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FINANCIAL REFORM



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FINANCIAL REFORM

BY
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TO

EDWIN R. A. SELIGMAN

MCVICKAR PROFESSOR OF POLITICAL ECONOMY
IN COLUMBIA UNIVERSITY, NEW YORK

LEADER IN THE PURSUIT OF THE SCIENCE OF FINANCE
IN ALL ITS BRANCHES THROUGH TIME AND SPACE,
A GREAT ECONOMIST, A GENEROUS HOST, A VALUED FRIEND,
THIS TOKEN OF HOMAGE IS

DEDICATED BY

THE AUTHOR

Preface

THIS little book consists in the main of four lectures delivered to the Institute of Bankers in London at the end of 1923. An Introduction and a Conclusion have been added.

The Journal of the Institute for December, January, and February last contains a shorthand report of the lectures. The courtesy of the Council has permitted this report to be used in compliance with requests that the lectures should be made available in collected form.

Brevity and a certain levity were called for in addressing an audience composed for the most part of junior bank clerks who had just finished a day's work. With the additional matter now included the volume may be regarded as a political tract, using the word "political" to indicate what pertains to the art and science of government, and not to the art of winning elections and obtaining or retaining political power.

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Introduction

FINANCIAL reform is an urgent necessity in every country of Europe, but nowhere does there seem to be much hard thinking as to the financial arrangements ideally best suited to the particular circumstances of individual countries. If mankind is as indolent as it dares to be, Ministers of Finance are, in this respect, serious offenders. Conscious of a precarious tenure of office, anxious to alarm the public as little as may be by innovation, and careful to offer the smallest possible target of criticism to their political opponents, they take a short view of finance, pursue an opportunist rather than an idealistic policy, and are satisfied to patch up the finances of the year by the smallest feasible adjustment. Before the Great War the financial circumstances and needs of the nation varied comparatively slightly from year to year, and petty expedients sufficed to tide over the transitions. But the War has revolutionised the situation by rapid and violent changes, and the time has come to reconsider our financial problems and our financial methods. An ideal is necessary in order that, if not immediately attainable, we may work up to it, keeping our eyes upon the far light as well as the near light, and not resembling a man who, wishing to leave a crowded room, confines his attention to avoiding the obstacles at his feet without having in mind the direction of the exit.

The names of Pitt and Peel and Gladstone¹ shine in our

¹ Gladstone regarded Pitt and Pelham as the greatest of our Chancellors of the Exchequer.

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financial history because these great ministers combined with political power courage, insight, and reforming zeal, and were not content to be mere temporisers, afraid to propose organic change as children fear to go into the dark. In default of Chancellors of the Exchequer who will lead public opinion we must look to public opinion to guide and drive them. It is upon public opinion that the reformer must act. The first step is to signalise defects. When these are admitted the question of remedies presents itself for solution.

Sir Edward Hamilton, whose life was absorbed by single-minded devotion to the Treasury, was accustomed to say that our financial system was framed by very wise heads and that we should be extremely careful about making any change in it. But relativity holds good in finance. When the growing child can no longer get into his garments it is nothing to the point that they were originally made by expert cutters and eminent tailors. The financial task of the British Government is four times as big as it was ten years ago. The able Editor of the *Economist*,¹ anticipating that there will be no organic change in the next decade, looks to heavier death duties and a broadening of the basis of taxation by such expedients as taxes on betting and luxuries. In these respects the strait waistcoat has little elasticity. Greater flexibility is required. Higher efficiency must be combined with a closer fit in respect of justice.

A catalogue of miscellaneous unrelated imperfections might carry conviction that our financial system is honey-combed with defects and needs amendment in detail. What is here attempted is rather to concentrate attention upon the element of Justice in Taxation. "Every man," says the humorist, "is in favour of natural justice if you let him tell you what it means." But in this connection

¹ W. T. Layton, *The Budget of 1933*. London: Daily News, Ltd. 1923.

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he is prone to tell you that it means "tax the other fellow." It is not easy to find anyone who will admit that he is not personally overtaxed, either because taxation in the mass is unnecessarily heavy or because its weight is not fairly apportioned. Serious students of the subject agree unanimously that the citizens of a State should contribute to the cost of Government a proportion of their resources increasing with each rise in the scale of wealth. The principle is acted upon in our direct taxation—Income-tax, Super-tax, Estate Duties—but is thrown to the winds in the indirect taxes which have increased so greatly in number and severity. The pressure and social reactions of taxation are not so well ascertained as they might be. The aims of our taxation are confused beyond description. We tax incomes of the living and estates of the dead on the ground of capacity to pay, tea and sugar and matches in order that the poor may not escape some contribution to the State, alcohol and tobacco in order to repress excessive consumption of articles which are not indispensable but if consumed in excess are injurious to health. Luxuries are taxed because it is assumed that those who enjoy them are able to bear increased taxation. So-called protective duties are favoured in some quarters under the impression that they encourage home industries. Financial capacity is, however, to be gauged by net income and net capital and not by income or spending alone or both together. Taxation of the poorest classes has one of three results. It lowers their standard of living, already low enough, it is passed on to their employers in higher wages, or to the community by throwing the individual on the rates or the dole. The claim that such taxes as those on alcohol and tobacco are deterrent of wasteful expenditure is sufficiently disposed of by the statistics of consumption. Tobacco, which is taxed at 6½d. an ounce in this country, pays a duty of only 3 cents an ounce in the United States. The consumption per head is higher here where the duty is

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four times as high and the average wealth lower. The hollowness of the preventive argument is shewn by the fact that when taxation is raised to a point where consumption is so seriously reduced as to diminish the yield of revenue the tax is lowered at the first opportunity to encourage greater consumption. The taxation of luxuries is popular with those who cannot afford them. But civilisation is progressive desire, and if life were shorn of its superfluities we should relapse into barbarism. As wealth increases luxuries become more common and take their place among conventional necessities. In some parts of America like Ohio and Iowa there are now enough motor cars to hold the entire population of the State. At one time a shirt and a pair of boots were luxuries in this country. An American writer points to the time when people condemned gas, made fun of the telephone, and denounced the bath tub as a luxurious undemocratic vanity. Medical men declared it to be a menace to health. In 1843 one city tried to prohibit bathing between November 1 and March 15. In 1845 a New England community made bathing in one of the new-fangled tubs unlawful except when prescribed by a physician. One State taxed bath tubs 30 dollars a year.¹ A dilemma of luxury taxation is that when a luxury is so rare as the keeping of a yacht a tax is not worth while, when it is so popular as the purchase of an ice cream the tax would not be acceptable to the community. There is no reason but fiscal rapacity why, as between two men of equal means, one should pay more towards the cost of Government than the other because he chooses to turn part of his expenditure into a channel which is not anti-social, by going, for example, to see a play of Shakespeare while his neighbour reads the play at home or eschews Shakespeare altogether. Protective duties may bolster up a particular industry at the expense of the consumer and at the expense of other producers, either through

¹ *New York Evening Post*, 15th April, 1923.

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higher wages, or higher cost of materials, or diminished orders for exports—every import being as surely a demand for British goods or services as if it had an order tied like a label round its neck. All these jarring motives are held together like beads on a string by the desire of the tax-gatherer to raise money when and where and how he can. He watches with eagle eye the way in which people spend their money and seeks to intercept some of it by taxation based not upon the means of life but upon the mode of life. To pretend that this conglomeration of motives and methods approximates to Justice or to capacity is not capable of serious defence. Our tax system is, as President Taft said of the American Tariff, “a hit or miss affair.” It is based upon assumptions and presumptions—that capacity to pay taxes is indicated by the channels of expenditure, that the present mixture of direct and indirect taxation provides a rough measure of justice, and that the total taxation cannot be reduced without a net loss of social utility. All these propositions are unverified. Only when taxation is based upon capacity alone, as capacity would be judged by an accountant, can we ensure Justice. Direct taxation adjusted to net income and net capital is the ideal towards which democracy must march. The simplification of single assessment for Imperial as for Local taxes would allow every citizen to know what provision he is required to make annually towards the cost of government. The man who now pays taxes without realising it in the form of higher prices for taxed commodities will know exactly what it costs him to be governed and will become more critical of public expenditure, in which there is still much waste. The new instrument of taxation will need to be itself somewhat elaborate. What expenditure is to be deducted from gross income to arrive at taxable income? What charges are to be admitted against gross capital in order to arrive at the net capital which is one of the true indications of financial capacity? What amounts of

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exemption or steps of graduation are to be fixed? What rates of charge are to be imposed for the year? The answers will vary with the progress of public opinion and the economic circumstances of the country. But the result will be an elastic system with the utmost flexibility of adaptation.

"Broaden the basis of taxation" is a favourite dogma of armchair philosophers. To increase the number of articles taxed is easily proposed. Soap and salt, candles and leather and corn and hundreds of other articles were taxed a century ago and might be taxed again if we listen to those who desire a system of taxation which "presses lightly upon a number of points and heavily upon none." But the reform of taxation must come from the directly contrary process if Justice is to be attained. In a society where wealth is distributed pyramidally the ideal must, so far as rates of taxation are concerned, be an inverted pyramid, standing upon a zero point where taxation is futile, if not dangerous, and rising in severity as the subject increases in wealth.

Those who are interested in agriculture will do well to ponder Lord Brougham's speech¹ in the House of Commons on 9th April, 1816, showing the special severity with which high taxes on commodities affect the farmer who "never has the means of suddenly accommodating the supply of his commodity to the demand with the nicety and despatch observable in the operations of trade." Tax him on his annual capacity alone and this long-standing grievance against government disappears. Take two professional men earning the same income. *A* has little or no capital. *B* has £6000 locked up in old masters, antique furniture, collections of plate and china. They are taxed alike. *B* derives no money income from his capital. He hopes perhaps that it will appreciate in value, or thinks it worth £300 a year to enjoy its possession and contemplation. Is there any reason why *B*, financially the stronger, should not pay more than *A*? There are, it is true, the death duties in per-

¹ *Speeches of Henry, Lord Brougham*, 1838, i. 528.

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spective, but, as is pointed out later, there is no certainty that these will ever be collected.

A high capital levy "once for all" would shake society to its foundations and then leave us to start all over again with our old defects unchanged. A small regular annual charge in respect of the ownership of capital is a more excellent way. The charge must not be anything like so high as the Bank rate, for this would approach confiscation. It might begin at 1 per mil and gradually increase. It might bear some relation to income tax so that the two should rise and fall together. But the time has come for some more rational method than the Estate Duty, which depends upon an accident—the accident of death—to bring the possession of capital within the purview of taxation. De Parieu, a respectable French writer on Finance (1815-1893), asserts that our Income and Property Tax (commonly known as the Income Tax) was so entitled by a mere slip of the draftsman—the words "and Property" being inserted by mistake. He gives no authority for this statement, which has the air of mere surmise based upon the effect of the Acts. The reform in our revenue system here suggested is that the Act should be made to conform more closely to its title and that in this country, as in other countries, the possession of property should be made a direct factor in annual taxation, thus enabling us to slough off gradually the indirect taxes, which are costly, obscure in operation, and unjust.

The present Chancellor of the Exchequer, studying the opinions of his greatest predecessor, reminds us¹ that "Mr. Pitt, in the course of a debate on a proposal to levy a direct income-tax upon all citizens, uttered these remarkable words—'There is a far better way than that, a way in which you can tax the last rag from the back, the last bite from the mouth, without ever hearing a murmur about

¹ Philip Snowden, *Labour and National Finance*, London, 1920, pp. 93-4.

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heavy taxation. And it is by taxing a large number of articles in daily use. The tax will then be lost in the price of the article. The people will grumble about high prices and hard times, and they will never know that the hard times are caused by heavy taxation.'"

Every schoolboy knows the words in which the great Conservative leader, Peel, falling from power, referred in the House of Commons to the repeal of the Corn Laws. Many, he said, would execrate him because they wished to retain Protection for their own individual benefit, "but it may be that I shall leave a name sometimes remembered with expressions of good will in those places which are the abode of men whose lot it is to labour and to earn their daily bread by the sweat of their brow—a name remembered with expressions of good will when they shall recreate their exhausted strength with abundant and untaxed food, the sweeter because it is no longer leavened with a sense of injustice."

This injustice, which inspired the sarcasm of Pitt and the pathos of Peel, is inherent in the taxation of articles in daily use. If we cannot do away with indirect taxation we may get away from it as fast and as far as we can. If it is desired to suppress the consumption of certain articles prohibition is possible. If we desire to diminish their consumption in excess state regulation may be practicable. But public opinion, education and experience, enlightenment upon the wisest methods of spending our money, may yet prove more effective than taxation ever has been or ever will be, or, in spite of protestations, aspires to be.

