought to have given them fresh weight, and though they were supported by a Tory Government in the plenitude of its power, with a large majority in the House. May not this be a sign denoting a change in public opinion? It is possible, nay, probable, that Mr. Goschen's sound doctrines of 1871 may now be bearing fruit; that the new constituencies are more alive to the burden of taxation upon urban occupiers, and less anxious to relieve the land than the voters of former years. If so, statesmen will do well to look to the relief of the occupiers who pay urban rates as one of the chief questions of the future.

**TRANSFER OF LICENCE AND PROBATE DUTY,
AND REDUCTION OF HOUSE DUTY.**

Scheme of
1888, as
extended in
1890.

The Wheel and Horse Taxes vanished, though the effects of the Highway Grant remained; and the financial features of Mr. Goschen's scheme for re-arranging Imperial and Local taxation are to be found in the appropriation to local purposes, in lieu of certain Exchequer grants, of the Licence Duties in 1888, of half the Probate Duty in 1888, and of the new Duties on Alcoholic Liquors in 1890. In addition, we have to take into consideration the reduction, in 1890, of the Inhabited House Duty on small houses, since this is a tax which affects the local ratepayer, and is one which Mr. Goschen proposed to transfer to local authorities in 1871. It is by these changes that the scheme of the Government must be judged. Speaking roughly, the pecuniary results of the whole of the changes in question are as follows, so far as concerns England and Wales:—

Licence duties transferred . . .	£3,000,000
Probate duty „ . . .	2,000,000
New duties on alcoholic liquors . . .	1,000,000
	£6,000,000
Total given to local authorities out of	
Imperial taxation . . .	£6,000,000
Exchequer grants withdrawn . . .	2,850,000
	£3,150,000

as the new subsidy which Mr. Goschen has given in aid of local rates.*

* See 18th Report of Local Government Board, and Parliamentary Papers, c. 5344 of 1888, and 226 of 1890.

In 1871 Mr. Goschen had proposed, as above mentioned, to hand over to the local authorities the Inhabited House Duty, which, being largest in urban districts, would have given the largest share of relief to urban ratepayers. But in 1888 no such proposal was made. What was the reason for this change of front? Was it that, as in the cases of the increased grant for main roads and of the Wheel and Horse Taxes, Mr. Goschen, or those with whom he acted, desired in 1888 to give relief to the rural rather than to the urban ratepayer? But whilst Mr. Goschen failed to give the relief he had offered in 1871, he did show his continued feeling for the poorer urban householder by relieving small houses from the Inhabited House Duty, at a cost to the Exchequer of £500,000.*

Now if, as is sometimes contended by those who oppose the shifting of rates from the occupier to the owner, it were true that the burden of rates and taxes always falls on the landowner in the form of diminished rent, new subsidies of nearly £4,000,000 a year would be an addition to the rent of land, a gift by the industry and personal wealth of the country to that form of capitalised property which has hitherto enjoyed the greatest privileges, and which undoubtedly pays too small a proportion of the Death Duties. In that case the subsidies in question would be as impolitic as they would be unjust. They would add incalculable strength to all the arguments and agitation for confiscation of the unearned incre-

Why was
not In-
habited
House Duty
transferred

Are the new
subsidies a
gift to the
landowners
Probably
not.

* See his Budget Speech of 1890, p. 23.

ment, for Mr. George's single tax, and for the nationalisation of the land.

But I believe with Mr. Goschen* that the local rates and taxes fall largely on the occupier, especially in towns, and that relief from local rates and taxes is to that extent a relief to the occupier, and not simply and solely a gift to the landowner. So far, therefore, I have no quarrel with Mr. Goschen. But, granting this assumption, the subsidies in question are still open to the most serious objections on various grounds. Far from placing the relations of Imperial and Local finance on a sound footing, they make these relations worse than before.

Real objections to the new subsidies that they are—

To give full effect to sound principles, our system of local finance should, as we have seen, be one in which Imperial finance is entirely separated from Local finance, so that local needs may raise no further claims on the Imperial Exchequer; and in which local taxes are levied by local authorities out of local resources, with a large amount of discretion, both as to their amount and their application, so as to throw the burden, the responsibility, and the benefit on the same local shoulders. Certain of the Exchequer grants were most properly abolished, because they offended against such principles, and one would have thought that a Chancellor of the Exchequer who had successfully applied these principles to the subject of local loans would have eagerly seized the opportunity afforded by the Local Government Act to reform the other and more important financial

* See *Budget Speech of 1888*, p. 13.

relations between the National Exchequer and the local authorities on the same principles. But this has not been done. The effect of the recent changes has been to leave national and local accounts inextricably mingled and confused, with very bad results, both to the Imperial Exchequer and to Local government. If we examine the different items by which local rates have been supplemented we shall find that they are all open to one or more of the following objections.

In the first place, the National Exchequer is exposed as much or more than it was before to further claims on the part of local authorities, and, at the same time, future dealings with specific Imperial taxes are embarrassed by giving local authorities a direct interest in them.

1. Embarrassing to National Exchequer.

In the second place, local authorities are made even more dependent on the central Government than they were before.

2. Demoralising to local government.

In the third place, the new Imperial doles are not distributed in such a way as to give satisfaction or to meet the real justice of the case.

3. Unfairly distributed.

Let us examine these points in detail

1. *These New Subsidies are Dangerous and Embarrassing to the National Exchequer.*

Embarrassing to National Exchequer.

The funds handed over are certain licence duties; certain portions of the taxes on beer and spirits; and one-half the Probate Duty. Of these, the licence duties, it is true, constitute the whole of a particular

branch of revenue, collected locally, and their transfer does not, therefore, confuse Local with Imperial accounts. But with regard to the others the case is different.

The transfer of an undistinguished part of drink duties to local authorities gives them a voice in any dealing with the whole.

The special taxes on beer and spirits consist of an additional tax of 3d. a barrel on beer and 6d. a gallon on spirits, imposed in 1890. They are estimated to produce £1,304,000 in all, of which £1,000,000 is to be appropriated to local purposes in England and Wales. Though imposed as a separate tax, it is simply a surtax; an addition to and a part of the great taxes on alcoholic liquors, which form so important a part of the national revenue. There is no reason why this special portion of these taxes, more than other larger or smaller portions of them, should be handed over to local authorities; nothing to prevent, and everything to encourage, demands for larger portions. The portion granted cannot even be said to be earmarked. Moreover, the transfer may seriously embarrass any future Chancellor of the Exchequer in altering these duties. It gives local authorities an interest in the duties as they stand, and any change hereafter proposed by which they would be altered would certainly meet with difficulties on the part of local authorities if they thought that it would have the effect of diminishing the quota thus given to them; or that, by agitation and clamour, they could obtain a portion of any increase in the duties.

The same thing true of half

The third fund devoted by Mr. Goschen to local purposes in England and Wales is four-fifths of one-

half the Probate Duty, which amounted in 1889-90 to £1,811,520,* but which will probably be not less than £2,000,000 in future years.† Of this remarkable transfer and the reasons given for it I will say more in a subsequent chapter. It is sufficient here to observe that this grant, like the new tax on beer and spirits, is a simple subsidy from Imperial funds. The Probate Duty, being a tax on personalty, which has no local domicile, has not, and cannot have, any connection with any special locality. It is a direct dole from the Imperial Exchequer—and it is one which is peculiarly dangerous to that Exchequer; for the very fact that it is one-half of a large Imperial fund suggests that another half remains to be drawn upon, whilst the growing demands of local taxpayers make it almost certain that such drafts will be made. Moreover, the example set by Mr. Goschen of reducing the Sinking Fund in order to make the first large draft shows future Chancellors of the Exchequer how easy and pleasant is the downward path by which such drafts can be made easy. Further, it is certain that the Death Duties, and amongst them the Probate Duty, must soon be revised and altered. No such alteration can now be made without in some way or other affecting local authorities, possibly by increasing, possibly by diminishing, their share in the duty. In either case, their position and the interest thus given to them will induce them to interfere, and will interpose another obstacle to the

Probate
Duty, the
transfer of
which is
open to
other objec-
tions.

* Parliamentary Paper 226, 1890.

† *Budget Speech*, 1890, p. 14.

very difficult task of reforming the Death Duties. Much more remains to be said on this subject in a future chapter. What is here said is enough to show that the peculiar character of the Probate Duty grant renders it of all subsidies yet granted the most dangerous to the National Exchequer.

Weaken and demoralise local government.

2. *These New Subsidies Weaken and Demoralise Self-government.*

This is a still more serious objection. The object of every sound financial reformer must be to give to the local authority adequate sources of revenue; to make the local authority responsible for its amount, its collection, and its expenditure; and to prevent local authorities from relying on an everlasting scramble for a larger and larger share of the contents of the public purse.

The licence duties fulfil one requisite, viz., that they are distinct local taxes.

The first of Mr. Goschen's subsidies consists, as we have seen, of the licence duties. How far do they fulfil the above conditions? These duties consist, it must be remembered, of duties on licences for the sale by retail of intoxicating liquors for consumption either on or off the premises; of duties on licences for dealers in beer, spirits, wine, sweets, tobacco, and game; of duties on licences for refreshment-house keepers, appraisers, auctioneers, house-agents, pawn-brokers, and plate dealers; of duties on licences for dogs, guns, and game-killing; for carriages, armorial bearings, and male servants. These duties amounted in the aggregate in 1889-90 to £2,994,419. Such

part of them as is levied in each county or borough is handed over to the council of that county or borough.* These duties are therefore local taxes devoted to administrative purposes in the locality in which they are collected, and they thus fulfil one condition of a good local tax. But this is the only condition of a good local tax which they fulfil. They are still collected by the Inland Revenue Commissioners; for, though there is a power in the Act to hand over the collection to the county authorities,† it has not been put into operation. There is, moreover, no power to vary these duties, and even if their collection was handed over to the county authorities, those authorities would still be bound by the uniform rules now in force. Mr. Goschen seems, indeed, to have contemplated giving power to county authorities to increase some of these licence duties, especially those relating to publicans;‡ but this intention was not carried into effect by the Act. The County Councils, even if they collect the duties, will be mere conduit pipes. Is this sound policy? Is it clear that none of these duties could be varied by different authorities without inconvenience? Is it not possible that the power to vary them might not only be convenient to the local authorities, but might lead to useful experiments in legislation? One of the most valuable of the many suggestions made by the late Mr. Jevons was that, as social

But local authorities do not collect them, and have no power to vary them.

* Parliamentary Paper 226, 1890.

† Local Government Act, s. 20, sub.-s. 3.

‡ *Budget Speech* of 1888.

legislation is of an experimental character, it is desirable that different local authorities should be allowed to try different experiments. Parliament has, not without reluctance, taken some steps already in this direction. It has allowed different local authorities to make different arrangements with respect to gas and water and other matters. Would it not be well to proceed much further? It has been suggested that, as amusements are luxuries, local authorities ought to have power to levy fees or licence duties upon them. Is there any reason why some one town—*e.g.*, London or Edinburgh—should not try the experiment? Some persons think dogs in great towns a nuisance. Why should not a Town Council be able to increase the licence duty for dogs? Why should not a town be enabled to raise a revenue from hired carriages? Or, to take the most important duties on the list, as to which Mr. Goschen contemplated giving the Councils some discretion, *viz.*, the licences for the sale of alcoholic liquors, is there any reason why single towns or counties should not be allowed, as is the case in the United States, to try the effect of high licence duties? One thing is quite clear, *viz.*, that until the power of increasing, diminishing, or repealing these licence duties is given to local authorities, their transfer does little or nothing towards advancing responsible self-taxation. The local authority is a mere channel by which a given flow from the Imperial Exchequer is diverted to local purposes. The transfer of these licences no doubt carries with

it the advantage that each locality has in them its own separate and defined source of revenue, and not an uncertain draft from the Imperial river; but, in their present condition, they afford, so far as their imposition or collection is concerned, no help whatever to local self-government. So far as the expenditure of the revenue derived from these duties is concerned, I shall have more to say below.

As regards the other two taxes transferred, viz., the new duties on beer and spirits, and the half of the Probate Duty, there is not even the defence that they are separate taxes, or that they are local in their origin. They are simply fractions, undistinguishable, and scarcely earmarked, of larger Imperial funds. Over them local authorities can exercise no control; in sparing them local authorities have no interest. Indeed, their only interest is to get as much of them as they can; and the temptation to scramble with one another for as large a share of them as possible will be as demoralising as it will be irresistible.

The raising and collection of all these new subsidies, therefore, does not forward the cause of self-government. Let us now consider how their destination and expenditure, as settled by the recent changes, affects that question. The application of the licence duties, and of the two-fifths of the Probate Duty, is governed by the Act of 1888.* They are paid to a separate account, and out of this account is

The drink duties and Probate Duty do not fulfil any of the above requisites.