LECTURE I

FINANCE, here and now, is one of the most important functions of Government. The question whether the British Government discharges that function well or ill is a question in which I conceive you to be specially interested. First of all, you are interested as individuals in the visitations of the tax collector, the amount which Government takes out of your pocket. The question whether that amount is unnecessarily large, the question whether the proceeds are or are not wisely spent, are questions which affect you as individuals. Then, in common with other citizens, you are interested in the potent effects of Government finance upon the trade and industry and commerce and prosperity of the country at large. As members of the banking community, you are specially interested, because, when it is well with the people the banks flourish, but when prosperity withers, the banks decay. Lastly, the opinion of the banking world upon matters of national finance deservedly carries such high weight with the Government of the day that it is of the first importance that that opinion should be well-informed and well-grounded. We were rather complacent about the management of our national finance when taxation pressed very lightly upon us having regard to the total wealth of the country; and British Governments, and British Chancellors of the Exchequer in the past have enjoyed easy reputations in the matter of finance for that reason. A generation ago there was an advertisement widely spread which used to quote a passage from Captain Burnaby's *Ride to Khiva*. He came across

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some Asiatic chieftain who was out of sorts, and, with the touching simplicity which Eastern peoples have in the medical skill of a white man, they asked Burnaby to cure him. He took out of his wallet one of the much-advertised pills and handed it to his patient. The next day the chieftain was so much better that the reputation of Captain Burnaby as a healer and a medicine man was at once firmly established. Now, we shall not be far wrong if we attribute the recovery of the patient rather to the native strength of his constitution than to the virtues of the drug he swallowed, or to the medical skill of the simple soldier who supplied it. And the balancing of the British Budget in times past has been almost as simple a matter as the administration of a pill. The Budget of last year slightly trimmed, a little more here, a little less there, and the task has been a very simple and easy one, and the reputation of the financier who framed the Budget has been easily won. That the British Government balanced its Budget was testimony rather to the financial solidity of the country and the law-abiding character of its citizens, which made it possible to collect with tolerable efficiency and a minimum of friction the taxes imposed by law, than to the skill of the financial practitioner. But the present and the future confront us with problems of a very different order requiring a higher degree of specialised skill than we have yet secured in the political management of our financial policy. To direct aright the finances of a great nation like ours in times like these, demands the highest qualities of statesmanship, and something more, and it is the "something more" which is the important element. It is upon that something more that I shall try to concentrate your attention in these lectures. For, after all, what do the highest qualities of statesmanship amount to? There is a story told of the younger Pitt, undoubtedly one of the greatest statesmen we ever had. Some friends had gathered round him when he was Prime Minister, and they started discussing the quality which was most requisite in the man

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who held that high office. One said "eloquence," another "knowledge," and another "toil," but Pitt said "patience." I repeated the anecdote once to Sir Henry Campbell-Bannerman when he was Prime Minister, and at the end of it he shook his head, not dubiously, but in decided dissent. Anxious to defend Pitt, I reminded Sir Henry that, as there is a time for all things, it might very well have seemed to Pitt, at a time when we were engaged in a life and death struggle with Napoleon, that the one great quality requisite at the moment was our national traditional bull-dog tenacity, and the determination to see the struggle patiently through. But he would not have it. I tempted him by asking whether some word of wider import like "sagacity" would seem more appropriate, and he said "That is better," but I could not draw him into a definite opinion. Oddly enough, a later Prime Minister, Mr. Baldwin, has recently asserted that the two great requisites in statesmanship are courage and patience. Well, courage and patience were to be found in the Stone Age among the cave men, and among the Red Indians of Fenimore Cooper. There is no evidence that those qualities develop as civilisation progresses, or that they are to be found more highly developed in one class of society than in another. Biologists once attempted to correlate intellectual capacity to the size and weight of the brain. They were delighted to find a champion brain in Cuvier, the great naturalist, but they were disconcerted to find that it was beaten by the brain of a poor charwoman who had never exhibited any traces of intellectual activity. I think it possible that if by biometric scale you could measure the phrenological bumps of the people of London you might find courage and patience as fully developed in some poor charwoman with a feckless husband and a band of unruly children as in any of our statesman past or present. Statesmanship as hitherto defined carries you a very short way in the solution of the difficult financial problems of the day. If you think of the factors I have mentioned,

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eloquence, knowledge, toil, courage and patience, you will notice that they do not include even the simple homely virtues of truth and honour, and justice, and social sympathy. We need something much more than mere statesmanship to solve the technical and difficult and specialised problems of public finance.

Coleridge once defined genius as "common sense in an uncommon degree." It is possible that you might find a statesman possessed of such a dose of common sense as to amount to something like genius. But, for our purpose, what I want to lay stress upon, and to ask you to specially note, is that Huxley, one of the greatest of our Victorian scientists, insisted that science is nothing more than *specialised* common sense. It is a question of the kind of common sense, the common sense which is specialised, and organised, and directed, and trained, point by point, step by step, in a logical procession and in a particular direction which makes a man a great master of the learned professions. If you want to consult a doctor, or a dentist, or a lawyer, or an engineer, or an architect, you go to someone who possesses proved and attested qualifications for the discharge of his profession. But when it comes to the management of our national finances we are content to entrust them to a politician who may be ignorant of economics, and statistics, and the very elements of his business. Two years ago, in 1921, the Headmaster of Eton, Dr. Cyril Alington, wrote a little book called *Twenty Years*. The twenty years were from 1815 to 1835. No doubt he thought it would be interesting to compare the period which followed what was then called the Great War with the period through which we are now passing after the still greater war, the Armageddon from which we have recently emerged. I will read to you two or three phrases out of that book. He says :

"Lord Palmerston was invited to be Chancellor when he was only 25, and had only once opened his lips in the House of Commons. He was sincere in assuring Perceval, who

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gave him the invitation, that he was quite without knowledge of finance. It is credibly recorded that Mr. Robert Milnes bet a friend £100 that he would be Chancellor of the Exchequer within five years of entering Parliament, and paid his wager after refusing an offer from Mr. Perceval within the specified time. Lord Grey, at 24, named the Chancellorship of the Exchequer as one of the two offices which he would consent to accept if he took office at all, and until the time of Sir Robert Peel it does not seem to have been realised that a nation's finance is a subject for experts."

We are still a long way from realising the fact. In Mr. Winston Churchill's *Life of Lord Randolph Churchill* he says that shortly after his father became Chancellor of the Exchequer he complained to a clerk who had put some figures before him, that they were not clear, and he could not understand them. The clerk said he had done his best, and pointing to them explained that he had reduced them to decimals. "Oh," said Lord Randolph, "I never could make out what those damned dots meant." "Surely," Mr. Winston Churchill says, "this was only to tease." No doubt Mr. Churchill repeated that story exactly as it was told to him, but perhaps out of regard for his filial feelings it has been watered down in the process, and there is no harm in my giving you the story in its true form. A periodical return of revenue received into the Exchequer was laid before Lord Randolph, and his private secretary, Mr. George Gleadowe of the Treasury, was looking over his shoulder, and Lord Randolph expressed satisfaction at the fact that the Customs revenue had increased by 34 per cent. as compared with the corresponding period in the preceding year. Mr. Gleadowe pointed out to him that it was only .34 per cent. "What difference does that make?" asked Lord Randolph. When it was explained to him, he said, "I have often seen those damned little dots before, but I never knew until now what they meant." I have heard that story many times from the lips of Mr. Gleadowe

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himself, and he always concluded it by saying, "And yet I am satisfied that Lord Randolph would have made an excellent Chancellor of the Exchequer, *as Chancellors go*." It was, of course, regarded as altogether in Lord Randolph's favour that he was teachable, and did not say he was trying to tease, or to pull the leg of his private secretary, or to test his knowledge—but frankly admitted, what was certainly the fact, that he had no conception before of what a decimal point meant.

Now, where is the responsibility for the control of the financial policy of this country to be found? Where does it reside? In whose hands does it ultimately rest? When we speak of the Government and the Government policy, we mean in effect the Cabinet—an inner committee of Government. The members of the Cabinet are what the French call *solidaire*; they form a block, and present a united face to the country at large, even though they may be divided within the Council Chamber. Government nowadays is a complicated affair, a very far-reaching, heavy business, and demands a considerable division of labour. The several members of the Cabinet have their different departments, and when it comes to finance there is none of them who is likely to contest the opinion of the Chancellor of the Exchequer, or to offer serious criticism upon any proposal which he lays before the Cabinet. In the first place, the Chancellor of the Exchequer has special information; he has the advantage of consulting people, of getting assistance and expert advice from all quarters, and is assumed to be better acquainted with the facts and the reasons than the average Minister who has his own affairs to attend to; and so a Minister who is diffident as regards his own knowledge of finance, and still more diffident as regards his special knowledge of the matter under consideration, is always inclined to bow to the Chancellor of the Exchequer. More than that, it is a very awkward thing for a Minister to be on unfriendly terms with the Chancellor of the Exchequer who

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holds the purse strings, and who is able to veto any proposals which may be put forward as to the development of other departments. When a Minister has set his heart upon doing something or other which costs money—and you cannot do very much without spending money—if he finds that the Chancellor of the Exchequer is not very friendly to him, and that he cannot get the money he wants, he feels how foolish he was to rub the Chancellor the wrong way on some previous occasion ; and so, for a variety of reasons, you find the Chancellor of the Exchequer is practically the financial autocrat of the Cabinet, and, to that extent, the financial autocrat of the country. The Prime Minister may have a great personality, his standing in the country may be so high, his position in the Party may be so strong, that if he has a decided opinion upon any matter he may be able to impose it on the Chancellor of the Exchequer even in respect to a question of finance, and, in case of difference, he has the power to advise the King to appoint another Minister to that high office. And so it is conceivable that a Prime Minister of such domination as Mr. Gladstone might make his own financial views prevail, but you may take it that the Chancellor of the Exchequer is responsible, more than any other single person in the country, for the financial policy of the Government. He holds the rudder and he steers the course. With a friendly Cabinet and a docile House of Commons he can carry almost any proposal into effect.

I want to point out to you the inherent constitutional difficulties which lie in the way of getting an expert Chancellor of the Exchequer. He is appointed by the King on the advice of the Prime Minister, and if the Prime Minister had all the world before him where to choose, he might find a very admirable and efficient Chancellor of the Exchequer. But, in practice, he has scarcely any choice at all. To begin with, he must select a Member of the House of Commons. The House of Commons would never for a

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moment tolerate a Chancellor of the Exchequer who could not take his place on the floor of the House to expound and explain and defend his Budget, to answer questions and criticisms, to make concessions, to stand up to be shot at, and generally to be accessible to the House and amenable to its influence. Out of the forty odd millions of people in Great Britain the Prime Minister is restricted to the small number of members of the House of Commons who sit on the Government benches. Clearly, the Chancellor of the Exchequer must be one of the Government supporters, because he must enter the Cabinet of which he is one of the most influential members. Although the office has lost much of the prestige which it held in the days of Pitt, Peel and Gladstone, it is still an office of very great power and of very great importance. In times past the Chancellor of the Exchequer was looked upon as the heir-presumptive of the Prime Minister, his second-in-command, the most likely person to take his place if he vacated it, to act for him as leader of the House in his absence, and was generally marked out as the Prime Minister's successor. The post, therefore, was usually claimed by that member of the Government who was regarded by the party as the Prime Minister's lieutenant and probable successor. The most influential of his supporters in the House was appointed to the office of Chancellor of the Exchequer, entirely irrespective of his tastes, or his capacity, or his knowledge or fitness for the task. Now, in the United States, the President, when he is installed in office, can look round the country and choose people who are to constitute his Cabinet. He can get a millionaire like Mr. Mellon to be Secretary of the Treasury ; he can get a great administrator like Mr. Herbert Hoover to look after the Department of Commerce ; he can get a great lawyer and distinguished citizen like Mr. Hughes to act as the Secretary for Foreign Affairs, and the only condition which the Constitution imposes upon him is that those members must be American citizens who do not sit

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in Congress or in the Senate. So in the United States you have exactly the opposite conditions to those which prevail in this country. We require that our Chancellor of the Exchequer must sit in the House of Commons ; the United States Government precludes its chief financial officer from sitting in the House of Representatives or in the Senate. If he were a member of either House he would have to resign his legislative functions before he could become Secretary of the Treasury. Then, if you take the case of France, you find that the French Minister of Finance brings forward his Budget and lays it before the Chamber. The Chamber forthwith takes the whole thing out of his hands and appoints a Finance Committee, which is a small edition of the Chamber—with so many representatives from each group in proportion to their strength in the Chamber. This Finance Committee goes through the Budget, and sends for officials, merchants, and experts, and bankers, and people who tender and offer their evidence. It hears what is to be said for and against the Budget proposals, and it knocks the Budget about, cuts it to pieces, amends it, increases it here and reduces it there, so that when it is brought back to the Chamber of Deputies the Minister of Finance cannot recognise it as his Budget any longer. It is then debated in the Chamber, and if it passes there in modified form, it goes up to the Senate, and the Senate appoints a Finance Committee on similar lines, and they go through it and pull it about and send it down to the Chamber of Deputies, and there are frequently disputes and differences between them. It often takes as long as a year to get the Budget through the Chamber of Deputies and the Senate before it finally receives the approval of the President. There it is, as you see, not something which has emanated from a single brain, but something which has been the result of discussion and deliberation and modification, and been closely criticised and analysed in all its stages, and, when it at last emerges, although political considerations may have played a great

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part in its final shape, that shape is, at any rate, something which is not dependent upon an individual brain.