The expenditure of none of these duties is left to local authorities, but is largely dictated by the Central Government.

* Local Government Act, ss. 23, 24, and 43.

the part of the County Councils, the whole of the sum previously paid in the form of Exchequer grants, so that out of the sum of £4,786,134 handed over to the County Councils in 1888-9, £2,858,808 was doled out to them on precisely the same conditions, and under the same strict control of Government Departments, under which the previous Exchequer grants had been made. In the case of the London County Council the interference has been and is even greater; for the provision under which the Council have to pay 4d. a day towards the maintenance of the indoor poor of London has compelled them, after satisfying the other statutory charges, to impose an extra rate of 1d., or about £130,000 a year, in order to comply with the Act. London, as a whole, it is true, gained by the arrangements connected with the Exchequer contribution about £200,000; but so far as the County Council and their special funds are concerned, they are losers to the extent of £130,000 a year, which they have to make up by an increased county rate. In other words, these arrangements not only leave the Council a mere mechanical conduit pipe so far as the old Exchequer contributions are concerned, but dictate to them a further special expenditure, and compel them to levy an increased rate for the purpose of meeting it.

Attempt to dictate application of drink duties. Public House Endowment.

Turning to the application of the subsidy of the present year, the first proposals of the Government not only dictated the mode in which the money was to be applied, but, by the "Public House Endow-

ment" clause, dictated one mode of applying it which would have demoralised the County Councils, and which revolted the sense of the country. As regards the final shape which the Act of 1890* has taken, the application of the £300,000 destined for the superannuation of the police is not only strictly defined, but, as I shall show hereafter, is hardly so much a gift to London as a means for getting the Government out of a difficulty under which they were labouring. As regards the remainder, the struggle over Mr. Acland's amendment, and over the Scotch Education proposal, shows how hard it is for those who have been accustomed to distribute public money and to dictate its application to recognise the principle that local self-government ought to involve local control of local expenditure.

Nor are the complications arising from these unhappy drink duties yet at an end. We are still in difficulty about their application. In the rural districts, where the land seems to have a peculiar aptitude for absorbing showers of Treasury gold, County Councils may successfully apply the new subsidy from drink to the teaching of agriculture or other arts. But in London, with which I am better acquainted, the course is still dark and the result uncertain.

Present
embarrass-
ments in
application
of these
duties to
Technical
Education.

London has, as shown below, received far less than its due share of the new subsidies, and the London County Council has, in the arrears of sanitary work and town improvement which lie before it, more than

* Local Taxation Act, 1890 (53 & 54 Vict., c. 60).

sufficient to exhaust its resources, whilst education is a matter of which it has hitherto had no cognisance, and of which it has no experience. On the other hand, there are in London various institutions, such as the Privy Council, the School Board, and others, which have devoted much attention to educational matters, and which already apply public money for that purpose. But, under the legislative fluke of last year, these institutions are passed over, and a large sum of money is flung into the lap of the London County Council, and they are told, without further guidance, to spend the money as they think best, but that, if they spend it on technical education, they are more likely to keep it than if they spend it on housing the poor, or on water, or on drains. The result is, of course, a great embarrassment. If they spend the money on their own proper objects, they run the risk, so Mr. Goschen is understood to say, of losing it for London. If they accept it for the purposes of technical education, they are practically undertaking the management of the secondary and technical education of London, a task for which they are at present unfit, and in undertaking which they are interfering with the functions of other bodies much more fit than themselves. As a matter of fact, they are now receiving all sorts of demands from Educational Institutions of all kinds, of the comparative merits of which they are little competent to judge. In this manner a new complication is gratuitously added to the confusion of administrations already existing in London. It is a further instance of the

many unhappy muddles arising out of Mr. Goschen's ingenious innovations.

The imposition and collection of the taxes thus devoted to local government is therefore placed wholly out of the power of the local authorities, and the expenditure of these taxes is also to a large extent in most cases, and in some cases entirely, placed out of their control. Nor has the grant of these subsidies been accompanied, as has been usual in the case of grants of public money, by conditions making it necessary that the Local Authorities shall meet the grant by contributions from local sources. Nothing has been done by these arrangements to further the cause of responsibility and self-government, whilst the mischievous practice of drawing on Imperial resources has been extended and encouraged.

It was not to be expected, or indeed to be desired, that the system of tutelage fostered by Parliamentary grants should be brought at once to an end; it was not even to be expected, though it was to be desired, that the demoralising system of Exchequer doles should immediately cease. But it was to be hoped that the great opportunity afforded by the Local Government Act would be so utilised as that some progress should be made in these directions. This has not been done; and the confusion, demoralisation, and danger of these grants are now greater than ever. It will, under these circumstances, need much statesmanship of a very high order in the public offices at Whitehall in order to give our new forms of local self-government a fair chance of proper

development. The recent dealings of the Local Government Board with the London County Council give little promise of such a result.

Exchequer contributions exempted from control of the House of Commons and not made subject to local control.

There is another observation on the change from Exchequer grants into Exchequer contributions, which is not without weight. The Exchequer grants were made by annual vote and were consequently subject to the annual control and criticism of the House of Commons. The Exchequer contributions are determined once for all by a permanent Act of Parliament; consequently they do not appear on the votes, and are not subject to annual supervision by Parliament. Now, if these contributions were all, like the Licence Duties, separate local taxes; if they were handed over bodily with due power of collection, of alteration, and of application to Local Authorities, without any interference by Parliament, the change would obviously be for the better. It would give to Local Authorities their own; while it would at the same time keep Parliament to its own functions, viz., the control of the National Finance. But when these Exchequer contributions form an undistinguishable portion of Imperial Revenues; when they are handed over without any sufficient powers on the part of those authorities over their amount, their collection, or their application, it becomes questionable whether it is a wise or a constitutional thing to have exempted this large fragment of public revenue from the ordinary public control. On this point I shall have more to say below, when speaking of the London Police.

3. *The Distribution of these New Subsidies is not Just—London and the Towns do not get their Fair Share.*

The third objection is that these Imperial doles are not distributed in such a way as to give satisfaction, or so as to do justice among local ratepayers. On this point I cannot do better than quote Mr. Goschen. In introducing this scheme, he said :*

Distribu-
tion of these
doles not
just.

“There is a proposal that you should give the new money in proportion as counties and boroughs have been in receipt of the old grants. It seems to me that nothing could be more unjust. If there were a great lunatic asylum in a particular county receiving a considerable Imperial grant, and if you were to say, ‘This county has been receiving so much, and practically, as there is more money to be distributed, you must pay in proportion to what it has received hitherto,’ you would be offending against every principle of justice. You must rather look to see where the shoe pinches most.”

Mr.
Goschen's
own
opinion.

But, alas! the principle which he thus condemns was the one which he has been compelled to adopt both in respect of the Probate Duties and of the new taxes on drink. No one knew better than he that it was the urban householder whose shoe pinched him most, and that those who succeeded in getting the largest shares of the Exchequer grants were not those whose shoes pinched most, but who scrambled hardest. And yet he has done more than anyone else to perpetuate the system of doles which creates these scrambles; and the present result of his subsidies is to perpetuate the injustice which they have

* *Budget Speech of 1888, p. 16.*

created, and of which he most justly complains. The case which he had proved distinctly in 1870 was, that the rates which needed relief were the new rates of the great towns, and especially of London, and the figures I have quoted above show that this case is much stronger now. I am unable to show by any general figures how the new subsidies are distributed as between town and country generally. But I have already referred to Mr. Goschen's increased highway grant as one item which has increased the share of the country at the cost of the towns; and with regard to the Metropolis the following statements show that the London ratepayer has got very much the worst of the scramble, and receives much less than his fair share of the new subsidies.

London, which ought to have received more than one-fourth of the new subsidy, only received one-tenth.

According to the Report of the Local Government Board,* the aggregate amount actually given to the County Councils and County Boroughs in England and Wales in the year 1888-9, over and above pre-existing Treasury grants, was about £2,000,000; and by the same Report † it appears that the rates of the Metropolis in the last year there given, viz., 1887-8, were £6,970,732, whilst the aggregate of the rates for the whole of England and Wales was £27,194,836. In other words, the rates of London were about one-fourth of the whole of the rates of the country; and, according to Mr. Goschen's doctrines of 1870, the urban rates of the Metropolis required relief in a larger proportion than the general rates of the

* 19th Report, c. 6141, p. xiv.

† Appendix, p. 592.

country. If, therefore, the amount of rates is taken as the standard, London ought to have received considerably more than one-fourth of the £2,000,000 of new subsidy granted by Mr. Goschen in aid of rates. But according to the accounts and estimates of the London County Council for 1890, the Exchequer contribution for London amounted to £823,334, whilst the amount of the Treasury grant for which it was substituted was £621,489; so that, as a result of the arrangement of 1888, London ratepayers, instead of receiving more than £500,000 of the new subsidy of £2,000,000, to which at least they were entitled, have received only £200,000. Instead of receiving a third, or even a fourth, of the new subsidy, London received only one-tenth. Similar conclusions may be drawn from the local taxation account.* From that paper it appears that the aggregate Exchequer contribution in England and Wales in 1889-90 was £4,805,940, whilst the proportion allotted to London was £815,463. In other words, London received a little more than one-sixth of the whole contribution, new and old, whilst its rates are, as above mentioned, one-fourth of the aggregate rates.

An article in the *Economist* of June 21st, 1890, confirms the above conclusion, and shows how the Government were prevailed upon to reduce what they had themselves proposed to give to London. It says:—

“The following table shows, first, how it was originally intended to allocate the sum of £4,786,000 to be distributed

*Economist's
criticisms.*

* Parliamentary Paper 226 of 1890.

amongst the local authorities of England and Wales ; second, how the allocation was altered by the decision of the Government to distribute the grant from Probate Duty in proportion to the amount of previous grants in aid, instead of in proportion to the amount of indoor pauperism ; and, third, how the payment of £4,793,000 actually made last year was distributed.

	Original Scheme. £	Estimated. Amended Scheme. £	Actual Distribution in Year ending March 31st, 1890. £
Metropolis ...	963,000	856,000	814,000
Boroughs ...	1,179,000	1,147,000	1,060,000
Counties ...	2,644,000	2,783,000	2,919,000
	<u>4,786,000</u>	<u>4,786,000</u>	<u>4,793,000</u>

From this it will be seen that, while the Metropolis has actually received about £150,000 less than the Government held at first that it was entitled to, and the boroughs have received nearly £120,000 less, the counties have got about £270,000 more."

A subsequent article in the *Economist* of October 11th, 1890, contains the following statement :—

"Confining ourselves to the actual results in 1889-90, what we find is that a net sum of £1,933,000 was made available for the relief of rates, and as the value of rateable property in England and Wales is about £150,000,000, that is equal to an average rate of about threepence in the pound. This relief, however, has not been equally distributed. It has been allocated between the Metropolis, the boroughs, and the counties thus :—

	Amount of Discontinued Grants. £	Substituted Revenues. £	Excess of New Revenues. £
Metropolis ...	628,000	814,000	186,000
Boroughs ...	592,000	1,060,000	468,000
Counties ...	1,640,000	2,919,000	1,279,000
Total	<u>2,860,000</u>	<u>4,793,000</u>	<u>1,933,000</u>

LOCAL AND IMPERIAL FINANCE. 97

And comparing the gain shown above with the *rateable value* of the three divisions, we have the following statement:—

	Estimated Rateable Value.	Additional Revenue. Amount.	Per £ of Rateable Value.
	£	£	d.
Metropolis ...	31,000,000	186,000	1·44
Boroughs ...	27,000,000	468,000	4·02
Counties ...	172,000,000	1,279,000	3·33
Total	130,000,000	1,933,000	3·09”

The *burden of rates* would, however, afford a sounder basis for comparison than rateable value; and it would be interesting to have a return showing, for each rating authority in England and Wales, the proportion of the amount received from the Exchequer contribution, and especially from the Probate and Drink Duties, to the burden of its rates, with a summary showing how it affects urban and rural authorities respectively. We should then see how far the relief afforded by Imperial doles has been given where the shoe pinches most.

Certain Tory members for London there are who have constituted themselves a sort of watch-dogs against what they are pleased to call the extravagance of the County Council. Where were they when they allowed other dogs to snap up so large and inequitable a share of the Imperial crumbs? And where, at the same time, were Mr. Goschen's principles of 1870?

But, it may be said, so far as London is concerned, all these inequalities have been cured by the arrangements of 1890, under which London will

Drink
Duties of
1890 and
Police
Grant.

receive not only her proportionate share of the unappropriated portion of the new duties on alcoholic liquors,* but a special grant of £150,000 for her Police Superannuation Fund. This, however, is far from being the case. As regards the unappropriated portion of this new grant, it will be distributed in the same proportions as the Probate Duty, and if, as I have shown to be the case, the distribution of that duty is unfair to London, the distribution of Mr. Goschen's further dole of 1890 will be unfair too.

As regards the grant towards police pensions, £150,000 out of £300,000 is no doubt a larger proportion than London would be entitled to if the rates or rateable value were taken as the basis of calculation. But the Act does not take this basis; it distributes the subsidy according to the amount paid in police pensions in each locality.† Adopting this principle, Mr. Matthews has shown‡ that £150,000 is actually less by about £6,600 than London ought to receive, if London's share of the £300,000 were made proportionate to her police pension list.

This, however, is not all. We must look Mr. Goschen's gift-horse in the mouth. The real effect of this grant of £150,000 is, as I have said above, not so much to relieve the London ratepayers as to get the Government out of a difficulty. The police case is so instructive that I may be pardoned for stating it at some length.

* Budget Speech.

† Police Act, 1890 (53 and 54 Vict., c. 45, s. 17, sub-s. b).

‡ See his letter in *Times* of July 14th, 1890.

FINANCE OF THE METROPOLITAN POLICE.

That London is the only city in the Kingdom which has no voice in the management of its own police is only too well known. But this anomaly is beyond my scope, and I do not propose to discuss the question of management, except as concerns finance, and especially as concerns the alterations in its finance effected by the present Government. These, however, we shall find to be important in themselves, and to have an important bearing on the question of management.

The Metropolitan Police has, on the whole, been both an efficient and a popular force. If, in late years, it has lost something in public favour, this is probably due, not so much to faults in the men themselves, as to mismanagement at headquarters, and to the fact that, since the force is not a municipal but an Imperial force, questions of order in the streets have become mixed up with Imperial politics. But though an excellent, it is not a cheap force. The following extracts from a very useful, and probably official, memorandum printed in the *Times*,* show that the pay and pension of the constables of the Metropolitan Police, compared with those of Civil servants, soldiers, sailors, and artisans, independently of any additions made by the Act of this year, are as follows:—

1. *As regards their whole emoluments.*

* *Times*, July 8th, 1890.

		Current Pay.	Value of Pay x Pension.
Comparison with the pay of other similar classes.	“ 1. Constable, present average ...	£74 2 0 ...	£90 19 7
	2. Soldier... ..	48 7 8 ...	57 12 8
	3. A.B. seaman R.N.	48 4 7 ...	57 2 7
	4. Highest unskilled and lowest skilled labourer	67 12 0 ...	67 12 0

“The foregoing table shows that the present pay and pension of the constable compare as follow with those of the other classes :—

	Under Pre- sent Scale, per Cent.
“ 1. Constable more than the soldier	57½
2. Constable more than A.B. seaman R.N.	59
3. Constable more than highest unskilled and lowest skilled labour	34½

“This table does not show the whole of the advantages that the constable enjoys compared to Class 3. Constables have the right to expect, and a large proportion of them actually receive, promotion to higher grades with increased rates of pay and pension, whereas in the labour market it is understood that the unskilled labourer seldom rises into the ranks of the skilled, nor do those in the lower grades of skilled labour frequently advance to higher grades. Constables have also allowances, such as clothes, fuel, medical attendance, and, in a proportion of cases, lodgings at cheap rates ; while, on the other hand, their wives are not allowed to trade, and they are liable to removal from one district of London to another. These considerations are all omitted, but, if included, would no doubt make the difference in favour of the constables still more marked.”

2. *As regards pension alone.*

“Assuming constables to retire after an average service of only twenty-two years, their pensions compare with those of the other classes as follows :—

	Per Cent.
“ Constables more than civilians of similar position... 30	30
Constables more than soldiers 82	82
Constables more than A.B. seaman 89	89
Constables more than petty officer R.N. 17	17

“ If the constables serve for twenty-five years, even under the existing scale, their pension is more than double that of the soldier and the sailor, while it exceeds that of a Civil servant and petty officer by 44 and 46 per cent. respectively.”

It further appears that the pensions of the Metropolitan Police constitute a very heavy and increasing charge. In his report of June last* Mr. Finlayson, the Government actuary, says :—

“ The number of pensioners is rapidly increasing and the average annual pension to each pensioner is also increasing. The charge for pensions last year was £197,000. It will probably surpass £200,000 this year under a continuance of the present system. In 1895 it is likely to be £250,000 a year, and by 1900 not far from £300,000 a year.”

And he afterwards estimates the ultimate pension charge for 14,250 men at the existing scale at £520,000 a year, which will be increased to £556,500 when the 1,000 men whom Mr. Matthews is adding to the force come on the pension fund.

Mr. Matthews is, as he has told us, increasing the force by 1,000 men, thereby, of course, increasing the expense of pay and pension proportionately. He has also, since the above tables were published, as we are informed by the newspapers, raised the active pay of the present force, though by what amount we do not yet know. Their pensions have also been

* Parliamentary Paper 6075, 1890, p. 191.

raised by the Police Act of last Session.* The effect of the Bill, as originally proposed by the Government, was to give each policeman an absolute right to a pension of thirty-fiftieths of his pay after twenty-five years' service. The amount of the pension was raised by Mr. Matthews in the House to thirty-one-fiftieths. What the aggregate effect of all these changes will be we do not yet know. But it is obvious that they will increase the aggregate immediate expense of the force; they will increase it still more when pensions come into full operation; and they will increase the disparity between the remuneration given to the police and that given to other classes of public servants and to other workmen.

Tendencies towards increase of expense.

It would be beyond my limits to discuss the general question whether the work of the police is such as to require much larger pay and pension than is given to other classes. But one or two observations on this point may not be out of place. In the first place, there is, I believe, no difficulty whatever in recruiting the police; and in the general exodus from the rural districts to the towns, which is characteristic of the present time, the great attraction of places in the police for the best of our young countrymen forms, according to general report, a noticeable feature. In the second place, policemen have votes, and the London members are, as has been admitted in Parliament, not inaccessible to this consideration. In

* Police Act, 1890, First Schedule, and *Hansard*, August 5th, 1890.

the third place, there is a striking tendency in democratic Governments, whether national or municipal, to raise the pay of muscle, and to depress the pay of brains. Whether this is a wise tendency, time will show. If democracies, with tendencies to undertake ever more and more of industrial work, refuse to pay adequately for directing and organising power, they will assuredly come to grief. On the other hand, if they pay for muscle-labour extravagantly, they will also assuredly come to grief. There seems to be a notion that there is some indefinite fund, call it capital or profits, or what you will, out of which wages may be raised indefinitely ; and that in raising the pay of that class of labourers which is employed by Governments, we are raising the standard of the pay of all labourers. There cannot be a greater fallacy. You cannot make a cake bigger by dividing it. The wages of labour form the first and heaviest demand on the property of the people, and if the wages of one class of labourers is increased out of due proportion, the excess will have to be made up by some deficiency or falling off in wages elsewhere. We cannot pay our policemen or other public labourers extravagantly, without diminishing the funds available for other labour. But these are considerations outside my present subject, and I only refer to them for the purpose of showing how many and how strong are the tendencies to over-pay the police, and how important it is that we should maintain in full efficiency the ordinary constitutional checks on these tendencies.

Usual
checks on
expenditure
wanting.

The usual checks on extravagant public expenditure are, of course, to be found in the resistance and control of the taxpayers. Were it not for this the pressure of the public services on our Governments would be irresistible. If the Chancellor of the Exchequer had not the taxpayer at his back, the army, navy, and other public services would drain the lifeblood of the nation. If Town Councils and County Councils did not stand in fear of the ratepayers, there would be no limit to local outlay, honest possibly, but also possibly dishonest.

In examining the finance of the Metropolitan Police we shall find that the anomalies of its management have reduced these checks to a minimum, and that, weak as they have always been, they have been still further weakened by the action of the present Government.

Expense of
Metropolitan
Police:
how pro-
vided.

The whole annual expense of the Metropolitan Police,* according to the last account, was in round numbers (excluding balances on both sides of the account) £1,600,000, and this amount will, no doubt, in consequence of the circumstances above mentioned, be larger in future years. This sum, after deducting certain special receipts from the Government Departments and other persons for special services, is made up by a rate on the Metropolitan Police area (which includes part of the Counties of Middlesex, Surrey, Kent, Essex, and Hertford, but excludes the City of London), aided by an Exchequer grant, which is now termed an Exchequer

* Parliamentary Paper 154 of 1890.

contribution. The fixed limit of the rate is 9d, but the Government contribute a sum equivalent to a 4d rate, thus reducing the actual rate to 5d. The 5d rate amounted last year to £731,978, and the Government contribution to £584,825.*

As regards the 5d. rate, the Home Secretary has always had, and still has, power at his own discretion to levy the whole of it, and he has levied it accordingly; but until this year he has had power to levy no more.†

As regards the Government grant, it was before 1888 made by an annual vote of the House of Commons; but by the Local Government Act of that year the Exchequer grant was turned into an Exchequer contribution; the amount was fixed for future years on the footing of the grant made in 1887; and it was made payable to the Receiver of the Metropolitan Police, to be by him applied to police services under the directions of the Secretary of State.‡ It was thus withdrawn altogether from the control of the House of Commons, and the only sum, now voted, other than the payments for special services to Government Departments, are the salaries of the Commissioner, Receiver, and Assistant-Commissioners of Police. The effect of this change, coupled with the uncontrolled power of the Home Secretary over the 5d. rate, is to place in the hands of a single Minister the control of a large and

Vote for Metropolitan Police withdrawn from House of Commons.

Expense of a million and a-half un-checked.

* 51 and 52 Vict., c. 41-3-4. Parliamentary Paper 154 of 1889.

† 31 and 32 Vict., c. 67.

‡ Local Government Act, 1888, 33, 34, and 37.

growing department of the public service, costing more than a million and a-half of money, without any check on that expenditure, either by the rate-payers, who pay the greater part of it, or by the representatives in Parliament of the nation, which pays the rest. Is there in the whole machinery of Government such another anomaly?

Power of rating for pensions made unlimited.

But this is not all. I have already referred to the pensions of the police and to the very large cost they must ultimately involve. In fact they have hitherto constituted one of the great difficulties of the Home Secretary. They amount at present to about £200,000 a year. To meet them there is a small special pension fund, but it is grossly inadequate, as it amounts to little more than £50,000 a year. In order to make good the deficiency, the Secretary of State has been in the habit, under the enactment mentioned below, of contributing out of the Metropolitan Police Fund, *i.e.*, the fund out of which the active service is maintained, an ever-increasing sum, which in 1889-90 amounted to £145,769, or nearly* the same amount which Mr. Goschen now proposes to contribute from the drink duties.

Mr. Matthews is, as above mentioned, increasing the force by 1,000 men, and is also increasing both pay and pensions, and to meet the additional expense he had no funds till Mr. Goschen came to his assistance with £150,000 out of the drink duties. This subsidy will enable him to dispense with the

* Parliamentary Paper 154 of 1890; 20 and 21 Vict., c. 64, s. 15.

contribution he has hitherto made from the Police Fund to the Pension Fund, and to apply the whole of the Police Fund to the maintenance of the active force. There will consequently not, even at first, be any diminution of the present 5d. rate, but only a change in its application. This, however, is not all. There will inevitably, at no distant time, be a large increase in the rate. Hitherto, as above mentioned, the Secretary of State has had power to levy a certain rate and no more. By the Act of this Session he has obtained power to increase that rate to any amount whatever which may be necessary, in order to pay the pensions as determined by the Act, and this without consulting either Parliament or the ratepayers.* As £130,000 is about the present produce of a penny rate in the County of London; some future Home Secretary will probably have, in course of time, to impose an extra 2d. rate in the Metropolitan Police area, in order to meet the charge which the present pension system must inevitably bring with it, and he will be able to do this by a stroke of the pen without consulting either the House of Commons or the ratepayers.

Before the present Government meddled with the Metropolitan Police, the checks on extravagant expenditure were extraordinarily weak. The London ratepayers, unlike any other ratepayers, had no voice whatever; and the representatives of London

* This is the effect of s. 19, sub-ss. 1 and 4, and s. 32 of the Police Act, 1890.

It must soon be exercised.

Checks on expenditure, always weak, have been weakened.

in the House of Commons were not strong enough, or perhaps, intelligent enough, to look after the interest of the ratepayers. The ordinary control which the Treasury exercises over the spending departments was, in this case weaker than usual, because the sum paid out of the Exchequer as a grant or contribution was not a sum which would be greater or less, according as the Treasury might fail or succeed in reducing expenditure, but a sum equal to four-fifths of the rate on the Metropolis, the whole of which was always levied and expended, and in the levy of which the Treasury had no direct interest. But two checks remained, viz., the annual vote of the House of Commons, and the limitation to a fixed amount of the rate which the Home Secretary had power to levy. Both these checks have been removed by the present Government, and the Home Secretary now stands exposed to the demands of a growing and powerful service, with arbitrary and unusual means of satisfying those demands placed in his hands, and with no force at his back, enabling or compelling him to resist them. Is it wonderful that under these circumstances the Metropolitan police should be an expensive force? And is it not to be expected, after what has recently been done, that it will become more and more expensive?