In the American Senate and House of Representatives something of the same kind happens, but there, unfortunately, politics frequently play a larger part than finance. A Senator from such and such a district wants a new Post Office, another wants a more imposing County Court, and they find out a few other Senators who want things done in their constituencies, and they agree to support each other in demanding these improvements—what is called the “pork barrel” system. It means that the Budget is loaded up with agreements of that kind—“You vote for a new Post Office for me, and I will vote for a new County Court for you.” Large sums are added on to the Budget of the United States year by year by that process, and it is not until the Budget has emerged and the amount is added up that they have any sort of idea of what they are going to spend. In past years they were particularly reckless about it, because the revenue that flowed in from the high tariffs imposed was always more than sufficient to cover the costs of Government. But now the President has appointed a Budget Bureau responsible to himself, acting under his own directions, which tries to introduce some regularity and order into the Budget, to make it a bilateral document which has some regard to revenue and to improved methods of preparing the Budget and of dealing with it in the House of Representatives.

In Germany they have appointed a Council—a very large Council—called the Federal Economic Council. It consists of 326 members who are nominated by 10 groups—not Parliamentary groups, but groups of business men—bankers one, agriculturists another, the iron and steel industry another, and so on. All these 326 representatives of these 10 groups meet together as a council which is advisory and consultative. It has no power to impose its will upon anybody, but proposals are referred to it before they are

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introduced into Parliament, and it considers them and takes into account the economic interests of the country as a whole and hoists the danger signal when they are threatened. It recognises that popularly-elected Members of Parliament are not equipped with the expert knowledge which alone can give expert finance. You will find it described in a volume recently written by Mr. Hermann Finer called *Representative Government and a Parliament of Industry*. Whether or not this council will be a successful experiment remains to be seen. It may prove too unwieldy ; it may be torn by dissension and degenerate into a mere talking-shop ; it may fail to earn respect which will add weight to its warnings and its advice, but it recognises the fact that Government finance cannot safely be left to a single Minister, to a bureaucracy inexperienced in business life, to a House of Commons as at present constituted. In our own country it was at one time the practice of the Board of Trade to be associated with the Treasury in the settlement of the Budget, and some of the Continental countries have attempted, by creating a Minister of National Economy and associating him with the Minister of Finance, to ensure that due regard is paid to financial and industrial and commercial interests in the framing of the fiscal system.

The Chancellor of the Exchequer has certain functions to perform, and the spirit in which he performs them depends a great deal upon what he conceives to be the duties of his office. I must mention here a somewhat stupid outburst, which has lately become fashionable, against the reputation of Mr. Gladstone as a financier. One of our best-known writers on public finance is reported to have said that the reputation of Mr. Gladstone as a financier is the greatest unpricked bubble in history. A recent Conservative Chancellor of the Exchequer, after re-reading Mr. Gladstone's speeches, has come to the conclusion that his personality alone can account for the glamour which he exercised. Mr. Davenport, in 1918, in a little book on

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Parliament and the Tax-payer—to which book I shall refer in a later lecture—accuses Mr. Gladstone of a dead formalism, and says that he made of Parliamentary control a “whited sepulchre hiding the corpse of national economy.” The Labour Party sneers and scoffs at the “parsimonious policy of Gladstone.” I make bold to assert that critics of this character are not worthy to unloose the latches of his shoes. A great wielder of the axe in public and private life, he cut down waste and extravagance great and small wherever he could see it. He hewed a wide clearing through the tangled forest of the tariffs, simplifying the business of the country and national finance to such a point that, except for light duties on tobacco, alcohol, tea, and such direct taxation as would now seem to us to be negligible (the income tax dropping to 2d. in the £, and its total abolition being promised as probable in the near future), the merchant was freed from obstructive dues and imposts, the citizen was free to spend almost all his income at his own discretion, and order and regularity were introduced into the public accounts. The great principle of the elasticity of the revenue was expounded and applied successfully, so that duties were lowered in rate and increased in yield. The poorer classes of the community were virtually untouched by the requisitions of the State, and although at that time we had, it is true, no doles to the unemployed, no old age pensions, and no State Insurance Fund—and we had no flying machines either—the growth of the social sympathy which has quickened the sense of the need of State aid for the helpless would not have been without its influence on Mr. Gladstone had he still survived, and might have been developed with fewer difficulties and with greater advantages. The spirit which animated him is shown by his declaration that he regarded himself as the trustee of the taxpayer, and by his high resolve that the taxpayer should not be burdened beyond necessity, and should have value for his money. During his life he was attacked for the rapid

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evolution of his opinions and his supposed truckling to the poorer classes ; and it is a travesty of history and biography to regard him now as a close-fisted, hide-bound, hard-hearted Philistine with a miserly disregard of the needs and claims of the masses of the people. Mr. Austen Chamberlain, as Chancellor of the Exchequer, told the House of Commons that he was not prepared to fight his colleagues in the Cabinet upon questions of expenditure. We can, of course, conceive a Minister of Finance who regards himself as a mere Paymaster-General, or concerned only to raise the funds wherewith to pay the bills of his spending colleagues. But this is the abnegation of any trusteeship for the taxpayer or any championship of his interests, never so much in need of a champion as in these days of abnormal Budgets. Burke considered that "the objects of a financier are to secure an ample revenue ; to impose it with judgment and equality ; to employ it economically ; and when necessity obliges him to make use of credit, to secure its foundations, in that instance, and for ever, by the clearness and candour of his proceedings, the exactness of his calculations, and the solidity of his funds."¹ Those are the beginnings of wisdom in public finance. But we must go a great deal further. "Expenditure," says Mr. Gladstone "is the most important part of finance." Are we spending public money foolishly, upon ill-judged objects, by ill-organised and badly adapted methods ? Can we secure equally good results at a lower cost ? How does the weight of taxation compare with the free margin of wealth available for taxation after deduction of the cost of living ? Is it so heavy that in its pressure upon the springs of production it is lessening our efficiency of output and export, and causing us to fall back upon eating the seed-corn of our national capital ? How does our system of taxation bear upon the different classes of the community ? Are individual taxes unjust in themselves, and are all the

¹ *Works*, Bell's edition, 1882, ii. 498.

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taxes taken together unjust in their incidence? What is the gradation of wealth in the country? Are the individuals in one layer of the social pyramid taxed as heavily, *pro rata*, as those in a higher stratum, or possibly even still more heavily? To answer questions like these demands the collection of statistical material which we do not yet possess, an expert economic analysis of the results, a thorough acquaintance with the financial literature and history, financial legislation, statistics, administration, and expedients of different countries and at different times. All this knowledge is not to be found in one man, or in any combination of men in the country. Such information, however, is a prerequisite of scientific financial administration. At present the academic students have not the facts. The officials who have the facts, or some of them, or could obtain them if required, do not combine the leisure, the inclination and the capacity to extract from them what is needed. We muddle through from day to day, from Budget to Budget, a little more here, a little less there, with no scientific comprehensive philosophy to guide us to reform. Does the Government pay its way?—well and good. Does it avoid exasperating the taxpayer to revolt?—better and better. The supporters of the Government in the House of Commons are little inclined to revolt until their constituents become restive. M. Leroy Beaulieu observes “that there are some sciences so lofty and serene that they leave in peace those who are not concerned with them, but finance,” he says, “is not one of these; it has a way of taking a terrible revenge upon nations and upon individuals who neglect or despise it.” The mere fiscality of balancing a Budget is a small part of the province of public finance. The financial interests of the country may be easily sacrificed to short-sighted views of the financial interests of government.

The great question of the necessity for taxation, of the possibilities of economy, of the amount of taxation which is necessary and desirable, of the modes of taxation which

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with a wry face, they give a straight vote, and the Chancellor of the Exchequer, having arithmetically balanced his Budget and laid it before the House of Commons, with a Finance Bill prepared for him by the Parliamentary Counsel, finds that the House of Commons is rarely inclined to criticise, and practically never inclined to oppose, the financial proposals which he puts before it. You get a Budget secretly framed and sprung upon the nation as a surprise, so that everybody rushes for the evening paper on Budget day, not to study the statistics of the country for the past year, but to see whether any change is proposed which will at all affect his own pocket. The excuse for the secrecy of this arrangement was that if it were known in advance that duties were going to be altered, that the tea duty was going to be increased or decreased, merchants in the one case would rush tea into the country, or in the other would leave it in the bonded warehouses to clear it out after the decreased duty had come into force, and that either way, if the secret were disclosed the Government would lose money and be injured by the arrangement. Those difficulties have been got over to some extent not only in foreign countries, but in our own. It should not be impossible for the Chancellor of the Exchequer now to be advised by a body on which bankers and representatives of the great industries of the country, employers and employed, should be represented, and that he should discuss with them, in confidence if you like, the proposals which he is going to make, before he introduces them into Parliament. But once the Budget is introduced, then the *amour propre* of the Chancellor is concerned. People may write to the *Times*, or talk themselves black in the face, but he tells the members of the House of Commons, "If you reject this Budget, then the Government is going out of office; we shall resign; you must take it or leave it; if you object to it and criticise it and insist on altering it, then you must find another Chancellor of the Exchequer." It is hardly possible for a Ministry to

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remain if its Budget is defeated. That, in itself, shews a want of confidence, which no Government can afford to disregard, and if it is followed by a refusal to vote supplies, the Government can no longer carry on. So you have the Budget prepared and laid before the House of Commons and the country, and then, when its defects become apparent, you find that you cannot get them altered or amended, because the prestige of the Government is involved. The most you can expect is to get promises that the matter will be considered next year, or something of that sort, and in that way you go along with difficulties which might have been avoided if the financial programme of the country had been made the subject of an all-round study by competent experts before it was introduced into the House.

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I SHALL not examine in detail or attempt to describe minutely the financial mechanism of the British Government, partly because that in itself would take up more than enough time for four lectures, partly because I suppose you to be already sufficiently well acquainted with it to understand the criticisms which I offer upon it ; and finally because you can find it described in my book on *The Financial System of the United Kingdom* or in Mr. Hilton Young's *System of National Finance*. As you can sit by your fireside at home and read those or other books at your leisure there seems no reason why I should occupy your time in describing the arrangements which at present exist.

In my first lecture I dealt with the difficulties which our constitutional law and usage put in the way of securing an expert Chancellor of the Exchequer. A hundred and fifty years ago Beaumarchais, the dramatist, put into the mouth of Figaro a phrase which has become famous in its application to the Minister of Finance : " Il fallait un calculateur : ce fut un danseur qui l'obtint," which may be freely translated that what was wanted was a man of figures but they gave us a figure of a man, not a man with a head for figures but a figurehead.

As our Chancellor of the Exchequer must be one of the Members of the House of Commons, as you have no assurance that the House of Commons will contain any man who has a sufficiently expert economical knowledge of public finance to give you a competent Chancellor of the Exchequer, so you have no sort of guarantee that the Chancellor of the

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Exchequer of himself is not merely a master of words but a master of his business. Attempts to get over the difficulty by making a vacancy and providing a seat for a man like Mr. McKenna do not always meet with the acquiescence of the constituencies or of the sitting Members.

“ But,” you may ask, “ after all does it very much matter ? The Chancellor has the assistance of the House of Commons. He has the assistance of the Civil Service ; is not that enough to compensate for any defects with which he may start ? ” The First Lord of the Admiralty, for example, is not an expert in naval affairs ; he is a Member of Parliament. The Secretary of State for War is a Member of Parliament who is not an expert in military affairs. You will have to go a very long way back before you find an Admiral installed at the head of the Admiralty, or a General installed at the head of the War Office. But the First Lord of the Admiralty is the presiding member of the Board of Admiralty, and he has seated round that Board the Sea Lords, who are all of them high experts in matters connected with the administration of the Fleet and of naval policy ; and the Secretary of State for War is the President of the Army Council, upon which selected Generals who are experts in their different departments—supplies, transport, and other sections of the fighting Services—are able to assist him. But the permanent officials of the Treasury correspond more or less to a Board of Admiralty, the members of which have never been to sea, or an Army Council the members of which have never been in the Army. Upon matters of high policy, in expenditure and revenue, upon the objects of public expenditure, and how we should raise taxation, the Treasury officials are neither expected nor supposed to provide him with a decision. Those are political matters as to which the permanent Civil Servants of the State, who have to serve different parties in turn whatever party happens to be in office, without allowing any political prepossession or prejudice or opinion to enter into their views, are restricted

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for the most part to what I may call the accounting, actuarial; administrative part of Revenue operations, and when the Chancellor of the Exchequer receives the Estimates of Expenditure for the forthcoming year and the Estimates of Revenue on the existing basis of taxation, and finds that something needs to be done to make the scales balance, if it is a question of altering taxation, he is guided mainly by political considerations. He may perhaps make enquiries of people like the Chief Whips, who know the feeling in the House and the Party. It is altogether a political matter for the Chancellor and the Cabinet to decide. If it is a question of adding something, he casts about to see how it can be done. He may ask the permanent Revenue Officers to advise him how much more would be yielded by an additional sixpence on Income Tax, by raising the Super Tax, by raising the Estate Duty, or by putting a little more on tea or sugar or tobacco or beer or wine or spirits. All that they can do is to sit down and figure out the sum and say: "If you do this it will yield so much, and if you do that it will probably yield so much." Then he takes it all away, thinks it over, and makes up his Budget in secrecy; so that except for the Cabinet it is very seldom known until the Budget is produced exactly what the Chancellor's proposals are going to be.

Sir Robert Peel introduced a Budget in which there was a colossal error, which was discovered to be due to the fact that he had put on an additional tax; he had enquired from the Revenue Officers how much such a tax would yield in a year, and then had included it in his Budget on the supposition that the tax would bring in the full amount, although it could not be collected for six months. Had he confided in the officials more fully he would have been informed that it would only bring in, as it did, half of what he had supposed, in the first year. I mention that to illustrate the small part which is played by the permanent officials in guiding the financial policy of the country. One may say that they have

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to speak when they are spoken to, and the questions they are asked are not questions of whether it is wise to tax this, that or the other, but how much might be expected to be yielded by a tax of so much upon such an object. The question whether or not we shall have Fair Trade or Tariff Reform or Imperial Preference or Protection, or whatever its name may be, is not a question, you may be sure, upon which the Treasury officials will be asked to decide. So the idea that a Chancellor of the Exchequer has his deficiencies supplied by a permanent civil organisation and department, the sort of idea which appears in the Labour Party's manifesto, when they say that the Chancellor of the Exchequer, with the help of Treasury experts, will be able to impose a Capital Levy big enough to do all sorts of wonderful things, is misleading. The only assistance which revenue experts could give a Labour Chancellor or any other Chancellor of the Exchequer would be to tell him that a Capital Levy of so much upon different incomes, graded, perhaps, more or less like the Estate Duty, might be expected to bring in a certain amount of money. They might advise him whether it was more practicable to collect by instalments, or what other administrative difficulties were to be got over. But, in the main, the question of policy is one for the political Government of the day and not one upon which Civil Servants are expected or encouraged to offer any sort of opinion or advice.¹

Now let us turn to Parliament. I will return presently to what may be called Civil Service control of finance. It may be thought, surely the Chancellor is held in check

¹ When Sir George Ryder was Chairman of the Board of Customs he referred, in a report to the Treasury, to the difficulty of fighting foreign tariffs with one hand tied behind our backs. The then Chancellor of the Exchequer (Lord St. Aldwyn) trounced him severely for forgetting what, as an old Treasury official, he ought to have known, that a Civil Servant should not proffer a personal opinion upon matters of policy which are for Ministers alone.

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by the House of Commons. The control of the House of Commons over finance is one of its foremost duties, and one of its foremost privileges. The history of Parliament is one long story of the struggle for popular control of public finance. The Norman Kings lived mainly on their own resources—Crown lands, feudal dues and payments, and customary revenues. There were a few traditional grants of relatively small amounts and of rare occurrence for such things as the knighting of the King's eldest son or finding a dowry for his eldest daughter, or ransoming the King's body from captivity. But the growth of the cost of government, especially of foreign wars, compelled the Crown to apply to Parliament for its consent to additional taxation. Parliament consented, at a price. Constitutional reforms from Magna Carta down to the Bill of Rights were wrung from the Crown by the power of the public purse. No new taxes were to be raised except with the consent of the people through their representatives in Parliament. Such taxes were to be appropriated to particular purposes and not expended upon other objects. Accounts were to be kept and presented to Parliament. No moneys were to be issued from the Exchequer without the warrant of an officer responsible solely to Parliament. Public accounts were to be audited by him and presented to Parliament with a report, and the House of Commons was to have supreme overriding powers in the case of Money Bills.

The House of Commons can surely ensure adequate control of public finance if it has the will to do so, and the knowledge to make its will effective. But in both respects it is deficient. If you wish to go deeper into the nature of Parliamentary control you may refer to Sir William Anson's *Law and Custom of the Constitution*, or to Colonel Durell's *Principles and Practice of the System of Control of Parliamentary Grants*. What that control ensures is that taxes are authorised by Parliament, that the total expenditure of each Department of Government is sanctioned

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by Parliament, that increased numbers of officials or increased pay are approved by the Treasury, that payments are properly vouched or accounted for to the Comptroller and Auditor General, and that the financial results are embodied in the Finance Accounts, which Lord Goschen described as the great official and statutory Balance Sheet of the nation. Formal regularity is ensured by checks and balances which err, if at all, on the side of over-elaboration. The House of Commons limits the total expenditure of Government. It knows how much has been spent in the year by each Department. It knows that the spending has been duly authorised and accounted for. But the vital questions as to how much the Government ought to spend, and whether the taxpayer has had value for his money are insufficiently explored.

To begin with, Parliament is very imperfectly informed upon the facts of finance. The national Balance Sheet is woefully inadequate. The Finance Accounts are a mere pass-book record of sums received into and paid out of the Exchequer Account at the Bank of England during the financial year. Outstanding assets and liabilities are not revealed. Capital sums received are treated as Revenue. Outlay for capital purposes is regarded as expenditure. Advances and repayments, not always corresponding in amount, are included in the account. Arrears of taxes, the value of stores on hand, are not stated or estimated, and with the exception, the outstanding exception, of the Post Office Commercial Account, there are no capital accounts and no record of overhead charges. The Government says : " We want so much," and the amount is voted. It says : " We have spent so much," and so an end. Surplus stores which cost over £1,000,000,000 during the war, and were purchased out of Loan, have been sold or consumed by the Government since the Armistice, and the proceeds of sale have been spent as annual Revenue instead of being applied to the reduction of debt. The consumption of surplus

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stores has reduced the cash expenditure of Departments and, so far, has concealed their real working cost. The capital liabilities of the State, which were £7,120,000,000 at the date of the Armistice, were £693,000,000 higher at the end of the last financial year in spite of the heavy increase in post-war taxation. In the last five years the total Revenue collected has been £5,691,000,000, and the total expenditure has amounted to £7,330,000,000.

It would take too much time for me to dwell in detail upon what I have referred to as the imperfections of the account; but take the National Savings Certificates alone, of which there are now great numbers outstanding in the hands of the public. Those have been purchased at 15s. 6d. and 16s. at different times by the public, the Government undertaking to pay £1 after five years, or a larger sum if they are offered for redemption at a later date, and the accrued interest upon those Certificates in the hands of the public was estimated on the 31st March last at about £65,000,000—a concealed item in our national liabilities.

A Member of Parliament is selected for various reasons; but a knowledge of finance is not usually one of them. A man who has great financial knowledge and great financial ability can usually turn that ability to greater personal benefit in the City or in business or commerce than by entering the House of Commons. If a financier should by chance happen to take his seat in the House of Commons, he is generally inclined to treat it rather like a box at the Opera. He takes it as a social distinction. He drops into the House of Commons sometimes when the day's work is over in the City, hears the gossip in the Lobby, and perhaps stays to dinner, and, generally speaking, gives only the fag end of his time and attention; and rarely opens his mouth in debate. A young Member bursting with zeal and anxiety to get up the subject of public finance, to understand what is going on, and to take an intelligent part in the discussions

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of the House, will tell you at the end of his first Session of the profound disappointment with which he has found it impossible to get any opening. First of all, Members of the House of Commons, as Mr. Parnell said when he was asked by the Special Court of Judges why he did not denounce crime in Ireland on the floor of the House of Commons, have to speak *ad rem*. They have to speak to the matter which is before the House at the moment. They cannot get up and speak upon the subject which is most interesting to them unless it happens to be upon the programme of the House at the time. Then the financial measures of the House, and the voting of the Estimates for the different Departments take up a great deal of necessary time, and the Whips are always very eager to get the discussions over and the business through as rapidly as possible. They discourage their supporters from speaking on the subject, because the speech in itself prolongs the proceedings, and almost always provokes subsequent speeches in the nature of a reply, so that the intervention even of a well-wisher is deprecated by those who manage the debates. That a supporter of the Government should criticise the financial policy of the Government upon the floor of the House is hardly to be thought of. If he differs from it his proper course is deemed to be either to keep silence or to resign his seat or to abstain from voting, but not actively to oppose the Government which he will be reminded he was sent to the House of Commons to support. Under a charge of disloyalty to the Government or disloyalty to his party and his constituents he is very unlikely to stand a chance of election upon the next occasion.

I have spoken briefly of the difficulties there are in enforcing any sort of practical, adequate Parliamentary control. The Controller and Auditor General is an officer responsible to Parliament and to Parliament alone. At the end of the year he sends in his Report upon the public accounts, upon the revenue and expenditure of the year

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and the audit which he has conducted. That Report is referred, with the accounts, to the Public Accounts Committee, which calls up representatives of the various Departments and examines them upon any irregularities which may have been pointed out in the Auditor's Report. For some years we have had what is called an Estimates Committee, which sits in the House of Commons and examines officials upon their proposals of expenditure for the coming year. But none of these measures has any sort of direct practical effect upon the public control of expenditure. I have here a little book by Mr. E. H. Davenport, published in 1918, and called *Parliament and the Taxpayer*. The Introduction to this book was written by Sir Herbert Samuel, who has been in the Cabinet, and had considerable experience of the House of Commons. He was Chairman of the Select Committee on National Expenditure. This little book arose out of the Proceedings of that Committee, of which Mr. Davenport was Secretary. Sir Herbert Samuel points out in his Introduction how difficult it is, how impossible it is at present, for Parliament to exercise any effective control. He says :

“ If both the Government and Parliament are agreed in wishing to spend, there is obviously no force that can stop them except the electorate itself. If both are economical and expenditure is checked no question arises. If Parliament is inclined to be lax while the Government is careful, then the Constitution provides its ancient safeguard that the initiative rests with the Minister, and the House can vote no money unless the Crown through its advisers asks for it. But in the remaining case no provision is made. The interest of a Minister is engaged in some scheme involving an expense great or small. He has the ear of the Chancellor of the Exchequer. The Cabinet is content as a rule to accept a financial proposal for which the Minister concerned has secured the consent of the head of the Treasury. In due course Parliament is asked to vote the money,

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and if the attention of Members were specially drawn to it and its merits were impartially examined it might not command any general approval. The diffused opinion of the House may be against it, but it passes nevertheless. The forms are there. There is the most complete provision in theory. No money can issue without the vote of the House. But the amount that is voted is almost always the amount which the Government asks for, and it is many years since a single item of the Annual Estimates has been altered by the House of Commons on financial grounds. So far as the direct control of expenditure is concerned, the Estimates might as well not be submitted to Parliament at all."

Then he goes on to examine other cases. The House is imperfectly informed, and it is plain that an assembly of over six hundred Members, with no opportunity for hearing witnesses or inspecting establishments, with no Reports before it from any Committee which has had that opportunity, which is supplied in fact with no information at all except the printed figures, cannot form any opinion of the value of the myriads of items formally presented each Session for its consideration. The House of Commons is so well aware of this that it seldom makes any serious attempt to form any opinion at all on the merits of Estimates. But, lastly, if by any rare combination of circumstances an extravagance were detected and a motion were made to reduce it and were pressed to a division, the Government of the day would only need to invoke its normal majority. The question would become one not of the reasonableness of the Estimate but of confidence in the administration. The Lobby would be filled by Members, many of whom had not troubled to listen to the debate, since their vote in any case was pledged to the Government, and the motion would be defeated with almost automatic precision by a majority closely approximating to the known balance of Party strength.

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The Select Committee on National Expenditure recommended certain reforms. The first of them was that any change which the House of Commons might make in the financial proposals laid before it should not be treated as an expression of want of confidence in the Government, leading inevitably to a dissolution of Parliament. "The House is flattered by the knowledge that it has only to raise its finger to overthrow the most powerful of Governments, but it finds that its finger is paralysed by the fact." Another proposal that the Committee made was that the Government should appoint an official to be called an Examiner of Estimates, who should look into the proposals for expenditure. The Estimates Committee finds its wings clipped at present by two severe limitations. One of them is that it must not touch upon matters of policy, and the other is that it has no expert professional assistants to enable it to ferret out the facts. Sir Herbert Samuel's Committee proposed that an official of that kind should be appointed, and the main argument of Mr. Davenport's book is that only by means of an assistant of that kind can national expenditure be put properly under the limelight and seen for what it is before it is voted.