Unsatisfactory discussion on the Police Bill.

It is a remarkable thing that, in the Parliamentary discussions on the Bill of last Session, the unlimited power of rating London thus conferred on the Secretary of State was, so far as I can find, never even

referred to. Several Metropolitan members did, indeed, take part in the discussions, but seldom, if ever, for the purpose of guarding the interests of the ratepayers. Some of them, so far from looking to these interests, were active in pressing on the Government an increase of the already liberal pension scale, involving, of course, an increase in the rates, a pressure to which Mr. Matthews, after resisting it successfully in the Standing Committee, partially succumbed in the House.* One of these members, Mr. Baumann, distinctly stated that his object in seeking to give London policemen an indefeasible title to a liberal pension after twenty-five years' service was to oust any control by the representatives of the ratepayers if at any future time the management of the police should be handed over to them.† Indeed, the remarkable feature throughout the very unsatisfactory discussions on this Bill was the absence of regard for the ratepayers and the pressure put on the Government to be more liberal at their expense.

Nor is the case as regards the rest of England very different. The effect of the Police Act is to level up the pensions of the county and borough police to those of the London police, and few remonstrances were heard except from Scottish members, who gallantly stood up for their own independence.

* See Report of Standing Committee, No. 317 of 1890, pp. 12, 13, for motions by Mr. Burdett-Coutts and Mr. Baumann. See also *Hansard*, August 5th, 1890; and First Schedule to the Police Act, 1890.

† *Hansard*, August 5th, p. 1952.

It may be that, in the case of the police, centralisation is necessary; it may be that the police require much more liberal treatment than any other class of public servants, or indeed of other workmen. Those are matters too large to discuss here. But when we are all professing principles of decentralisation and local self-government, do not let us forget that our latest act in this important matter of the police has been one of centralisation and Imperial regulation; that the control of the police vote has been withdrawn even from the House of Commons; and that, under the combined influence of Imperial subsidies, of the police vote, and of a dread of strikes, the Government have obtained an unlimited power of rating London for police pensions; that the pensions of the police have been fixed on a most liberal scale, at the cost of the ratepayers, by the Imperial Parliament; and that questions of economy have not been discussed as they would have been if the management of the police had been really local, and if those who managed the police had had to find the money and to pay the bill.

I have dwelt at some length on the Police question, partly because it illustrates the general connection between Imperial subsidies and centralisation, and partly because it is an additional argument to show that in the recent financial arrangements London has little to be grateful for—and this at a time when a newly constituted and inexperienced municipal council has to face wants in respect of water, of drainage, of thoroughfares, of improve-

ments of all kinds, involving an increased expenditure of immense though uncertain amount.

CONCLUSION.

CONCERNING LOCAL FINANCE.

To conclude: We have seen that with Mr. Goschen's settlement of the Local Loans question there is every reason to be satisfied. As regards other and more important matters, the case is very different. It has been shown that in 1870 Mr. Goschen proved that the case of local taxation which most required relief was the case of the ratepaying occupier in urban districts, especially in London; and that he proposed to grant this relief, not by doles from the Imperial Exchequer, but partly by handing over the House Duty to local authorities, and partly by shifting a portion of the burden from occupier to owner. It has also been shown that in the Government measures of the last four years these principles have been entirely abandoned; that the ratepayers who have been most favoured have been the rural rather than the urban ratepayers; that the pernicious system of doles from the Imperial Exchequer has been extended and intensified; that the national finances have been endangered and embarrassed; that local independence has been weakened rather than strengthened; and that the distribution of the Imperial doles has been unfair and unsatisfactory, especially to the Metropolis. There is a still more serious criticism upon

Conclusions
as to Local
Finance.

the course thus adopted: that it has failed to tax the source of revenue indicated by Mr. Goschen in 1870—viz., the property of owners as distinguished from occupiers of land. But this part of the subject, together with the cognate subject of the Death Duties, must be reserved for another chapter.

CHAPTER III.

WHAT MIGHT HAVE BEEN OR MIGHT STILL BE DONE.

Land and Rent within each area a proper subject for direct Local Taxation—Inhabited House Duty—Why not transferred?—Death Duties made worse by Mr. Goschen's changes—Suggestions as to future of Local Finance—1. Restore Probate and Alcohol Duty:—2. Transfer Inhabited House Duty:—3. Charge of a portion of rates on rent:—4. Local Taxation of capital values in form of Death Duty on land—Confusions and anomalies produced by recent changes—Conclusion.

IN the last chapter I showed how the action of the Government had extended the system of subsidies, and pointed out some of the evils which arise from them. In the present chapter I propose to discuss the sources of revenue out of which present local resources may properly be assisted; to consider shortly, so far as it concerns this subject, the great question of the Death Duties; to make some general suggestions as to the steps which are now possible; and to end with some general conclusions on the Finance of the last four years.

LAND AND RENT WITHIN EACH AREA A PROPER SUBJECT FOR DIRECT LOCAL TAXATION.

Besides the positive evils of the system of subsidies which I have pointed out in a former chapter, there Reasons for taxing land and rent.

is another fundamental objection to this system, viz., that it fails to give to local ratepayers relief by taxation of the special fund which forms the most natural and unobjectionable source of relief, viz., the real property within their locality. This fund consists of local property, and is therefore the most obvious source out of which to supplement local rates. It is the source suggested by Mr. Goschen in 1870, when he proposed to enable the occupier to deduct half the rates from his rent, and when he proposed to transfer the Inhabited House Duty to the local authorities. It is a fund which is increased in value by expenditure out of local rates. It is a fund which, in urban districts, where the burden of rates is most felt, is constantly becoming larger and, therefore, more able to bear taxation. It is a fund which does not bear its fair share of Imperial taxation, and which in towns does not (unless in the case where the owner is also ratepayer) bear any direct share of local taxation at all. It is property which local authorities are accustomed to assess, and which they are, therefore, competent to tax. It is property which it is their interest to tax fully and fairly, but which it is not their interest so to tax as to kill the goose which lays the golden eggs. It is a fund in taxing which they will not be casting a greedy glance on the public purse of the nation. Finally, it is a kind of property which is already the subject of invidious criticism, and which, if not fairly taxed, will undoubtedly be the object of dangerous attacks. All reasons—financial, political, and social—point to this source, rather than

to Imperial funds arising from taxes on pure personalty or taxes on general consumption, as the appropriate source from which local wants should be met. And yet this is a source which the recent action of the present Government has left untouched. The land, Mr. Goschen says, has suffered heavily since he wrote and spoke in 1871. So, for that matter, have other interests, during the recent period of commercial depression. But it is agricultural land and not land in towns which has suffered; and it is in towns that the burden of rates is most felt. In the present state of England it is in towns, in the neighbourhood of towns, and in residential districts, that the unearned increment of land is to be found; and it is clear to anyone who can read the signs of the times that until this source of taxation is tapped there will be no content among urban ratepayers. It is obvious enough why the present Government have, in supplementing local rates, preferred the miserable resource of subsidies out of general taxes to the remedy of throwing rates upon the landowner. Conservative instincts and the power of the landlords are sufficient to account for the preference. It is a preference much to be lamented, for an opportunity has been missed which will not easily occur again, and every fresh subsidy out of the bottomless public purse makes it more difficult to tie the purse-strings and to place local finance on a sound basis.

This source
of taxation
untouched
by the
Government.

INHABITED HOUSE DUTY.

Inhabited House Duty. This duty it was proposed to transfer in 1871. Why not now?

Let us take the various modes by which local property might be made to contribute to local needs. There is, in the first place, one Imperial tax, viz, the Inhabited House Duty, which is levied on local real property, and which seems to be a peculiarly appropriate subject for local taxation. In 1871 Mr. Goschen proposed to hand over this tax to local authorities. He has now dealt with it for the very proper purpose of reducing the charge on the smaller class of houses, and has by this step (as well as by the Estate Duty) recognised the important principle of graduated taxation on real property. Why has he not further dealt with the Inhabited House Duty by handing it over to local authorities for the purpose of assisting the rates? It would have been a specific local tax, and its transfer would not, like that of the Probate and Spirit Duties, have involved confusion between local and Imperial finance. It is a tax which would have been peculiarly suitable for the transfer, since it is in urban districts, in which, as we have seen, rates are most felt, that the proceeds of the House Duty are the largest; and a local appropriation of House Duty would consequently have eased the shoe where it most pinches, instead of giving to those who have already got a disproportionate share. Can this be the real reason why it was not transferred? If so, it can scarcely be Mr. Goschen's own reason.

DEATH DUTIES MADE WORSE BY MR. GOSCHEN'S CHANGES.

Still more important questions arise out of the Death Duties, and Mr. Goschen's alterations in them. The subject is so important and so complicated that to discuss it as it deserves would require a separate treatise; and it is the less necessary to do this because the injustice of the present system was fully exposed in the Budget debate of 1888,* and because the whole subject of these duties has been admirably summarised in the little book recently published by Mr. Sydney Buxton and Mr. Barnes.† The following is just so much of an outline as is necessary to explain what follows.

Death
Duties.
Recent dis-
cussions on
these duties.

The Death Duties are, as their name implies, taxes ^{Their} on property to which one person becomes entitled _{nature.} on the death and in the place of another. They are essentially taxes on capital as distinct from income; and they are in general the less felt, and consequently the more easy to collect, because they are subtractions from the capital of property taken from or imposed upon it before the new possessor has begun to enjoy it. They produce at present in all about £8,000,000 a year, and they increase with the wealth of the country. As they existed before Mr. Goschen's alterations, which are described below, they were, roughly speaking, as follows:—

* *Hansard*, Vol. 325, p. 190. See especially Mr. Gladstone's speech.

† *Handbook to the Death Duties*. John Murray, 1890.

Probate
Duty.

1. The Probate Duty. This is a tax on all personalty, including leaseholds bequeathed by will or passing under an intestacy. It is levied on the aggregate value of the property, and is paid at once on the whole estate by the personal representative. It is at the rate of 3 per cent. on estates of £1,000 and upwards, and somewhat less on estates of smaller amount.

Legacy
Duty.

2. The Legacy Duty. This is a tax on special gifts by will or on descent by intestacy of personal property, not including leaseholds. It is levied in addition to Probate Duty, except in the case of lineal successors, *i.e.*, children, and their offspring, and direct ancestors, who pay Probate Duty, but not Legacy Duty. It is levied on the whole value of the particular legacy, and is all paid before the legacy is received. The rate varies as follows: *—

Brothers and sisters and their descendants . . .	3 per cent.
Uncles and aunts and their descendants . . .	5 per cent.
Great uncles and aunts and their descendants . . .	6 per cent.
Strangers	10 per cent.

No Legacy Duty is paid when the whole personal estate is under £300.

Succession
Duty.

3. The Succession Duty. Roughly speaking, this is Legacy Duty applied to real property passing by will, intestacy, or settlement; to leaseholds passing in like manner; and to personalty passing by settlement. The rate of payment before Mr. Goschen's

* Lineals formerly paid 1 per cent. Legacy Duty; but do not now pay it, as it is for them included in an increased Probate Duty.

changes was the same as that for legacies; and 1 per cent. for lineals.

It will easily be seen from the above, and from what follows, that real property, as compared with personal property, escapes with comparatively slight taxation.

Real property less heavily taxed than personal property by these duties.

In the first place, it pays no Probate Duty, which all personalty, including leaseholds, has to pay.

In the second place, the successor does not pay the duty at once, but by instalments, which are spread over four years, the first payment not being made till twelve months after the death.

In the third place, the value on which the percentage is taken is not, as in the case of Probate and Legacy Duty, the whole capital value, but the value of a life interest in the net annual income, after deduction of incumbrances, calculated and capitalised according to certain tables.

One reason by which these inequalities have been justified is that realty pays Income-tax on the gross and not on the net annual value; and another is that the landowner has to pay rates and outgoings, whilst personal property pays no rates. But both of these reasons, if true of the country, are less true, if true at all, of towns. In towns the occupier, at any rate where he is a leaseholder, generally pays both rates and outgoings. It is in towns, rather than in the country, as has been shown by Mr. Goschen's Reports, and by subsequent history,* that the burden of rates forms a real ground of complaint. It is the urban

* See page above.

occupier who, as owner of personalty, pays the Death Duties; and it is the urban occupier who also pays the rates.

Hard case
of lease-
holder.

The urban occupier is often a leaseholder, and his case is then a peculiarly hard one. He pays the Probate Duty; he pays Succession Duty; he pays rates; and he pays outgoings; whilst his landlord pays none of these except the Succession Duty; and that duty, instead of being calculated on the full value of his interest, as is the case with the Probate Duty paid by the leaseholder, is calculated only on a fraction of it.

These inequalities have been much complained of. Innumerable illustrations of them could be given, of which the following hypothetical case may be sufficient for the present purpose. It will be remembered that the examples given are supposed to be prior in date to Mr. Goschen's recent changes.

Illustra-
tion of
these in-
equalities.

Supposing three testators to be each worth £10,000 at their death; the first having his £10,000 invested in freehold land producing £300 a year; the second having his £10,000 invested in a long leasehold producing £400 a year; and the third having his £10,000 invested in pure personal securities; and suppose that these three testators leave these three properties of equal value to their three respective nephews—whom we will call Peter, Martin, and Jack, each nephew being forty years of age—the freehold land being left to Peter, the leasehold to Martin, and the pure personalty to Jack. Each nephew will thus receive a gift by will of like amount,

and if equality were the rule, would be equally taxed. But will they, or would they, under the law as it stood before Mr. Goschen's changes, be taxed equally? On the contrary, they would pay Death Duties as follows:—

Peter pays Succession Duty at 3 per cent. on the capitalised value of his life interest in £300 a year, which, as he is forty years of age, will, according to the tables, be under £4,500* £135

And he pays this by instalments extending over more than four years.

Martin pays Probate Duty of 3 per cent. on £10,000, and he pays this down at once £300

Martin also pays Succession Duty at the rate of 3 per cent. on the capitalised value of his life interest in his leasehold, which, according to the tables, is about £6,000† £180

And he pays this by instalments extending over more than four years.

Jack pays both Probate Duty of 3 per cent. and Legacy Duty of 3 per cent. on £10,000 £600

And he pays this down at once.

As regards rates and outgoings, Peter will, if his freehold land is in a town, probably get the rates and

* Exactly £4,462. See first table in Schedule 16 and 17 Vict., c. 51.

† Exactly £5,950. *Ibid.*

outgoings paid directly by his occupying tenant, whilst Martin, if he occupies his leasehold house, will pay both.

Jack, if he lives in a town, will pay no rates on the property left, but he will pay them on any house or tenement he occupies.

In the above examples I have taken nephews rather than sons, because with nephews Legacy Duty and Probate Duty are still kept separate, whereas in the case of sons they are united, in an increased Probate Duty.

This being the case when Mr. Goschen began to meddle with the Death Duties, let us see how he has dealt with them.

Mr. Goschen's changes in respect of Probate and Succession Duty.

In the first place, he has taken one-half of the Probate Duty, and has distributed it among the local ratepayers in the same proportion in which they previously enjoyed Exchequer grants. In the second place, he has added to the Succession Duty $\frac{1}{2}$ per cent. for lineals and $1\frac{1}{2}$ per cent. for other persons.

His reasons

His reasons for this latter change are so curious and interesting that I give his own words :*—

“The Committee is aware that there has always been a double controversy going on—two parallel and simultaneous grievances with regard to the burdens borne by realty and personalty respectively. The friends of the ratepayer have always complained that personal property did not contribute anything towards local taxation. But, on the other hand, there has been a grievance on the part of the friends of the Imperial taxpayer. They have said that landed property did not contribute its fair share to Imperial taxation. Now,

* *Budget Speech of 1887, p. 15.*

what is perfectly obvious is that the two questions must be treated together. Both complaints quite possibly may have been true. It may be true, and I believe it was true, that personal property did not contribute its fair share to local taxation—that it contributed scarcely anything. On the other hand, it is equally true that the Death Duties upon land are considerably smaller than those imposed upon personal property. Now, the Committee will see how the situation is varied by the proposal which I make. In future the Probate Duty on personal property for Imperial purposes will be only $1\frac{1}{2}$ per cent. instead of 3 per cent., but, of course, there will still be the Legacy Duty. The Succession Duty at the present moment for lineals is 1 per cent. Lineals are exempt from the Legacy Duty.

“MR. GLADSTONE: On the life interest.”

“MR. GOSCHEN: Lineals pay no Legacy Duty. The matter is extremely complicated; but I think I can satisfy my right hon. friend. The lineals, in the case of the Succession Duty, pay 1 per cent.

“MR. GLADSTONE: On the life interest only.”

“MR. GOSCHEN: Yes; there is that difference, I admit, but I am not proposing to deal with all the anomalies of the Death Duties. I cannot attempt that task, as a whole, in the present Session. What I was pointing out is this: Perhaps I can best explain it by going back to the proposal of my right hon. friend the member for Edinburgh (Mr. Childers) in 1885. He suggested that the Succession Duty should be raised from 1 per cent. to 3 per cent. in the case of lineals, in order to put it on a level with the Probate Duty, which was 3 per cent., and which was all (lineals paying no Legacy Duty) that personal property paid when it passed to lineals. Hereafter the Probate Duty will stand at $1\frac{1}{2}$ per cent. The amount of the Duty remaining for Imperial purposes, when I transfer $1\frac{1}{2}$ per cent. to the local authorities, will be $1\frac{1}{2}$ per cent. As far as Imperial finance is concerned, I cut away $1\frac{1}{2}$ per cent. from the Probate Duty. Therefore the difference—of which so much is constantly made—between the Succession Duty

and the Probate Duty (apart from the question of life interest) will be reduced from 3 per cent. as against 1 per cent. to $1\frac{1}{2}$ per cent. as against 1 per cent.; and in order that the grievance may be met, I propose that the Succession Duty shall be raised $\frac{1}{2}$ per cent., after which the Succession Duty—that is to say, the Death Duty paid by land—will, in the case of lineals, be $1\frac{1}{2}$ per cent., just as the Probate Duty, which is the only Death Duty paid by lineals in respect of personalty, will be $1\frac{1}{2}$ per cent. I spoke of parallel grievances. What I propose is to remove one grievance, that of the local ratepayer, by handing him over a portion of the Imperial Death Duties. Half the Probate Duty is to be paid to the relief of local burdens. It disappears from the Imperial taxation, and then, by a slight increase in the Succession Duty, you will have equal rates on the two kinds of property for Imperial purposes. I effect this, in the case of lineals, who pay no Legacy Duty, by adding $\frac{1}{2}$ per cent. to the Succession Duty, and in the case of collaterals, who do pay Legacy Duty, by adding $1\frac{1}{2}$ per cent. to the Succession Duty.”

Fallacies of these reasons.

If I understand this passage, it means that Mr. Goschen thinks he has found a ledge or resting-place on which the long-pending controversy between land and personalty may be shelved. Let us see what are the assumptions he makes for this purpose.

On the assumption that the controversy about rates is one between land and personalty.

He assumes, in the first place, that the controversy about rates is a controversy between land on the one hand and personalty on the other. Let us for a moment accept this assumption. In that case the effect of his change was to give to realty far more than was taken from it. Whilst nominally increasing the taxation on realty, the net effect of the change was to decrease it; for realty was to receive from the Imperial Exchequer, in round figures,

£2,000,000 a year in relief of rates, and in return was to pay an increased Succession Duty which, it may easily be shown, would not amount to much more than £200,000 a year. The whole of the Succession Duty, prior to 1888, may be taken at about £900,000 a year. According to Mr. Gladstone's calculations, about £600,000 of this was paid by realty, and about £300,000 by personalty included in settlements. Suppose that the Succession Duty, when the full effect of Mr. Goschen's changes is felt, produces £1,200,000 a year. Then about £800,000 of this will be produced by realty, and £400,000 by settled personalty—or, in other words, realty will, as above stated, eventually pay £200,000 a year more than it has done in the past. If, therefore, we assume, with Mr. Goschen, that the controversy is one between realty and personalty, it is clear that the half of the Probate Duty given in relief of rates, which on this assumption is given to realty, is not only much more than the new burden on realty, but is more than double any possible estimate of the whole amount of Succession Duty which realty is likely to contribute to the Imperial Exchequer.

But I deny the assumption. According to Mr. Goschen himself, as he has been careful to explain elsewhere,* the real controversy—especially in towns, where the burden is heaviest—is not between land and personalty, but between the occupier, or tem-

Equally fallacious on the negative of the assumption.

* See *Budget Speech of 1888*, p. 13, and *Local Taxation passim*.

porary tenant of capitalised real property, and the owner of that property.

So far as the new Probate Duty goes to relieve the owner, the relief does not help the occupier, but helps the owner, who already pays far too little. So far as it goes to relieve the occupier who is himself the proprietor of personalty, it is a payment out of one pocket into another. The transfer of the Probate Duty may be a relief to the country landowners. It is to a very small extent, if any, a real relief to the urban ratepayer, and leaves his real grievance untouched.

No doubt it would be well if capitalised personalty could be made in any reasonable way to pay towards the expenses of local as well as of central government. But as it cannot be localised this cannot be done; and where it has been attempted, as in the United States, the attempt has failed egregiously.* All the more reason why it should pay, and pay heavily, to the Imperial Exchequer; but no reason why, if local resources can be found, it should be handed over by the Imperial Exchequer to local authorities. The objections to such a course I have already stated; † and, of course, so far as the Imperial Exchequer is concerned, the only result of parting with it is to make a gap which, if filled up, must be filled up by other taxes, which will probably be taxes falling on industry and consumption.

† See *Taxation in American States and Cities*. By R. T. Ely. Published by Crowell, New York. See also article in *Times* of November 14th, 1890.

* See page 'above.

Secondly, Mr. Goschen appears to think that because he has thus localised the application of one-half of a special Imperial fund, the Probate Duty, and has added to the Succession Duty as much as makes the rate of Succession Duty equal to the rate of one-half the Probate Duty, he has done away with the inequalities of the Death Duties as between realty and personalty referred to above. For the reasons above given, I think the reasoning by which he claims to treat one-half the Probate Duty as a local rate, and to deal with the other half as the only portion of the Death-tax on personalty which has to be set against the Imperial Death-tax on realty, is altogether a fallacy. But even if it were right and politic so to divide the duty, the division would produce no equality of taxation as between the successor to personalty and the successor to realty. The one would still be paying a great deal more than the other, and it is little consolation to him to be told that one-half of what he pays is to go to local rather than to Imperial purposes.

Let us test Mr. Goschen's reasoning by the case I have given above.

Test of Mr. Goschen's reasoning by example.

Under Mr. Goschen's plan, Peter, the freeholder, will pay to the State $4\frac{1}{2}$ per cent. instead of 3 per cent. on £4,500—£202 instead of £135—and the period in which he has to pay is slightly altered and prolonged.

Martin, the leaseholder, will pay as before, £300 down ; and £130 by instalments, extending over the same periods over which Peter's payments extend.

Jack, the legatee of pure personalty, will pay £600 down as before; but he will have the comfort of thinking that £150 out of his £600 will be paid into a fund out of which Peter, being a landowner, will probably get much more benefit in the shape of reduced rates than he does, whilst he will probably have to pay some other tax in order to recoup the Imperial Exchequer.

Mr. Goschen's plan is like much else that he has done—sufficient to admit and emphasise the injustice he proposes to redress, whilst it does so little towards redressing it, and so much to introduce new anomalies and confusions, that it cannot possibly be left where it is.

Mr.
Goschen's
Estate
Duty.

One other important alteration is due to Mr. Goschen's Budget of 1889, viz., the Estate Duty. This is a new and additional duty of 1 per cent. on personal estates of £10,000 and upwards in value, and on Successions to realty of like amount. The following were Mr. Goschen's words in introducing it:—

“The deficit now has reached the more manageable sum of £917,000. How is it to be met? There are not wanting people who will suggest a very easy expedient. One halfpenny on the Income-tax would cover the whole amount, and such a course would produce no friction, no remonstrances, no agitation, no resistance. The Income-taxpayers are so accustomed to be made the victims of emergencies and of financial timidity on the part of Chancellors of the Exchequer, that they would only be grateful because it was not a penny that had been imposed, and they were only mulcted in a halfpenny. Inventive electioneers

have already announced that the shipbuilding proposals would involve a large increase in the Income-tax; but those who have listened to and followed the exposition of my views as regards the Income-tax will have felt that I consider myself absolutely precluded from taking this easy and tempting course. I am not prepared to propose additional taxation which will weigh to any extent upon the struggling professional or trading class, the men with incomes from £300 to £600 and £700 a year, whose situation requires them to spend all, or nearly all, that they earn—the men who have no margin, or only a very small margin, which they can lay by. I would look to the surplus which can be put by, rather than to the resources which cannot be diminished without imposing a sacrifice out of proportion to the sacrifices made by other classes of the community. The Death Duties afford me the means of reaching accumulations such as I have described, and accordingly it is to the Death Duties that I turn, and I look to see whether on this field I can find some constitutional way of meeting the requirements of the National Exchequer. I will not impose an additional tax on those whose accumulations only just suffice to produce an income which, under the Income-tax Act, is considered so small as to deserve the application of reductions and exemptions. For, on the whole, I think it will be generally recognised that it is the men whose fortunes are considerable who pay least in proportion to their aggregate income and property. I propose, therefore, to look to the estates which amount to £10,000 and upwards, £10,000 representing an income of about £300 or £400 a year, and not more. What I propose is to levy an additional tax of 1 per cent. on all estates of more than £10,000, whether they consist of realty or personalty, and to do this by means of a separate duty, partly because I do not wish to mix it up with the Probate Duty, and partly because it is not desirable that the inequalities which attach to the existing Death Duties, and which can be justified in them, should extend to the new tax. In the existing Death Duties real property, even when it passes absolutely, is always charged on the life

interest. The new duty will be charged similarly on both realty and personalty—that is to say, on the capital value when the property passes absolutely, and in the case of realty or personalty passing for limited interests under settlement, on the interest actually taken by a successor. I estimate that the yield of this new duty will be on a full year £1,000,000, but that in the present year it will produce £800,000.”*

Admits principle of graduated taxation on capitalised property.