Something similar is the idea which prevails in many minds, that you might ration the Public Departments, put them upon a definite amount of grant and say: "If you want any more it is useless to come to us for it; you must make that suffice." Those rationing proposals, I think, have never been put forward by anyone with any practical knowledge of public finance. They would prove, on the one hand, extravagant and, on the other, futile. If you attempted to introduce such a system, the Department which had a bigger ration than it needed would be pretty sure to eat it up and not return any of it, and the Department which found that its ration did not go far enough could not be allowed by the Government to starve because of some unforeseen accident or miscalculation which had prevented

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it from obtaining the necessary ration at the beginning.¹ Neither do I think that a preliminary examination of Estimates is likely to afford any adequate safeguard to the taxpayer. The real method of obtaining and of using information and of making it do its work is to examine expenditure which is in course of progress, or which has already been completed, and so to detect waste where it exists, and to report it to the Treasury or the House of Commons. What is wanted is an Inspector General of Finance, who should be charged with the sole duty of looking into public expenditure, of going where he likes, making what inquiries he thinks fit, and by means of statistical comparisons and microscopical examinations of samples to detect waste, irregularity, extravagance, mismanagement, bad administration, lack of co-ordination, and all the other things which lead to increased charges upon the public purse.

That brings me to the Civil Service and its control. Treasury control, as I have said already, is negligible so far as our Revenue system is concerned. In this respect the collection of duties by the Inland Revenue, the Customs and Excise Department is a mere matter of business and the carrying out in the best possible way what they are told to do. What the Government spends depends, first of all, upon its policy, what it is that it proposes and seeks to do. It depends, secondly, upon its administration, whether what it is trying to do is being done in the most sensible, reasonable, business-like and efficient way possible; so that what you want from the Treasury is a control of economical administration. But in that respect, like the House of Commons, it suffers grievously from defective

¹ In criticising the ministers of his time Burke said: "They first propose savings, which they well know cannot be made, in order to get a reputation for economy. In due time they assume another, but a different, method, by providing for the service they had before cut off or straitened, and which they can very easily prove to be necessary. . . . These are some of the little arts of great statesmen." *Works*, i. 243.

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information. Letters reach it from various Departments asking for permission to increase their staff or for grants for various purposes. The Treasury may make the most careful inquiry, may consult with the officials of the Department, may make all the inquiries that are open to it, and then may agree to it. When it is sanctioned and approved the Auditor-General will pass it from one generation to another, without the Treasury ever having an opportunity of discovering whether the necessity for it has ceased. When it has once sanctioned the expenditure, unless the spending Department itself takes the initiative, it goes on and on, so that you find a great deal of unpruned wood in the forest of expenditure which can no longer be justified on any consideration. You will find striking examples of that in the Report of the Geddes Committee. The fact that it was necessary to set up the Geddes Committee is itself an indication of the weakness of the Treasury in this matter of control. The large economies which were effected through the Geddes Committee, and the very striking instances of waste which it brought to the notice of the public, show how impossible it is for clerks in the Treasury, working within four walls, corresponding with members of the different Departments, to have enough knowledge of what is going on in different parts of the country to be able to interpose any really effective check upon waste and extravagance.

Since then there has been the Anderson Committee, from whose Report I will read just one phrase. They reported a few weeks ago that the Civil Service Pay Roll—the mere pay of officials in the Civil Service, apart from expenditure upon stores, materials, and other things—is now £75,000,000 as compared with £31,000,000 nine years ago. That is the pre-war cost. Then from that they deduce that “there must be a great accretion of unnecessary work. In a private business this deck cargo of duties which has become unnecessary is thrown overboard when it becomes too heavy, or the business sinks when bad times come upon

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it. Our public business is so large that no one except Parliament can order reform, and, till Parliament gives the word, duties which need never have been imposed or have long since lost their value employ the staff, which have still to be paid." I do not see that the Committee has taken into account the fact that during the last nine years there has been a rise in prices of some sixty per cent., and that the £31,000,000 of nine years ago, if you make allowance for that, will account for about £50,000,000 to-day. The Civil Service bonus to pre-war men would not account for nearly so high a figure, but against this must be set the salaries in new departments like the Ministry of Pensions. When all allowances are made, however, the fact that we are spending £75,000,000 on civil salaries alone shows that there is strong *prima facie* evidence of waste and extravagance.

The Audit Office, it is true, examines the accounts in great detail, but the Auditor-General is restricted to matters arising out of the accounts. Suppose, for instance, that a Joint Stock Company employed an auditor, and when he came to audit the accounts and give his certificate he included in his Report a statement that in this, that or the other department there were half-a-dozen clerks employed where two would do, or that the Company was paying ten per cent. more for its stationery than it needed to do at market prices, the Directors would very promptly remind him that those were matters which were within their competence and control and did not belong to the business of an auditor. They would refrain from sending out statements of that kind to their shareholders, and it is very doubtful whether they would ask him to audit their accounts again. The Audit Office is confined mainly to this mere formality and regulation of seeing whether the vouchers are in order and whether there is authority for what has been expended, and really gives you very little protection in other respects. When I went to Egypt with Lord Kitchener to try to improve the financial administration of that country I was struck by the

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fact that defalcations and irregularities, which you could not altogether prevent but which ought to have been discovered long before, were brought to light. It was the pride of Lord Cromer, who knew something about finance, that he had introduced an audit of the public accounts into Egypt. I asked : " Why is it that the Audit Office has not discovered these errors before ? " and I was told that the Audit Office never discovered anything. So I thought I would go and see what kind of work they did. I went to the Audit Office, and sat down by the first official I could find, and I saw that he was auditing the accounts of the Prison Department for a month some years earlier. He had a list made out by the accountant of the Prisons of numbered items, 1, 2, 3, 4 right down the list. Opposite was the name of the person who received the payment. Then corresponding to that number there was a little bundle of receipts and vouchers showing how the amount was made up and that it was duly paid. So I said : " You do not audit all these items, do you ? " and he said : " No, we do 25 per cent." Then I asked him which items he checked, and he said : " 1, 5, 9, 13, and so on." I said : " I suppose you vary these from day to day and month to month." He said : " No, we never vary them. It is a rule of the Service always to take those items." When I found that this rule of the Service was known throughout the Service and that the accountant who drew up this list of his disbursements was perfectly well aware that 75 per cent. of them would escape audit, I was not surprised to learn that during the whole time of his service, in the State this audit official had never detected a single irregularity. There you had the Audit Office, with its officials going round like squirrels in a wheel, producing nothing of value, but rather creating a false sense of security in the minds of those who were relying upon it, with nobody aware why it was a costly sham until somebody was able to get down to rock bottom and look at what was going on, and see the facts and figures.

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The importance of this matter is shown by the fact that when the House of Commons set up a Committee to consider how it could get a better control over expenditure, Mr. Speaker Lowther, who is now Lord Ullswater, attended as a witness, and said that the House of Commons needed a watchdog of the character I have described, who would find out where waste and extravagance, lack of co-ordination and bad arrangements existed throughout the Public Service, and report them to the House of Commons, in order that the House might have before it not promises, estimates, and expectations, but definite facts upon which to act. Sir Henry Gibson, the Controller and Auditor-General who retired from office last year, who was probably the ablest Controller and Auditor-General we have had, wrote a letter to the *Times* (18th May, 1922) in which he very strongly pressed for the appointment of an officer of this kind. He said that the proposal had been persistently refused mainly on the ground that such an officer and staff, to perform adequately the duties contemplated, would cost about as much as the Audit Office itself, namely, about £250,000 a year. Sir Henry Gibson maintained that such an officer, with his staff, at no greater cost than £10,000 a year, would bring about economies out of all proportion to the cost. He says "the House of Commons should assert itself in this matter, and disregard the threadbare objections put forward by Ministers, such as the weakening of Ministerial responsibility and the sapping of Treasury control. Ministers of spending Departments require all possible control, and the Treasury, even in its palmiest days, as admitted by its representatives in evidence, has never been able to exercise an adequate check on the demands of the fighting Services."

One of the books which every young man might read with advantage is John Stuart Mill's *Essay on Representative Government*. In the course of that essay he says one or two things which will enable me, perhaps, to conclude upon a

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more charitable note. Mill points out that the great vice of bureaucracy, the evil from which it almost always dies, is routine, and that routine continues long after it serves the purpose for which it was created. But, he says, after all, Governments consist of men, and for the most part of very ordinary men, and they can only work through agents or officials who are themselves very ordinary men. To suggest that Governments or their officials are by no means perfect is not a reflection upon them as human beings, and does not impute any double dose of original sin to them. It merely means that there is a possibility of improving some of the arrangements under which the expenditure of this country is conducted.

I wrote an article in the *Economic Journal* for June, 1922, on the Report of the Geddes Committee. Some copies of the article have been printed in pamphlet form and distributed to you to spare me the time and trouble of going through such details as they mention. I could give you a great number of illustrations (I think that, perhaps, illustrations dwell longer in the mind and carry more conviction than plain abstract sentiments) of almost incredible stupidity and waste which exist in the Government Service, as they do, I doubt not, in other Services and private businesses, where arrangements are not made to bring the facts to the knowledge of those who have to deal with them. An old Minister used to say to me : " It is as hard to get a Department to give up any of its staff as it is to get butter out of a dog's mouth." You give a Department a certain staff because it expects to have to perform certain duties. The duties are not so heavy as they were expected to be. You do not know that the staff is redundant, but even if the permanent official at the head of that Department knows that he has half-a-dozen clerks where three will do, he is inclined to shrug his shoulders and say, " It is always so difficult to get new staff, and there are always so many unforeseen things coming upon us, that I keep these as a little reserve,

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and the time may come when I shall be very glad to have a few men that I can use without applying for permission for more."

On the next occasion I will ask your attention to some points connected with our Revenue system.

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IN my first lecture I tried to make it clear to you that the administration of the financial system of this country is too difficult a job for an inexperienced and single-handed Chancellor of the Exchequer to perform efficiently, and that if he is content with a mere makeshift policy you will find, as the Americans say when a man has got a job which is too big for him, that he "rattles in his boots." I have had a question sent to me asking whether the Chancellor of the Exchequer seeks advice from men in the City and elsewhere who are in touch with affairs. A self-sufficient Chancellor of the Exchequer would be a very inefficient Chancellor of the Exchequer, and, like other human beings, he seeks advice and assistance from what quarters he can, and consults his friends. Mr. Gladstone as Chancellor of the Exchequer was accustomed to rely upon the great banking knowledge and financial experience of Lord Overstone, who was responsible for Peel's Bank Act of 1844, and after Lord Overstone's death he usually consulted Mr. Bertram Currie, of Glyn, Mills & Currie's Bank. Mr. Disraeli, as is well known, used to consult the head of the house of Rothschild, and the Chancellor of the Exchequer for the time being has always access to the Governor of the Bank of England. The Government being the chief customer of the Bank of England is able to appeal to its banker, as anybody else might do, to furnish it with an opinion upon how trade is going, what is the outlook, whether such and such measures are open to any observations or criticisms from a banking point of view, and so on. All that differs very largely from what

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I attempted to impress upon you, that in order to give us a revenue system which is sufficient and efficient, which is just and wise, the Chancellor of the Exchequer needs the expert advice of economists and statisticians, bankers and leaders of trade, commerce and industry, and that it is not enough for him to go to someone in the City with his Budget up his sleeve, and to put a few general questions to him without giving away what is in his mind or what he intends to propose. The kind of consultation which I suggested as desirable is one in which he should put all his cards upon the table before a competent body of advisers, and say to them: "How do you think measures of this kind would affect the welfare of the country?"

Last week I adverted to the fact that the Chancellor of the Exchequer in this country can expect to derive very little assistance or control from Parliament, and had time permitted I should have pointed out to you that representative government in Europe since the outbreak of the war has suffered a very great diminution of prestige, has lost a large part of its authority with the people, and a large part of the respect which it previously enjoyed. Perhaps one of the most stupid acts of the late Czar of Russia was the strangling of the Duma in its cradle. After the Russian Revolution the Revolutionary Government suppressed the free election of people to Parliament, and there has been in that country a virtual dictatorship of a small group of people under M. Lenin. In Italy you have seen Signor Mussolini arrive like a new Cromwell and relegate the Parliament to a subordinate position. And in Spain General Primo de Rivera, going one better, has closed down the Parliament, and the Parliament building is now being used for other purposes until, as we are told, "such time, if ever, as it is needed for Parliament again." In Germany there is a virtual dictatorship. There is a nominal dictatorship already agreed to and exercised, with an actual and real dictator looming in the offing. In this country during the war the

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House of Commons resigned itself to the virtual control of what may be called a collective dictatorship in the form of the Cabinet of Mr. Lloyd George, and contented itself with being a silent, impassive spectator of what was going on. Imperfectly informed and kept in the dark, it did little more than mechanically register the decrees of the Government. Time will show how far it will reassert itself and regain the respect of the electors, and exercise all its power. At present it is of little use to look to the House of Commons for active initiative and independent intervention in the large problems of public finance. Neither in the control of expenditure nor in the criticism of Revenue proposals is it likely to provide any effective check upon the Government of the day.