This proposal is of extreme importance, because it is a declaration from very high authority in favour of taxing capitalised property, and because it is the most decided step yet taken in favour of graduating that taxation, so as to make the percentage greater the greater the value of the property. For these purposes, the tax as passed is valuable as a precedent, and if it had been passed as proposed it would have been still more valuable. As it is, it has merely created new anomalies and increased existing injustices.

But is unjust in its application.

In the first place, this new tax is charged and levied at once, like the Probate Duty, upon the whole value of the aggregate personal estate if of the value of £10,000 or upwards; but in the case of land it is charged only upon any particular gift or other succession amounting to £10,000 or upwards. If a testator distributes £10,000 in personalty amongst legatees, the whole of it must pay the Estate Duty. If he distributes ten times that amount in land amongst devisees, no devisee will pay Estate Duty, unless the particular estate devised to him is valued

* *Budget Speech of 1889*, p. 17.

according to the low and artificial valuation of the Succession Duty Act, at £10,000 or upwards.

In the second place, the value of the land is not, as in the case of personalty, the present estimated market value, but a value calculated artificially upon the present actual net rental treated as a terminable annuity which is not in any case to exceed ninety-five years.

In the third place, the Duty on personalty is to be paid at once—that on land by instalments, as in the case of Succession Duty.

Applying this to the illustration given above, the incidences of the new Estate Duty on Peter, Martin, and Jack would be as follows:—

Peter will pay nothing, because his net rental of £300 a year would not, when capitalised according to the statutory rules, amount to £10,000. Martin and Jack will each pay, in addition to what they now pay, 1 per cent. on £10,000, or, in other words, each will pay an additional £100; and they will pay this down at once.

The gross injustice of the old Death Duties is thus very greatly aggravated by the recent changes; new anomalies are introduced; together with an amount of confusion which makes the system almost unintelligible.

The changes made by Mr. Goschen have aggravated existing injustice and confusion.

There are two good points in Mr. Goschen's changes.

In the first place, his intentions, rather than his performances, have called fresh attention to the injustice of the present Death Duties, and have opened a

door which will not easily be shut. In the second place, he has left the whole subject, which was confused enough when he took it in hand, in a state of muddle in which it is impossible to leave it. These duties, which form so important a part of our taxation, are now in such a state of complication as to make it very difficult even for an expert to understand them. They differ according to the degrees of relationship. They differ according to the nature of the property—realty, leasehold, settled personalty, unsettled personalty. They differ according to the amount of the property. They differ according to the different methods of valuation applied to different sorts of property. Each of these differences is compound in itself, and when the differences are compounded with one another they form a mass of complexity and confusion which was a disgrace to our finance before Mr. Goschen meddled with these duties, and which his action has made much worse.

A good idea of the variety and complexity of these duties may be obtained from a useful publication by Mr. E. Harris, of Somerset House (Clowes and Sons), in which he has cast the different categories under which the Death Duties fall into a tabular form. How many they are, when all are numbered, it beats me to say—but certainly some hundreds.

To attempt in such an article as this to grapple adequately with this great subject, and to say fully and precisely what should be done in the matter of the Death Duties, is beyond my scope. There are, however, some points of principle towards which Liberals

should steadily set their faces as objects to be achieved :—

1. Capitalised property, whether real or personal, should be made to bear a larger share of the national, and, where possible, of local, burdens than it now bears.
2. Capitalised realty should be made to bear as heavy a share of these burdens in proportion to its value as capitalised personalty.
3. Freeholds and leaseholds should be treated alike.
4. The burdens on capitalised property, real or personal, should be graduated so that the larger properties shall bear a larger proportion of taxation.
5. In order to carry these reforms into effect, real and personal property should on death be placed in the hands of one single administrator, with power to charge the whole estate, or any part of it, with the requisite taxation.

There are two preliminary questions of principle which any reforming Minister will have to encounter before determining by what methods to attempt these objects, viz. :—

1. Whether to maintain the existing distinctions founded on nearer or more distant relationship to the testator or ancestor? This is largely a question of popular feeling.

2. Whether to assimilate the present mode of charging personalty, viz., by an immediate payment,

Other questions of principle to be decided.

to the present mode of charging realty, viz., by instalments; or whether to assimilate the mode of charging realty to that of charging personalty by making both payable at once? The latter, though better and more convenient in a public point of view, is open to the objection that it makes a sale of, or charge on, the land necessary.

Besides these questions of principle, there is the further question how far the existing duties can be reduced in number, simplified, and rendered intelligible. Their present variety and complexity is an evil only less than their injustice.

The above suggestions with respect to the Death Duties are independent of their relations to local finance. What these relations should be is more fully considered below. But here it may be well to anticipate the two principal of these suggestions, viz. :—

1. That the Probate Duties should be restored to the National Exchequer.
2. That local rates should be reinforced by a municipal Death Duty on local realty.

Future of a
local
finance.

SUGGESTIONS AS TO THE FUTURE OF LOCAL FINANCE.

Summary of
recent
short-
comings.

Returning from this digression on the Death Duties, and looking to what has been done by the present Government in the matter of local finance, and its relations to Imperial finance, we come to the following conclusions. The distinction between Im-

perial and local finance, instead of being sharply drawn, has been made more uncertain and obscure than ever, and room has been made for still further confusion. Subsidies out of the Imperial Exchequer, condemned by every sound financier, have been increased and extended; the real grievance of the rates, as pointed out by Mr. Goschen, viz., the increased burden of new urban rates, has been neglected; Exchequer grants to country districts have been extended; Imperial subsidies have been given on the footing of the old Exchequer grants, a distribution condemned by Mr. Goschen himself, even as lately as 1888,* as most unjust; not a finger has been raised to remedy the grievance pointed out by Mr. Goschen in 1870, viz., the incidence of rates, and especially of urban rates, as between owner and occupier; and even in the case of the Death Duties the tendency on the whole has been to aggravate the existing injustice.

A great opportunity has been missed; and new difficulties have been placed in the way of future reformers; for every local subsidy once given is difficult to recall. It not only becomes a kind of vested interest, which it needs an heroic effort to reform, but forms a precedent for further misapplications of public money, as Mr. Goschen has himself found in the matter of the Exchequer grants. Still, notwithstanding these difficulties, I believe that there is sufficient public virtue and public interest in the country to support a real, thorough, and sub-

* *Budget Speech*, p. 16.

stantial reform of the relations between Imperial and local taxation; and that the grievances left unredressed are so deeply felt that any Chancellor of the Exchequer who is bold enough to attempt to redress them will receive efficient support. Those who have anything to do with the public business of our large towns know how bitter is the feeling on the subject of the incidence of urban rates; how much this feeling interferes with the physical and social improvements on which we have all set our hearts; and how dangerous this feeling may become to the ownership of land. We are not far from an Irish land question in London. A bold and patriotic statesman may well take advantage of this feeling to put local and Imperial finance on a sound footing.

What, then, are the measures to be taken for that purpose? In this we shall find that we have to be grateful to Mr. Goschen for many valuable hints.

1. RESTORATION OF PROBATE AND ALCOHOL DUTY.

Restoration
of Probate
Duty.

In the first place, I would suggest, for reasons which have been fully stated above, that the half of the Probate Duty now given to local authorities should be withdrawn from them; and that the whole of the Death Duties on pure personalty should be treated as what they really are—viz., taxes which have nothing local in their character, which must be collected by Imperial officers, and which naturally form part of Imperial and not of local revenues.

This would involve a withdrawal from local funds of about £2,000,000 a year.*

In addition, there is the £1,000,000 to be derived, under the Act of 1890, from the new taxes on alcoholic liquors. This, again, is a purely Imperial tax on general consumption, and has nothing of a local character about it. If it should hereafter be determined, in the interests of temperance, to introduce a system of high Licence Duties, it will have to be considered whether the present Duty should continue. By a system of high Licence Duties, I mean a system which discourages the sale by retail of alcoholic liquors by very heavy duties. Such a system is said by its advocates to have been successful in some parts of the United States. These duties are there treated as matters of local finance and local legislation, differing in different places; and there seems to be no reason why they should not be so treated in England. But if no such system is introduced, and the duties on alcohol continue as they now stand, the whole of them ought clearly to belong to the Imperial Exchequer.

And Drink
Duties to
Imperial
Exchequer.

How, then, is this sum of £3,000,000 to be recouped to the present local ratepayers? for I assume that in some form or other their demands, not only to this amount, but to a much larger amount, must be satisfied.

* In these and the following figures I am dealing only with England and Wales, unless otherwise specially mentioned.

2. TRANSFER OF INHABITED HOUSE DUTY.

Transfer of
Inhabited
House Duty
to local
authorities.

In the first place, there is the Inhabited House Duty, with respect to which Mr. Goschen's Rating and House Tax Bill of 1871 contained a clause to the following effect:—"From a date to be fixed by an Order in Council, the House Tax in England shall cease to be payable to the Crown; but shall be levied by, and payable to, the parochial board in each parish, to be applied by them in the reduction of the consolidated rates." Why should not a transfer of this tax to Local Authorities be carried into effect now? There would be, as mentioned above, peculiar propriety in such a transfer, because the House Tax is essentially a local tax; it is assessed by the same machinery which assesses the local rates; it can with great ease be collected by the same machinery; and there is special fairness in the appropriation of this tax, as collected in each locality, to the wants of that locality; since it is upon house property that the present rates fall most heavily; it is where there are most houses that the House Tax is most productive; and it is where the burden of rates increases that the House Tax increases.

The House Tax for Great Britain produces now about £2,100,000, and the recent changes are estimated to reduce it by almost one-quarter.* This, allowing for natural increase, will give about

* See Thirty-second Report of Inland Revenue Commissioners, p. 28; and Budget Speech of 1890.

£1,500,000 as its future produce in England and Wales, which may be appropriated in recoupment of half of the £3,000,000 withdrawn.

CHARGE OF A PORTION OF RATES ON RENT.

The next and the most important source out of which to relieve the struggling ratepayer is, as Mr. Goschen pointed out in 1870, land and rent, which at present escape direct payment of rates, and which also escape to a large and very unjust extent the payment of Death Duties. The broad ground which justifies a change in this direction is that there is here a large fund of property which, in towns at any rate, is rapidly increasing in value; which owes its value in a very small degree to the efforts of its owners, and in a very large degree to the industry of those who live upon the property; which is greatly benefited by the expenditure of local rates; which contributes directly nothing, and indirectly much less than it ought to do, towards the payment of those rates; and which contributes far less than it ought to do to the Imperial Exchequer. This is the most obvious fund out of which to help the groaning occupier. And the more the subject is considered, the more clearly will it be seen that in these broad grounds is to be found the best basis and guide for framing a practical measure of reform, as well as a firm standpoint for general opinion and for popular teaching. The confiscation of the unearned increment, the nationalisation or municipalisation of land, or Mr. George's

Part of
rates to be
charged on
rent.

single tax, may be absurdities, injustices, and impossibilities; but they are scarcely more unjust than a state of things in which land, and especially urban land, is exceptionally relieved from taxation. It should be remembered, as an illustration of the influence of land ownership in the country, that it is only a few years ago that land in the hands of an heir or devisee was first made subject to the payment of ordinary debts. When this has been the actual state of things, it is not surprising that wild doctrines on the subject of land ownership should obtain favour with the people.

Various proposals to effect this object.

To carry this reform into effect, we have a variety of proposals. We have Mr. Goschen's proposal of 1870, to allow the occupier to deduct half the rates from his rent; we have the proposals, vague enough for the most part, to charge rates upon capital or ground values; we have an ingenious proposal by Mr. Moulton, to separate the value of the land from that of the house which is built upon it, to charge them with separate rates, and to enable the occupier to deduct so much of the rate as is appropriated to the land from his rent. We have a proposal embodied in a Bill now before Parliament,* founded on the principle that, since permanent improvements add to the permanent value of the land, a distinction should be made between the capital devoted to such improvements and the interest upon that capital; and that, whilst the occupier should continue to pay the interest, the capital should be charged wholly on

* Metropolis Rating Amendment Bill.

the freehold reversioner. These different proposals have been discussed at great length in the several documents mentioned below,* and I cannot pretend to do more here than give the general conclusions which occur to me concerning them, with some of the principal considerations which justify those conclusions.