I come to our Revenue system. Our Revenue system is what they call across the Atlantic a crazy quilt. It is made up of odds and ends pieced together, of shreds and patches. If you read such a work as Stephen Dowell's *History of Taxes and Taxation in England*, or the little book by Mr. J. F. Rees, *A Short Fiscal and Financial History of England* (1815-1918), you will follow the steps by which we have arrived at our present position. Professor Seligman, in his admirable *Essays on Taxation*, shows in his first chapter how "amid the clashing of divergent interests and the endeavour of each social class to roll off the burden of taxation on some other class, we discern the slow and laborious growth of standards of justice in taxation, and the attempt on the part of the community as a whole to realise this justice." When taxation first emerges in primitive societies it usually takes the form of a poll tax. There are not yet great extremes of wealth and poverty, but rather a dead level of what would now be deemed small incomes. Under such conditions a poll tax is a rough approximation to justice. Gradually the private ownership of land begins to grow, and the landowning classes are sharply differentiated from the landless classes. Inequality of wealth then makes the poll tax unfair. Landed property is taxed, sometimes

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instead of, sometimes in addition to, the poll tax, and, land and agricultural property being the chief items of tangible wealth, their possession is the chief mark of ability to pay. As society develops and personal property increases the merchant, the trader, the banker, may have little or no land, but personalty begins to outstrip real property in the catalogue of national wealth. Then you have a further tax imposed upon property which is not landed in character—a tax upon general property.

This still leaves a gap for those who have good incomes and spend freely but have little tangible property. A tax on consumable articles is, therefore, the next step. If a man can afford to buy wine and beer and spirits and tobacco, and so on, it is argued that he can afford to pay something to the support of the State, and to be taxed upon what he spends. Spending comes to be regarded as a criterion of wealth and of capacity to pay. Even then the professional classes, such as lawyers, doctors, engineers and financiers, would be lightly taxed in comparison if they had little property.

The Income Tax finally attempts to reach all classes, except those who have so little income that the attempt to collect Income Tax from them, even if it could be carried out, would be hardly worth while having regard to the cost of collection of trifling sums from a multitude of poor people, and the fact that to reduce their tax-free resources would throw them upon the rates, or lower their standard of living to a dangerously low level. These, then, are the successive steps, the poll tax, the land tax, the property tax, customs and excise taxes, and the income tax.

I would add to Professor Seligman's historical sketch the observation that administrative convenience and practicability have played a very large part in determining what taxes should be collected. The principle of taking money where and how he can seems indeed to be the main consideration with the modern Minister of Finance. If people

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ride in motor cars or go to entertainments or indulge in betting, a tax on these and other activities of life suggests itself to the Revenue authorities.

The result of our various taxes, so far as their incidence upon the taxpayer is concerned, cannot be precisely estimated; but it is assumed that their global effect is to get at every taxpayer somehow. If he escapes taxation under one head he is caught under another. A handful of shot discharged from a blunderbuss, scattering itself widely, in the hope that one or more of the pellets will hit its object, is an analogy that suggests itself. Taxes upon articles of consumption do not always increase the Revenue in proportion to the rate of the tax. Just two hundred years ago Dean Swift pointed out that in the arithmetic of the Custom House two and two do not always make four.¹ In 1920 Mr. Austen Chamberlain imposed a double duty on wines, and a further additional duty of $33\frac{1}{3}$ per cent. *ad valorem* upon sparkling wines, and estimated that the new duty upon sparkling wines would produce £1,250,000. But the actual receipts were £570,000, the clearances having been 50 per cent. less than was anticipated. In the same Budget the duty on imported cigars was increased by 50 per cent. *ad valorem*. The receipts were estimated at £1,360,000; but the actual receipts were only £325,000, less than a quarter of the amount expected. The surtax had actually lowered the Revenue instead of raising it. In reporting

¹ Swift does not claim originality for the idea. Writing against a proposed increase of wine duties he said: "As the merchants inform me, and as I have known many the like instances in England, this additional tax will more probably lessen this branch of the revenue than increase it. And therefore Sir John Stanley, a commissioner of the customs in England, used to say 'That the house of commons were generally mistaken in matters of trade, by an erroneous opinion that two and two make four.' Thus, if you should lay an additional duty of one penny a pound on raisins or sugar, the revenue, instead of rising, would certainly sink; and the consequence would only be, to lessen the number of plum puddings, and ruin the confectioner."

Swift, *Works*, edition 1801, vol. ix. 347.

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these results to the House of Commons Mr. Chamberlain said: "Let others learn by the mistake which I committed."

The demand for bread is highly inelastic. Bread may be dearer or cheaper; but about the same amount will in any case be eaten. The demand for sparkling wines and Havana cigars is very elastic. If the price rises less will be consumed. When Mr. Gladstone produced surpluses, not only in spite of, but by means of reduced rates of taxation, he impressed this lesson upon the country. The wine and cigar taxes and similar Customs and Excise duties have from time to time been raised and lowered with a view to discovering what is the maximum amount which can be raised by them, and it should have been possible to learn from experience before the experiment to which I referred was made.

Indirect taxation is not, like the Income Tax, collected directly by the Government from the person from whom it is due. It is levied upon objects like tea and sugar and tobacco, which pay duty when they come into the country. The merchant who pays the tax and clears the goods passes it on when he sells the goods to the person who buys them, and he passes it on again to the next purchaser, and so on to the retail trader, until it comes down to the consumer in the form of an indirect tax concealed in the price. Indirect taxation is evidently open to many objections. It cannot, like Income Tax or Estate Duty, be graduated according to the capacity of the taxpayer to pay. Unless it is levied upon articles of popular consumption it is not very remunerative, and such articles as tea and sugar may be reckoned in this country as conventional necessities of life. In the year ending the 31st March, 1923, the revenue received from tobacco was £54,000,000. Now that Ireland has a separate Government of its own, we may say that the population of Great Britain—England, Scotland and Wales—comprises about 10,000,000 families, so it will be easy for you at a glance to see roughly the charge per family upon

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these articles of indirect taxation. Tobacco brought in £54,000,000; sugar £40,000,000; alcohol £150,000,000, of which £94,000,000 came from beer; tea, coffee and cocoa £13,000,000; the Entertainments Tax £10,000,000; matches over a million and three quarters. There you have a total of about £269,000,000 received last year under these heads of indirect taxation. There are a great many other articles that were taxed; but these alone amount to an average taxation of at least 10s. a week upon every family in the United Kingdom. The average expenditure of a working class family in this country at present, taking all the country through, is a little under £3 a week, of which 10s., on the average, goes in indirect taxation.

Another objection to indirect taxation, besides the fact that it presses unduly upon those who are least able to pay, is that it takes more out of the pockets of the taxpayer than it puts into the Exchequer. Take a merchant who brings in a cargo of tea. The Customs will not let the tea go out of bond until he pays the full duty upon it. He pays the duty cash down. He takes the tea out of bond, and sells it perhaps on a three months' bill. While he is waiting for his money to come in, the interest upon the tax which he has paid is mounting up, so that he is obliged to make it figure in the account how much profit he must make, and he adds three months' interest or more upon the tax before he quotes a price to the next purchaser. Then that process is repeated, and each time the percentage of increase is a larger amount, until, by the time the tax comes down to be paid by the taxpayer, who is the consumer, it represents a considerably larger item than the tariff rate which you find in *Whitaker's Almanac* or any book of reference as the amount of duty per pound of tea or per ounce of tobacco, or whatever it may be. History is full of examples of cases in which the reduction of a tax, or the abolition of a tax, has resulted in a more than corresponding decrease in the price which is charged to the public after the tax is reduced or abolished.

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The great objection to indirect taxation is that it is impossible to trace its effects upon the different classes of society, or to say exactly where it falls. Taking a particular family, how much does it pay in taxation? Nobody knows. I doubt whether there is anybody who takes the trouble to attempt to arrive at the precise amount which he pays in taxation for himself and his family every year. If he makes the attempt I think he will find the difficulties insuperable in view of the elaboration of our Customs tariff. Take two working men, working side by side at the same rate of wages. One of them is a single man, and the other has a wife and half-a-dozen children. The amount of sugar which is consumed in the family of the married man may be seven or eight or more times as much as the sugar which is consumed by the single man. Their incomes being the same, the expenditure of the married man being much higher, the married man's capacity to pay taxation is evidently lower than that of his mate, yet in fact by the operation of indirect taxation he is required to pay appreciably more.

Now, if we look for a moment at direct taxation, last year the Income Tax, the Super Tax and the Land Tax between them—the Income Tax group, as it is sometimes called—brought in a Revenue of £382,000,000, and the Estate Duty brought in a Revenue of £57,000,000. There are other items of taxation, with which I will not trouble you; but I will glance for a moment at the Estate Duty, the increase of which has been one of the remarkable features of the evolution of our finance in the last generation. For its historical, statistical, and economic aspects you may turn to *The Taxation of Capital*, written by two officials of the Inland Revenue, Soward and Willan, 1919. It was left to a Conservative Chancellor of the Exchequer, Mr. Austen Chamberlain, to raise the maximum of the Estate Duty from 20 to 40 per cent. The Estate Duty is a duty which appeals to the Labour Party. People like Mr. Snowden say that they are not alarmed by very high Estate Duties,

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that the question is not how much you take but how much you leave, and that if you take 99 per cent. of a millionaire's property when he dies you still leave enough for the support of any family that he leaves behind him. The Estate Duty is particularly susceptible to evasion. A Judge of the High Court, after a hearing which extended over some days, expressed the opinion that it was a matter of surprise that anybody ever paid Estate Duty. There are various devices by which people can transfer their property before they die, by gifts, by the creation of trusts, and by other methods they can "dissimulate it," as the French say, in different ways, and it is not surprising that when the estates of some people, who are reputed to be very wealthy, are proved for Estate Duty, there is very little left in them. I cannot help thinking that so high an authority as Sir Josiah Stamp must have overlooked that obvious fact when he expressed the view that Estate Duty does not necessarily discourage accumulation, because he thought that people were proud of leaving a large amount, that they like to fancy people will say: "I did not think that poor So-and-so would have cut up so well as he has." There is always the alternative which I suggest, that people may say: "I did not think that poor So-and-so was so stupid as to leave so much of his property liable to Estate Duty."

The Estate Duty evidently is very irregular in its incidence, depending as it does on the accident of death. You have one old family, of which the head dies, and Estate Duty is paid, and in the course of twenty or thirty years that estate may pay duty five or six times, while a neighbouring estate with a healthy head of the family has perhaps not paid Estate Duty once. There is, therefore, a considerable irregularity in its effect. You may say that one ought not to look at an estate as an entity, or at the family. It is a question of the individual who dies and the individual who succeeds. There have been a number of individuals who have profited by coming into what is left of the property.

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But, after all, there is something, I will not say of the feudal or clan spirit, but of the family spirit still surviving, and it is impossible, if you see an old landed family going rapidly down in the world under the successive strokes of Estate Duty, being compelled to sell off first one part and then the other of the ancestral home and domain in order to meet a duty from which another family has escaped, to say that the Estate Duty is fair in its incidence.

Then the great objection to it on the scale on which it is levied is the shock which is administered by the severity of the stroke which takes large lumps of capital out of a family at a time when it is suffering from bereavement. If arrangements could be made to ease the shock by spreading the amount over the lifetime of the testator—a thing sometimes done by means of insurance, but not always done—that objection would be obviated. The great mass of people never think about Estate Duty. A lawyer or a doctor or a professional man has at the back of his mind the idea that there are a few thousands in the bank, and that if anything should happen to him, as the euphemism goes, there would be something for his wife and family; but he does not make allowance for the fact that the Estate Duty will be levied upon everything which he possesses, including even the watch and chain and money in his pocket and the money in the house at the time that he dies. If that were realised it is possible that he might sometimes attempt to accumulate a little more, and he might realise that the net provision was not so sufficient as he supposes it to be. In the absence of a duty accumulation would be encouraged rather than discouraged. If you imagine a multi-millionaire who is very advanced in years, who sees an opportunity of some enterprise which holds out a promise of considerable profit, with some amount of risk, he is hardly likely to engage capital in it if he knows that 40 per cent. of it will be taken by the Government within a year or two in the event of its turning out well, and that 100 per cent. of his

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loss will fall upon himself if it turns out badly. Finally, the yield cannot be accurately forecast by the Exchequer. An annual charge would be better in this respect. If it were made annual at about one thirtieth of the present rate the total yield would be about the same and could be forecast with great nicety.

This leads me to the general question of whether capital should be taxed, a thing to which the orthodox opinion of a generation ago was very much opposed. There is no sacredness about capital. The question whether you pay your taxes out of income or out of capital is not in itself much more than a matter of account, and depends rather upon the amount of the taxation and upon the burden of it than upon the form of the taxation itself. But the proposals for a capital levy are something which needs perhaps a word or two of further examination. There is the experience of Czecho-Slovakia, one of the best managed of the young nations of Europe in financial matters. It tried a capital levy, and found the results, according to the Minister of Finance, altogether disappointing. There is the proposal which was made by the Government of Switzerland, and under the Constitution of that country was referred to a referendum of the people at large. The moment the proposal was mooted and the referendum framed capital began to flow out of the country and a financial crisis was precipitated. The result of the referendum was that although the people as a whole are a democratic people, and the country is not a very wealthy capitalist country, only about one-seventh of those who voted were in favour of the capital levy.

I have spoken of the great shock which is administered to countries by a financial cataclysm like that of raising £3,000,000,000 sterling from the already overburdened taxpayer of this country. Perhaps the simplest form in which I can express to you what is in my mind on the subject is a story or parable, of which the moral will be evident.

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In the South of France there is an industry of extracting the perfume from flowers which grow in abundance in that favoured climate. At Grasse, Nice and other places you have farms of violets, roses, jessamine, lilies and sweet smelling flowers of all sorts. The process of extracting the perfume is a curious one, of such extreme antiquity that it goes back earlier than the Romans, and nobody knows when it first began. You take a large flat slab of wood or stone, and you smear it over with grease, and upon that you throw the petals which have been plucked from the flowers from which you are going to make your perfume. You leave them there for about a fortnight. Then you wash them off with a bath of alcohol. When you have repeated the washing process two or three times you have a very powerful perfume, of which a single drop in a phial of water would be sufficiently strong for ordinary use. Now the up-to-date chemist comes along and says: "Why are you messing about with this antiquated process? Surely you know that if you were to plunge the flowers at once into petrol and distil the result you would extract every drop of perfume that they contain without having to wait about two or three weeks to go through these processes." Well, the experiment was made, and the perfume extracted was exactly one-thirteenth of what was obtained by the old process. The chemists could not understand it. They tried it again and again, but always with the same result, until the cytologist, the expert who studies cells and their formation and functioning, said: "Our friend the chemist has made a very stupid mistake. He has supposed that these petals of flowers are an inert substance, that the problem is like that of extracting a metal from an ore. The cells in this petal have a life independent of the life of the plant to such an extent that they go on living for some time after they have been plucked, and when they are thrown upon the slab and the grease weakens the walls of the cells they begin to sag and part with the perfume which they

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contain, and when they have been relieved of their perfume they pull themselves together again, reconstruct themselves, secrete another load of perfume, and repeat that process a dozen times, until finally they give it up as a bad job, and disintegrate and die altogether. But by the process which enables you to wait and milk them gradually you recover thirteen times as much perfume from them as by the method of grabbing it quickly and taking at once all that there is in them, without regard to the fact that you destroy the reproductive organism which would have yielded you a much larger supply had you allowed time to work upon your side." Even those who, like myself, think that capital is a proper object of taxation, feel that these heroic measures of taking large masses of capital at one stroke "once for all," as we are told, are less financially effective than those of taking gradually small quantities of capital year by year. Whether you look to Estate Duty or to Capital Levy it is bad finance to impose catastrophic taxation which grabs large chunks of capital quickly, instead of operating patiently and continuously, little by little.

If the capacity of the taxpayer to pay is the criterion of justice in taxation, how are you to have a just Revenue system? A man's financial capacity, his capacity to pay, is partly a question of net income and partly a question of net capital. If you taxed income alone, that would not be just as between two men who had equal incomes, one of whom had a very large capital in addition to his income. Take a barrister on the one hand and a wealthy landowner on the other. Their annual incomes might be precisely the same, yet clearly the landowner would be a richer man, a financially stronger man, and better able to pay than the man who had only his annual income. Capacity to pay cannot be measured by capital alone, because you have to take into account that one man may have a capital which yields little or no return in the form of money, and that the other has a capital which yields a large return. The second

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man is, therefore, in a better position than the first. You have to take both items into account, just as you would in an actuarial examination of a man's financial position. You have to consider income and expenditure, assets and liabilities, before you have a complete picture.

For Income Tax purposes the last reform of the Income Tax makes some approximation to equity in endeavouring to arrive at net income by making to everybody a personal allowance for what is deemed the necessary cost of living expenditure. Then, also, you have the distinction of the unmarried and those who have children, and the distinction between earned and unearned income. But to rely merely upon income so defined and upon the miscellaneous group of indirect taxation does not necessarily give you justice in taxation. The taxation of capital has been tried in various countries. One of the most interesting countries for the student of finance to study is the little country of Holland. It was from Holland that we first got the Stamp Act. The Dutch Government offered a prize for the best proposal of a method of raising new taxation. One of the baffling curiosities of history is that the man who suggested the Stamp Tax—that paper should be stamped and not valid in Courts of Law as evidence unless it was stamped—and received the prize, is a man whose name has been totally forgotten, and will remain unknown until some investigator manages to discover it. Sir William Temple, who was our Ambassador at The Hague, brought the Dutch Stamp Tax to the knowledge of the British Government, and after a time it was adopted here. What was called the General Excise Scheme of Sir Robert Walpole was suggested from the same country, and when Dr. Pierson, who had been Governor of the Bank of Holland, was made Chancellor of the Exchequer, or Minister of Finance, and afterwards Prime Minister, in Holland, direct taxation was reformed, and it took the double form of a tax upon income and a small tax upon capital. The taxpayer returned for annual assessment

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the amount of his income and the amount of his capital, and a tax of so much per cent. was put on his income and so much per mil on his capital. Germany also has a Capital Tax, and the great elaboration of the tax system in that country is something which is worthy of being studied here. If you take the German Income Tax, for example, they go so far as to allow you to make a deduction if you have had a serious and expensive illness in the course of the year. They even allow you to make a deduction if you have had to remove to another dwelling, and the expense of removal can be deducted from the amount of income which you have available for taxation purposes. When it comes to the taxation of capital, in the same way you arrive at the net capital by allowing deductions for mortgages and for charges of all sorts ; so that you have on the one hand your net income, and on the other your net capital, showing your full financial capacity to bear taxation. A system of taxation which was based upon those two items alone would, if it were properly carried out, be one which would give a nearer approximation to justice than anything we have yet seen. It would enable us to sweep away a wilderness of innumerable taxes upon different objects, and not attempt to tax a man according to his *mode* of living but according to his *means* of living, and so he would be left with a larger freedom.

The objections which are raised to any such proposal are usually either what I may call academic objections or they are administrative objections or they are political objections. Academically you find writers pointing to the experience of the United States, which has a long history of a general property tax, and has always found it exceedingly difficult to collect it with any sort of efficiency ; for although it yields a large amount it is subject to very great evasion. But in the main all that difficulty in the United States is due to the form of government in which you have a number of States, each of them with great powers of government within the Government, and where each State has its own

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laws and its own tax system, and where the amount of taxation varies from one State to another. So that a man will try to avoid the general property tax by having his mortgages or other property in a State where the tax is low, rather than in the State where he is living, if the tax there is high. Sometimes, of course, they manage by this process of concealing the pea under different thimbles to escape the general property tax altogether. But that is a difficulty which would not exist in this country. Such difficulties as arise on the score of collection are not more serious than, not so serious as, those that would be experienced in the case of an immense capital levy. If it were known that it was not once for all but that it was a permanent feature of our financial system, and if you started with a very low amount, say 1 per mil on the capital, when you had once made up the account of your capital, and the assessment for a particular year, the process of revising and correcting it and adjusting it for successive years would not be very great, and the labour of the initial investigation, the initial assessment, which would be left to the taxpayer himself to start with and gradually improve as time went on, would not in itself be prohibitive. The Inland Revenue Authorities assured the House of Commons Select Committee on a War Levy that the collection of the tax would not be impracticable, and the collection of a tax on capital at the same time by the same officials as the Income Tax would seem to be a tolerably easy piece of administrative development. Then people say that there are serious political objections to it, that it would be a dangerous thing to collect all your taxes by Income Tax and a small annual tax on capital, because there would then be numbers of people who would pay no tax at all, and who yet would have a vote and power to determine the expenditure of the country to be borne by other people. But one thing that is perfectly clear is that however you may attempt it you cannot really tax people whose income is below a certain amount. You

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have the limit of £150 a year under the present Income Tax. If you go lower and try to take taxes from people who cannot afford to pay them, then it recoils upon you. Either you drive them upon the rates or you bring them down to such a standard of comfort as to be dangerous to society at large, and the amount which you try to get out of them in the form of taxes is either recovered from the employers in the form of higher wages and passed on to the consumer, or else they cease to pay taxes altogether. If you take the poll tax, which still survives in some places on the ostensible ground that nobody should be allowed to vote unless he has paid the poll tax, then you find that the poll tax is paid by the various political organisations which the voter promises to support or join, and that the whole thing is a mere farce. Then it is said that under a system of indirect taxation people are taxed under chloroform, that they do not realise when they buy an ounce of tobacco that 6½d. goes to the Government, that they do not realise when they buy tea and sugar and matches and other things that they are paying taxes to the Government, and that, therefore, it would increase discontent if you were openly to raise the money by means of Income Tax or by means of taxation upon property. Clearly it is very undesirable that people should be unaware of the fact that they are paying taxes and of the amount of taxation which they pay. "Indirect taxation," says Mr. Snowden, "is a very bad schoolmaster, for it does not encourage the critical supervision of taxation among those who pay the taxes."

So long as the Revenue system of the country is adjusted from year to year by small patchwork measures any sort of reconstruction is out of the question. When you get a great financial cataclysm like the French Revolution, which stirs up the deeps, dissolves society, and makes a new form of society, a new form of Government, and a new form of taxation necessary, then it is possible to take new constructive synthetic measures to try to strike out a logical system.

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But the results of the Great War have been to effect a silent revolution in the financial situation of the people of this country. The wealthy have been minished and brought low and the poor have been rendered still poorer, and the time has certainly come when the Government of the country should undertake a searching inquiry into the reconstruction of our financial system, which at present resembles nothing so much as an old-fashioned ramshackle house which was built perhaps centuries ago, and has passed through the hands of a lot of owners. Somebody has thrown out a wing here and built a billiard room there and a bath-room there and a garage somewhere else, and the whole thing is an unsightly makeshift. The time has come when we ought to set our financial house in order and replace it by some sensible symmetrical, scientific architecture, which will make it better adapted to the purposes for which it is intended.

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I AM asked whether the Estimates Committee comprises Members of all Parties, with Government supporters in the majority, and how any recommendations they may make affect the Government policy. The Estimates Committee was first set up in 1912. It was suspended for a time during the war, and has only recently resumed its sittings, so it has altogether had very little experience. I offered some observations upon it in my lectures on National Economy, which were published in 1917, and perhaps you might refer to what I have said by way of criticism of the Committee in that book. The Committee is selected so as to be fairly representative of the different groups in the House. If you want a dozen Members, and you take them in proportion to the relative strength of the Parties, and ask the Whips of those Parties which of their Members they would suggest to serve, perhaps there are some Members who are anxious to serve, others who are specially qualified to serve, and some who have work in the Law Courts or the City or are doctors or business men, and cannot come down to the House early enough to attend Committee Meetings. You make up your Committee as well as you can. When it is appointed, for reasons I have already glanced at, it is in the present circumstances singularly ineffective.

Imagine a dozen Members of Parliament sitting round a table to examine the estimates of one or two selected Departments. They get hold of the Accounting Officer who has been responsible for drawing up the Estimates, and they say : " We see that you want Parliament to vote such a sum

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of money next year ; let us see whether it can all be justified." They take the big volume of Estimates, and the first item, " Salaries, Wages and Allowances, so much," shows perhaps an increase compared with last year, and they say : " You want more money next year : Why is that ? " They are told that the work is increasing, the staff is increasing, that people have annual increases in salaries, and more money is wanted next year. Then perhaps they will ask : " Can you measure the growth of work against the growth of staff ? " and they are told : " No, the duties are manifold, varied, you cannot put a figure upon the growth of work throughout the Department ; but men have been working overtime, which is always expensive and objectionable, and we want more money next year." They cannot go behind all that. They have no inside knowledge of the facts, and they pass on. They see page after page of detail : One Minister at so much, a Permanent Secretary at so much, so many Assistant Secretaries and so many members of the staff, with the salaries of all grades of staff down to messengers, porters and charwomen. Then they come to the next item : " Travelling and Subsistence Allowances," and they say : " Why do you want more this year ? " and the reply may be : " It is, of course, very difficult to forecast a year ahead what amount of travelling will be necessary ; but we find that as we did not take quite enough this year we shall probably be short when the year is over, so as a matter of precaution we are asking for a little more, or else we shall have to come for a supplementary Estimate." And so they continue, the examiners knowing practically nothing about the Department, the witnesses on behalf of the Department always knowing enough about it to give a *prima facie* conclusive answer to the questions. The Committee cannot well get below the surface of things or make a Report which throws new light upon the subject. By the time the Committee has reported the Estimates have usually passed the House. The Report will receive the attention of the Treasury and, if

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there is anything in it which seems worth pursuing or taking up, will form the subject of correspondence with the Departments ; but I have not yet seen from the Reports of the Estimates Committee any results of practical value.

It is severely limited by two checks. First of all, it must not touch upon matters of policy. Secondly, it has no expert permanent official attached to it who can get up facts and figures and information for its help and guidance. If it asks a Departmental witness : " Assuming that you cannot get through this work with a smaller staff, is all the work really necessary ? Cannot you cut out some of it ? " The witness may say : " That is a matter of policy, which I understand is excluded from the consideration of the Committee. It is a question which only the Minister can answer, and I cannot take the responsibility of saying that we could properly cease any work we are doing, or carry on with a smaller staff than we are asking for." So the Estimates Committee as at present constituted appears to me to be, I will not say non-significant, but it really does not do very much to add to our knowledge.