To any proposal to charge rates on owners, the objection is sometimes made that the incidence of rates is determined by economical causes, and that the operation of these causes cannot be altered by legislation. When analysed, this objection resolves itself into two different, and, indeed, inconsistent positions. The one is to the effect that all rates and similar burdens ultimately fall upon rent; that there is, therefore, really no injustice in a system which throws them in the first instance on the occupier; and that there would be no advantage to the occupier in a change of incidence which would be merely nominal. The other is to the effect that the landowner can always exact from the occupier the extreme amount which the occupier will pay; and that, therefore, if the occupier is relieved from rates, the owner will take out the difference in increased rent, and the occupier will not benefit by the change.

Theoretical
objection.

* *Local Taxation of Rents of London*, by Lord Hobhouse. Spottiswoode, 1889. Report of Land Valuation Committee of London County Council. June, 1889. *The Taxation of Ground Values*, by J. Fletcher Moulton, Q.C. Page and Pratt, 1889. Report of Local Government Committee of County Council on Mr. Montagu's Bill, adopted by the Council, May 21st, 1889. Evidence given to the Town Holdings Committee; Session of 1890.

Which of these two theories is the true one, we cannot stop to inquire. Whether the real incidence of rates is upon the occupier or upon the owner is one of the most perplexing questions in political economy, and it is probably not capable of any simple or uniform answer. The ultimate incidence of rates is certainly upon the owner in some cases, especially in agricultural districts; it is no less certainly upon the occupier in other cases, especially in towns. But though we may not be able to solve this problem, it is not difficult to give practical answers to the above objection.

Answers to
these objec-
tions.

If the burden of rates now falls on the owner, he will sustain no loss by a change which makes him pay directly that which he now pays indirectly. On the contrary, he will be relieved from the invidious imputation of exceptional immunity from taxation.

If, on the other hand, the occupier now pays more than he ought to pay, it is just that the law should relieve him. To the argument that it cannot do so, and that the landlord will always take out in rent what he is made to pay in rates, we may reply, that if this were true, the position of the landowner must inevitably be one of great odium, and even of danger; for a title to property which does not bear, and cannot be made to bear, its due share of public burdens is a very unsafe one. Even supposing the argument to be well founded, it would be greatly to the advantage and safety of the landowner to be made to *appear* to pay.

There is, however, every reason to believe that the law can relieve the occupier. Taxes have a habit of sticking where they are imposed ; and, as a matter of fact, our laws have been framed on the principle that it is possible to throw the burden of local taxation on the owner. Many of our old rates, *e.g.*, the Sewer Rates, were known as landlord's rates ; whilst in recent times Sir R. Peel's Income-tax has been imposed on owners, and they are expressly prevented from contracting themselves out of it.

Relief to the occupier is a burning question, and will not wait for settlement until philosophers have determined to their satisfaction the question of the ultimate incidence of rates. In the meantime, the above considerations show that we may safely proceed to consider how to charge rates upon rent, with the confident hope that, by so doing, we shall not only meet a crying want, but render the title to land more stable.

Putting aside this preliminary theoretical objection, the different proposals I have referred to are beset by many difficulties, and in considering them there are several features in the case which it is important to bear in mind.

First, the relation between the occupier who pays the rates and the owner or owners is not a simple one, especially in London and other great towns. There is often lease behind lease, and the complete ownership is made up of a series of different interests, beginning with the actual occupier and ending with the freehold reversioner. This makes it necessary,

Number
and variety
of interests
to be taxed.

in providing for the incidence of taxation, to spread it as fairly as possible over all the interests concerned. It is not only the ultimate freehold, but intermediate beneficial interests also, which ought to bear their fair share of the burden of local taxation.

Here, however, there is one set of interests which raises a serious question—the interests, namely, of those who retain only a rent-charge without any reversion in the corpus of the property, or, which comes almost to the same thing, with a reversion so small as to be of little or no value. Fixed interests of this description may be rendered more secure, but are not increased in value, by the expenditure of rates, and the argument drawn from such increase fails. On the other hand, if such interests are not taxed, there will be a large and uncertain proportion of real property still remaining exempt from local taxation; and on this ground it will probably be desirable, at any rate in the case of future contracts, that such rents should, like other rents, be subject to deduction on account of rates. The case of such rents already reserved by existing contracts presents much greater difficulties, and is further noticed below.

Number
and variety
of rates, and
of the pur-
poses to
which they
are applied.

Secondly, the taxes, the burden of which has to be distributed, differ widely in their application, and in the way in which their expenditure benefits different interests in the land; but they differ in this respect by varying degrees, so that it is impossible to say that one tax ought to fall on one particular interest, whilst another ought to fall on a different interest.

The effect of the expenditure of a Lighting or Paving Rate is comparatively transitory, and that of a rate for the purposes of main drainage, or of the Thames Embankment, is comparatively permanent. But the benefit of neither of them is coincident with any particular interest of occupation, lease, or ownership. Moreover, besides such rates as these, there are a number of rates, *e.g.*, poor rate, school rate, and police rate, which benefit all the successive interests in the land. This consideration seems to me to make it impossible to say, with the Bill above referred to, which bears Mr. Montagu's name, that certain special rates for permanent improvements ought to be charged on the freeholder, and certain others on the occupier.

Thirdly, there exists at present in this country an established system of valuation and rating, moderately well understood by the Assessment Committees whose business it is to make the valuations. It is an assessment of annual value; it is avowedly based on rent; and has, in the actual rents obtained in the market, a certain basis and test. When it is suggested that rates shall be based on assessments of capital values, by taking the whole capital value of the land and houses, and then charging them according to a given rate of interest on this capital value, it is, no doubt, conceivable that such a system might be adopted. But it would be a complete subversion of the system which now exists, and would need a very different machinery. This objection appears to be fatal to many of the

Difficulty of altering present system of valuation.

proposals which have been made for taxing capital values by means of annual rates.*

Proposal to tax land and buildings separately.

Fourthly, a similar objection seems to be fatal to Mr. Moulton's ingenious plan of assessing and taxing the land and the buildings upon it separately. Some valuers say they can do it. But the only ultimate bases of a valuer's knowledge are actual market values, and as the land and the houses upon it are sold and let together, no such basis can exist for a separate valuation of the two things. Moreover, the question is not so much a question between the owner of the house and the owner of the land, as a question between the owner and occupier of both house and land.

Taxation of rents not sufficient by itself.

Fifthly, there is, nevertheless, a sound foundation for the contention of the many persons who are dissatisfied with a mere taxation of rents such as was proposed by Mr. Goschen in 1870. Rent and capital value are two different things; and rent is often no test of capital value. In the case where a lease has been paid for by a premium; in the case of land which can be, but has not been, built on; in the case of an old lease in an improving quarter; in the case of land in the neighbourhood of towns, and in all the pleasant residential parts of England; the actual rent, which is often a mere agricultural rent, bears no proportion to the real value; and if rent alone were taxed in proportion to its amount,

* The experiment has been largely tried in the United States, and does not seem to have been successful. See *Taxation in American States and Cities*, by R. T. Ely. Crowell, New York.

there would be a large quantity of real property which would escape local taxation altogether.

Sixthly and finally, there is the consideration that we have to deal, not only with new contracts, but with existing contracts. Existing contracts. As regards the latter, it is true, on the one hand, that many, if not most, existing leases contain stipulations that the occupier shall pay the rates; and it is also true, on the other, that we are certain, in the case of existing contracts, that the incidence of new and unforeseen burdens falls on the occupier and not on the owner. This sixth and last consideration is one which raises great difficulties—especially in cases where the interest behind the occupier consists of a fixed rent with little or no reversion, and where, consequently, such interest is not benefited by the expenditure of new rates.

These different considerations appear to point to some important conclusions, viz. :— Conclusion from these considerations.

First, that, as in dealing with Imperial taxation, the best financiers have found it necessary to deal with taxes on income apart from taxes on capital, so, in dealing with local taxation, it will be necessary to keep rates on annual values or rent apart from taxes on capital or ground values. The one may be dealt with by deductions from rent, but the other must be dealt with by a separate and different tax.

Secondly, that the burden of rates must be dealt with as a whole, and that it is impracticable to deal with one rate as an occupier's tax, and with another rate as an owner's tax.

Thirdly, that the only principle on which a scheme

for taxing owners can be justified is the principle that *at present certain important interests in land and houses now escape local taxation, and that these interests ought to bear their fair share of the burden.*

Principles
to be
adopted in
charging
part of rates
on rent.

Looking, then, at rates as taxes on income, we have to consider how a fair share of their burden can be diverted from the occupier to the owner. In doing this, we may find ourselves on Mr. Goschen's Report of 1870, and the following are suggested as propositions which should govern the case :*—

In the case of Future Contracts.

1. Some portion of the burden of the rates should be thrown on owners, as distinct from occupiers.
2. All owners, of whatever tenure, whether for years or for life, or in fee, should bear their due share.
3. Each owner should be charged upon the present amount of annual benefit accruing to him from the property assessed.
4. Each owner should pay part of the rate collected from the occupier, by means of a deduction from his rent, according to the method used in the case of Property Tax.
5. Owners should contribute to the rates, not only

* They are, in fact, propositions suggested by Lord Hobhouse, and were given as such by me in evidence to the Town Holdings Committee. See Parliamentary Paper 341 of 1890.

in respect of improvements, but of other purposes.

6. Owners should pay, not different proportions of rates levied for different objects, but a fixed proportion of the whole.
7. A fair proportion should be charged upon owners.
8. Half is suggested as a fair proportion.

II. In the case of Existing Contracts.

9. New taxes may be imposed without regard to private contracts.
10. Contracts which contain no stipulations that the occupier shall pay rates need not be regarded.
11. Further contracts by lessees to pay otherwise than as the law directs should be made void.
12. Future increases of old rates may be treated as new taxes.
13. Rates existing at the date of a contract should be left under the operation of the contract.
14. Rates or increase of rates imposed after the date of the contract and before the change of law require special treatment.
15. Some compromise is necessary, as suggested by the Committee of 1870, but it should be more speedy and wider in its operation.

To these suggestions I would add that the case of quit rents or fixed rents with no reversion, or a reversion so small as to be of no value, held under existing contracts, requires special consideration. When such rents have been bought and sold as

investments returning a fixed income, there would be great and well founded objections to any plan of making deductions from them in order to relieve persons who have acquired and hold the property which is subject to these rents.*

LOCAL TAXATION OF CAPITAL VALUES IN THE FORM OF DEATH DUTIES ON LAND.

Local Death Duties on real estates generally.

Supposing the above or some similar plan to be adopted for the local taxation of rents, we have still in addition to provide for the local taxation of capital or ground values. This is the more necessary, because what has been already suggested may not be sufficient in amount to give the requisite relief to the rate-paying occupier; and, in addition, there may be reasons, of which I am not aware, against handing over the Inhabited House Duty to the local authorities. Here, again, Mr. Goschen, by handing over the Probate Duty, has pointed our attention to another source, viz., the Death Duties on real estates. These are distinctly local in character; they can be assessed and collected by local authorities, and they will probably, in each locality, bear a due proportion in amount to its population and wealth. It might even be possible, if desirable, to make them vary in different towns and districts with the local wants. The Succession Duty and Corporation Duty together†

* See evidence of Mr. Munro and Mr. Heelis given to the Committee on Town Holdings, No. 341, 1890.

† *Thirty-second Report of Commissioners of Inland Revenue*, p. 19.

produced in 1888-9 less than £1,000,000, but this is no test of what properly revised Death Duties on land would produce. I am quite unable to estimate the gross produce of such a tax; but as regards London it is possible to give figures which show that it might be such as would amply compensate for the present subsidies.

From the Exchequer contribution, including Licence and Probate Duties, London at present receives about £820,000 a year, one-half of which, speaking roughly, comes from licences and one-half from Probate,* and from the new duties on alcohol it will probably receive about £300,000 more, including the police grant. The £400,000 from licences, being a local tax, would remain, whilst London would lose its share of the Probate Duty and Alcohol Duty, say in all, £700,000. The rateable value of London is now £31,700,000. Let us assume it to be only £30,000,000, and to be worth twenty-five years' purchase. The capital value would be £750,000,000. According to the best information I can get, the average length of life of an owner of London property may be put at about twenty-five years; if so, the £750,000,000 will change ownership by death every twenty-five years, and there will fall to be taxed by Death Duties every year £30,000,000. Three per cent. on this would give £900,000. This is, of course, the roughest possible estimate, but it is sufficient to show that if the Death Duties on realty were entirely handed over to the local authorities,

Rough estimate of possible proceeds in London.

* Local Taxation Account, 226, 1890, pp. 6 and 7.

and were properly revised, there would be an ample fund out of which to recoup local authorities in London for their present subsidies. Such a plan would have the following advantages:—

Advantages
of such a
tax.

First, it would restore the Probate Duty on pure personalty, which is essentially a general tax, to the Imperial Exchequer, and it would make the Death Duty on land and houses, whether freehold or leasehold, which is essentially a local tax, available in whole or in part for local purposes.

Secondly, it would enable the Imperial authority and the local authority to co-operate, as they now do in the case of the rates and house duties, for the purpose of obtaining accurate re-assessments.

Thirdly, if such a plan were known to be in contemplation, it would enlist the great influence of the local authorities and the urban ratepayers on the side of a revision of the Death Duties on realty, an influence which is not to be despised by any Government which desires to deal with this subject.

Fourthly, to those who believe, as I do, that graduated taxation on property is desirable, so that a larger percentage may be imposed on the larger estates, such a scheme would afford facilities for such graduation, which, for practical reasons, it is scarcely possible to apply to any system of taxes on incomes. It is scarcely necessary to add that in this direction, as well as in the direction of appropriating a part of the Death Duties to local purposes, Mr. Goschen has given us a lead by imposing his Estate Duty, which

is an extra 1 per cent. Death Duty on properties of £10,000 or upwards in value.

Fifthly, it would supplement the proposals for the reform of the incidence of local taxation, and would help to provide funds for the improvement of London and other towns without imposing intolerable burdens on the over-taxed occupier.

It is needless to say that the details of any such scheme as I have suggested would require much consideration. They could not be properly worked out without official help; and they require much discussion and criticism before we can be sure that they are right in principle. It is with a view to invite such discussion and criticism that I lay them before the public. I am quite sure that much of what has been done in the last four years has been essentially wrong in principle; that the result must be mischief and confusion; and that a new departure will have to be made. I feel almost equally sure that if Mr. Goschen were able or willing to tell us all that is—or once was—in his own mind; all that he would have done if he had been unfettered by the present condition of parties and politics, we should have had his support. For myself, I can say with truth that there is scarcely any living statesman from whom I have learnt so much on these subjects; scarcely any one for whose industry, knowledge, and skill in matters of finance I have so great a respect. Even whilst criticising his acts I am not afraid of saying that my own course is largely due to his own suggestions.

CONFUSIONS AND ANOMALIES PRODUCED BY
RECENT CHANGES.

Confusions
and
anomalies
of the last
four years.

If it is shown that I have made some mistakes in facts or figures, I shall not be surprised. The difficulty of writing upon financial subjects is far greater than it would be if our public accounts were simple, uniform, and intelligible. As they now stand, it is often very difficult to be certain or accurate, and one who is not an expert may well be pardoned if he falls into occasional errors. For instance, there are three different modes of calculating the produce of a penny of Income-tax, each leading to slightly different results. Again, Mr. Childers' Return* gives, in column six, the aggregate sums paid out of the National Exchequer in each year in aid of Local Taxation; but it is impossible to trace, analyse, or verify these sums, either in the annual Civil Service Estimates, the Local Government Returns, or any other public returns of which I am aware. Before Sir W. Harcourt's Return of last year,† there was no complete and comprehensive account of the National Debt. Few services could be rendered of greater importance than a consolidation and simplification of our Financial Statistics. But to do this is made more difficult as well as more necessary by the transactions of the last four years. The extraordinary and continued

Previously
existing
difficulties
and confu-
sion greatly
increased
by recent
changes.

* Parliamentary Paper 294 of 1889.

† Parliamentary Paper 343 of 1890.

discrepancies between the estimates of revenue and the actual receipts; the unanticipated surpluses; the doubts whether, if liabilities were taken into account, there would in this last year have really been any surplus at all; the anticipations of future revenue for the purpose of immediate expenditure; the confusion in military and naval expenditure between moneys provided under statutes and moneys provided by annual vote; the confusion between Imperial and Local Finance caused by the appropriation to local purposes of parts of the Probate Duty and of the Drink Duties; the new complications introduced into the Death Duties—all these are circumstances rendering the national accounts much more confused and unintelligible than they were when Mr. Goschen took them in hand.

In some of these cases, the measures adopted appear not only to lead to confusion, but to be at variance with ordinary constitutional practice; and illustrate by the anomalies and obscurities they create the value of the principles which they infringe. For instance, the withdrawal by the National Defence Acts of certain items of expenditure from the annual estimates would have concealed the actual military and naval expenditure of the present year if Mr. Lefevre's Return (200 of 1890) had not brought it to light. It appears, by Mr. Goschen's Budget speech, that a large part of this expenditure was actually incurred in 1889-90, that £1,500,000 was transferred from the Exchequer balances to

Anomalies
at variance
with consti-
tutional
practice
leading to
obscurity
in National
Accounts.

the Naval Defence Fund in the same year,* and that it has to be restored to those balances.

Again, the one-half of the Probate Duty appropriated to local purposes disappears altogether from the estimates and the finance accounts, except as a deduction, and its application can only be traced by referring to the Local Taxation Accounts. It is thus withdrawn from the control of Parliament, whilst the local bodies amongst whom it is distributed have in reality very little to say to its application. The same thing is true of the Drink Duties. Even the grant for the Metropolitan police, which is essentially an Imperial expense, is, except as to a small part of it, withdrawn from the Estimates, and from the control of the House of Commons; and the Secretary of State, who has obtained unlimited power to rate the Metropolis for police pensions, is now entrusted with the duty of spending both the Exchequer contribution and the rates he levies on London without any control whatever, either by the House of Commons or the ratepayers.

Confusions, obscurities, and anomalies in finance are, in comparison with the larger questions of improvidence and injustice, ripples on the surface of the stream. But they have the effect of concealing what lies below, and the object of every sound financier must be to reduce them to a minimum. That they should, on the contrary, have been largely increased is a matter of serious regret.

These are not solely or originally my own cri-

* See *Budget Speech*, 1890, p. 704, and Return 378 of 1890.

ticisms. Others who have tried to unravel the mysteries of the recent accounts have felt the same difficulties. Indeed, my attention was called to this point by several articles in the *Economist*, one of the most intelligent of our financial critics, and in general a supporter of the present Government. Of these I will quote one only. In an interesting article in the number of October 4th, 1890, the writer, after making attempts to disentangle the published accounts of the national incomes, so as to show what part was Imperial and what part local, concludes as follows:—

“Not even by the most careful analysis is it possible to ascertain exactly what portion of the total receipts constitutes Imperial revenue, and which portion belongs to the local authorities. And in passing it must be said that this is only one of the complications that Mr. Goschen has introduced into our system of account. What with special funds of one kind and another—defence funds, local finance funds, &c.—the accounts have been so muddled up that we feel confident not one member of the House of Commons out of a hundred could, if called upon, say exactly how our finances stand. And where there is this ignorance, how can there be efficient financial control? Complete and easily intelligible accounts are the *sine quâ non*, if we are to have efficient Parliamentary supervision.”

Stronger words could scarcely be used. If knowledge and subtlety lead to confusion, we should do better with a little common-sense. One is tempted to parody the epitaph written by some legal wag of my younger days on a very learned, able, and distinguished judge, whose ingenious technicalities had

brought the law into a state of absurdity and injustice. “ Qui summo acumine, summâ doctrinâ, summâ diligentia, Fiscum Angliæ in absurdum reduxit.”

Conclusion.

CONCLUSION.

Goschen's
own verdict
on himself.

Ministers do what they can, not what they wish, and the path of every statesman must be strewn with unrealised ideals. But in the fierce competition of our political life Governments must be judged by their actions, especially when they challenge our judgment upon them. This Mr. Goschen has done in the most explicit way. In 1889 he ended his Budget speech with the following words:—

“ Allow me to present a balance-sheet of my deeds and misdeeds, assuming that the House is pleased to assent to the measures which I have proposed to-night. I will take my misdeeds first. I have diminished the Sinking Fund by £1,500,000—originally by £2,000,000, but I replace £500,000. I have increased the Death Duties on fortunes above £10,000 by 1 per cent. I have added to the Succession Duty the equivalent of what remains of the Probate Duty as an Imperial tax. I have imposed a duty of some £150,000 on sparkling wines. I have put £300,000 on beer. I have increased the Stamp Duties by about £500,000. I have caught in the net of Transfer Duties some foreign securities which before were exempt. These are my misdeeds. On the other hand, I have reduced the Tobacco Duty by £600,000. I have reduced the Income-tax by £4,000,000. I have given £2,500,000 in relief of local taxation. I have provided £2,000,000 extra for national defence. I have converted upwards of £500,000,000 of Consols, securing an annual saving in interest of £1,400,000 at once, and £2,800,000 by-and-bye; and I have been able to pay off more debt during my two financial years

than has ever been paid off before in the same time, save on one occasion. Surely, the scale of these operations is no petty scale. I have been favoured by fortune in some respects. I claim no exclusive merit for what I have been able to perform, but whatever may be said of my stewardship, I do not think the charge can fairly be brought against me that I have not dealt in a broad spirit with the national finances, or that, in the two years during which it has been my fortune to preside at the Exchequer, I have not carried out some measures which will redound to the lasting benefit of the country."

This balance-sheet invites criticism. When Wamba, in *Ivanhoe*, told the Black Knight that it was the habit of Robin Hood and his outlaws to make up a balance account with Heaven by setting one deed against another, *e.g.*, "a crown given to a begging friar with 100 bezants taken from a fat abbot, or a wench kissed in the greenwood with the relief of a poor widow," the Black Knight interrupted him by the question: "Which of these was the good deed and which was the felony?" Mr. Goschen's own balance of his own doings and misdoings tempts us to make a similar interruption. Is it a bad deed to tax wealth and luxury? Is it a good deed to reduce the Sinking Fund in order to remit taxation, or to pay off debt by miscalculating revenue?

We need not, however, adopt Mr. Goschen's standard of deeds and misdeeds, nor need we now confine ourselves to what had been done in 1889. We can look at things from a different point of view. We can take a wider survey, and cast up a longer account. In doing this, I might parody Mr. Goschen by using the first person singular, and putting my statement of

the balance-sheet into his own mouth. But were I to do so, I should be doing him a great injustice. What Mr. Goschen has done or left undone is the work of those with and for whom he is acting, as well as his own. That he should be acting with them, and that he should in so acting be the "lost Liberal leader" of 1870, is one of our deep regrets. Putting my conclusions, therefore, in the first person plural, and imagining the Ministers collectively, together with their Liberal Unionist supporters, to be casting up such an account as Mr. Goschen attempted to cast up in 1889, the summary of their finance which I would put into their mouths is as follows. It may be taken, according to the opinions of those who read it, either as a self-glorification or as a confession.

Amended
verdict.

"We have enjoyed unequalled financial opportunities; we have been served by financial ability of the highest order. We have had five years of peace and plenty; and unexpected surpluses have been forced upon us by the prosperity of the country. We claim credit for a successful conversion of the Debt; for a satisfactory settlement of the Local Loans Account; for a careful and economical administration of the Civil Service; for a reduction of the Income-tax, of the tax on small houses, and of the taxes on tobacco, tea, currants, and silver plate; for a reduction of Colonial postage; for the increase and improvement of the Stamp Duties, and the imposition of new taxes on Joint Stock speculation, on alcoholic drinks, and on expensive wines; for the admission (by a reform so trivial as to make it little more than an

admission) that the Death Duties on personalty and realty require to be equalised; for the admission that Death Duties may be made available to assist local taxation; and for the further admission, in the case of the Inhabited House Duty, and of the Estate Duty, of the principle of graduated taxation. On the other hand, we have not found time for our Chancellor of the Exchequer to reform the coinage—for which he, above all statesmen, is competent. We have made popular Budgets by infringing the principle of the new Sinking Fund, and by robbing it of £3,000,000 a year, and have thus set a fatal example to our successors; we have, in time of profound peace, spent upon Army and Navy out of revenue more than was ever spent in peace before, and we have, in addition, thrown a heavy burden for the same objects on future years; we have withdrawn annual expenditure from the control of the House of Commons; we have tampered with protection on wine and sugar; we have imposed taxes without knowing how they would be applied; we have added to the complications of the Death Duties, and have greatly increased their injustice; we have extended and perpetuated the vicious system of subsidies to local authorities; we have made them more dangerous to the national Exchequer; we have increased the injustice of their distribution; we have intensified their injurious effect on self-government; and, in doing this, we have used these subsidies as a bribe to protect the landowner, and especially the urban landowner, against the just claims of the local ratepayer.

“Some good things we have done, some useful hints we have given. As regards the larger aspects of the great questions of debt and taxation, the result of our acts and omissions has been a sacrifice of the future to the present; of local independence to local bribes; of justice in distributing public burdens to powerful party pressure; of patriotism to popularity.”

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