To-day I am to speak to you upon Currency and Credit. Do they properly fall within my subject ? What is the scope of public finance ? Mr. Hawtrey has recently written two or three books in which he repeats the definition that finance is the art of providing the means of payment. That I think to be a very inadequate definition of finance, which ought to cover all the money matters of Government ; not only providing the means of payment, the Revenue of the Government, but Government expenditure, Government debts, Government borrowing, and all the monetary operations of Government. Should such topics as Currency and Credit be included in public finance ? Professor H. C. Adams, the American writer who died last year, was distinctly of opinion that they should not, that they belonged to the department of banking and economics. When he wrote his *Science of Finance* he excluded all consideration of currency and credit

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from it, and wrote a separate book called *Public Debts*, in which he dealt with that side of the question.

Beyond doubt the regulation of the currency is one of the high prerogatives of Government. It is the business of Government and the legislature of the country, to lay down what shall be legal tender. What is legal tender becomes, in the nature of things, the standard of value and the medium of exchange. So far as paper money is concerned, clearly it is a matter in which Government must have the dominant voice whether paper money should be issued, if so, by what authorities, under what limitations, what reserve should be held against it, and generally to settle what the paper and metallic currency of the country should be. On the 28th April, 1882, Mr. William Fowler, a banker well known in the City of London, brought a motion before the House of Commons to authorise forthwith the issue of £1 notes. That seemed to many in 1882 a very revolutionary proposal, and Mr. Gladstone, who was then Chancellor of the Exchequer, made a characteristic speech in opposition to it, in which he said that he did not denounce the idea in principle but that he objected to the word "forthwith," and could not support the Resolution which was before the House. He said: "The three great conditions of a good currency are these: its safety, its convenience, and its cheapness. I must say, for my own part, that I would give a fourth condition to a perfect currency, which is that the profit of that currency ought to be the profit of the nation." You will observe that Mr. Gladstone did not include among the essentials of a good currency stability of value, although, with his genius for reading meanings into his own language, he might have said that when he spoke of its safety that involved the fact of its being of stable value. A standard is something which stands firm and fast. A standard of length is something which does not vary from year to year. The yard is measured upon a bar which is kept sealed in the Tower of London by the Standards Department of the Board of Trade, and is

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tested once a year. That yard measure is something which is fixed and invariable, and when people buy a yard of cloth they know exactly how much they are entitled to receive.

When it comes to variations in the value of money, we are confronted with many subtle considerations. It is easy for the man in the street to think that a pound is a pound. But it is not the same pound at different times. It has a different value. It has a different purchasing power, a different exchange power, according to circumstances, and the rise and fall of general prices is something by which you may measure the variations in the standard of value itself. If you have a standard money, a standard pound or whatever your unit of value is, with its value going up and down like the notes of a piano, nobody knows where he is. The whole foundations of contract are disturbed by variations in the value of your standard.

Perhaps a few examples will serve to impress upon you the evils which arise from great instability in the standard of value. Before the war M. Lenin, who had dabbled in economics, wrote a pamphlet upon the socialistic doctrines of Karl Marx, and he said in that in express terms that the best and shortest way to smash the capitalist and the capitalist system was to debase the value of the currency. Clearly if you can make money of no value, then those who have money and those who have none are on a dead level of poverty so far as money is concerned. It did not take the Revolutionary Government long to put those doctrines into practice. There was a striking instance, striking in more senses than one, when the printers at the so-called Russian Mint at Moscow went on strike for more wages, and when the Government was unwilling to meet their views they said: "Let us have the use of the Government's plates for an hour's overtime every day to print off notes for ourselves. It will not cost you anything, and it will help us a good deal." The Government resisted, but at last the production of these notes was so essential that it compromised

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upon the basis that the printers might have the plates for an hour every day on condition that they used no plate of the value of more than 1,000 roubles, equal to nearly £100 before the war. It will not surprise you to learn that they struck off more notes in that hour of overtime than in the previous eight hours of the day. Even when they had got them they proved to be of such little value that after a time the Government had to give up printing them, because they were not worth the paper upon which they were printed.

A friend of mine coming home from the Near East a few years ago, when the Austrian currency was in a state of great demoralisation, told me that a man came into the dining car with a good-sized suit case, and when the attendant said : " You must not bring your baggage into the dining car," he replied : " This is not baggage, this is my purse." A similar ridiculous state of affairs has arisen in Germany, where the mark, of which there were twenty to the £ before the war, is at a nominal exchange of about 18 millions of millions of marks to the £. There, all the old paper marks are being overprinted with the words " million." Even that is not sufficient, and by this time they have milliard mark notes in circulation.

Although these things have their humorous side there is a deep pathos beneath them. After the war our Ambassador in Austria reported the case of two young men who succeeded equally to their father's fortune, and, like the industrious and the idle apprentice, they went their several ways. One of them took his money to the bank and lodged it there on deposit for security and to earn interest. The other spent his fortune on riotous living. Among other things he bought a large cellar stocked with wine, and when, two or three months after, with the help of his friends, he had got through the wine in the cellar, he sold the empty bottles for twice as much money as his prudent brother had got in the bank.

Such things as these make anything like thrift almost impossible. When you have got a money which, like the manna

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of the Israelites, must be consumed to-day because it will be of no use on the morrow, you make haste to get rid of it. Either you spend it on food and drink and clothes and other things, whether you want them or whether you do not want them, to avoid having this perishing commodity on your hands any longer than you can help, or else you indulge in speculation with an offchance of bringing about a large *coup* some time in the future, when monetary conditions may be different. The only way to save money in these circumstances is to spend it. If you keep it it is irretrievably lost. Foreign business and home business are paralysed by the fact that the fluctuations in the value of money make any sort of contract a gamble of the wildest description. All the time the public is being robbed by the Government, robbed in many cases without realising it. People who hold Government securities, people who draw pensions, people who have advanced money on mortgages, find that what were respectable fortunes before the war are not enough to buy a single meal when the value of money falls so low. An American professor who had just come back from Germany asked how it was possible to stabilise the currency of a country where the price of a meal might rise 10 per cent. between the first and the second courses.

Then the really terrible nemesis of a badly depreciating money is that anything like the balancing of the Budget or a sensible construction of public finance becomes impossible. You have the German Chancellor drawing up his Budget at the beginning of the year. On the one side of the table are the Government expenses—so much for the Army, such as is left of it, so much for the Police and Justice and Education and other Civil Departments, and all the other requirements of Government. On the other side there is the expected revenue from the taxes existing and proposed, from the State railways, the Post Office, and other sources. Then with the value of money going down the hill so steeply and rapidly people put off the payment of their taxes as long as

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they possibly can, because in two or three months' time they may be only a fraction of what they are to-day, valued in the money of the country. After the expenses of Government have been going on for a week or two, insufficient taxes are coming in, and the Treasury says : " We want more money. The taxes that have come in have not been enough to provide it." The only alternative is to order so many more millions or billions of notes. The Government pays its way with those notes. They get out into circulation, and as soon as they begin to circulate they force prices up, and at the end of the next week the Government deficit on the week is much bigger than it was the week before. Then a still larger dose has to be administered in the form of a further and larger emission of notes, and you get something like the ridiculous spectacle of a kitten chasing its own tail, and of the marks pursuing the prices and the prices pursuing the marks, and when the end of the financial year comes the Chancellor will find that his expenditure is many times as much as he estimated it to be when he drew up the Budget which balanced upon paper. For every mark of revenue which it now receives the German Government spends one hundred marks.

One of the greatest financial authorities across the Atlantic said to me last year : " The whole of Continental Europe seems to be in a sizzle or a tangle. They cannot stabilise the currency until they balance the Budget, and they cannot balance the Budget until they stabilise the currency, and from this vicious circle there seems to be no escape."

Happily, our own currency has not been allowed to fall into this degraded condition. Treasury notes have been issued, and the amount outstanding now is £281,000,000, against which there is an invested reserve of £12,000,000, £7,000,000 are held in silver, £27,000,000 in gold as a Redemption Account, and £22,500,000 in notes of the Bank of England. If you take the gold and the Bank notes held against the Treasury notes you have £49,500,000 as cover to the £281,000,000, about 17.6 per cent. In addition to

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these Treasury notes, you have National Savings Certificates, of which about £368,000,000 are outstanding. Those forms of borrowing from the public, combined with the very large amounts which Government has had to spend and borrow, either by War Loan or by floating debt, have depreciated the currency. Whether you take the index number of *The Economist*, or the Board of Trade, or *The Statist*, or *The Times*, or any of the other index numbers, you will find a tolerable agreement that commodities cost wholesale on the average about 160 per cent. of what they cost before the war, and your precise measurement of the depreciation of the pound note compared with the sovereign is the rate of exchange with the dollar, now about 10 per cent. below parity, which will give you a value approximately of about 18s. in gold for the Treasury one-pound note.

The intervention of Government in the Money Market must inevitably produce some effect upon prices and trade. I cannot stay to refer to such unfortunate operations as those which were described by M. Léon Say, the great Finance Minister of France, who paid off the German Indemnity, when he wrote his account of the interventions of the French Treasury upon the Stock Exchange with the view of keeping up the price of Government Rentes. That is not a kind of thing to which we are prone in this country. We do not send the Government broker into the Market to buy Consols or War Loan on a large scale in order to keep up the price of them and to maintain the credit of the country. But the fact that the Government is in the Money Market as a large borrower inevitably mops up, so to speak, such liquid supplies of money as would otherwise have been available for commercial purposes, and the very large amount of Government expenditure and of floating debt is something which, in the interests of the country, ought to be diminished as rapidly as possible, tending as it does to expanded credit and to higher prices.

When Government is short of money—and Government

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is always short of money early in the year before the Income Tax and other large payments come in—there are several courses open to it. It may borrow from the Bank of England, just as an individual gets his bank to allow him an overdraft, or it may invite the public to tender for Treasury Bills, a device originated in 1882 by Mr. Walter Bagehot, one of the great City authorities of fifty years ago. At first it was very stoutly resisted by the permanent officials of the Treasury, but it was ultimately adopted with such success that probably of all temporary financial expedients it is the most economical which any Government has ever devised. You know the nature of a Treasury Bill. It is in effect a promise on the part of the Government to pay a certain sum—£100 or £1,000, or whatever the amount may be—at a due date, generally about three months hence. If you offer Government £99 3s. 6d. for a Treasury Bill for £100 to be paid three months hence, you are discounting it at a rate of £3 6s. per cent. per annum or a little more, and the advantages which it offers to you are, first of all, that you know exactly where you are; there is no fluctuation of prices that is going to disturb you. You know exactly when you are going to receive your money. It is very convenient to you if you want to put your money out for a short period, like the banker who may have emergencies to meet, and may be glad to have securities which he can realise at short notice. Then you can sell your Treasury Bill with its accrued interest for more than you gave for it, if you want to part with it before the actual date of maturity. It is a gilt-edged bill of the highest character, of short maturity, and is a great favourite with large sections of the investing public.

The Government may borrow for longer periods by means of Exchequer Bonds due, perhaps, in five years' time, having a fixed rate of interest during their currency, and redeemable at par; or it may borrow by means of loans, as when it issued the War Loan. In operations of that kind the Bank of England is of great assistance to the Government, not only

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in carrying out the actual operations and providing machinery, paying the dividends when they fall due, and keeping a Register of Stockholders, but also in advising Government on what terms and conditions it should offer the Loan for subscription, whether the time is favourable, or, if it is a case of remitting exchange to America, how and when it is best to do it. On all those questions, which may be regarded as banking questions, the Government naturally and properly seeks and obtains the assistance and advice of its banker—the Bank of England.

A question was asked about the influence of the Bank of England upon Government financial policy. The Bank has nothing to say upon such questions as what Government should spend or what form of taxes Government should impose. It is a mere question of helping the Government in its operations of day-to-day finance. In the issue of loans many questions are involved. You will find most of them very ably discussed in Professor Adams's *Public Debts*, to which I referred just now. There is the question of the advisability of issuing loans under par. Is it better, for instance, to offer a loan at £100 and to agree to pay 5 per cent. interest on it, or is it better to offer it at £80 and to allow 4 per cent. interest on it? The 4 per cent. loan is more attractive to the investor because of its chance of appreciating in value. The rate of interest on the whole loan is the same in each case, but if you issue it at £80—under par—in the event of redemption you will have to pay it off at £100. Your nominal liability is, therefore, greater. The policy of Mr. Pitt in issuing loans under par during the Napoleonic wars was defended in a very interesting essay by Mr. William Newmarch, who was formerly the manager of Glyn, Mills, Currie & Co.

During the war the experiment was tried in some countries of issuing a loan which was tax free. This has been denounced in the light of experience by every competent authority in the United States, where wealthy people snap

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up stock of that character, and get off by paying considerably less in taxation than those who do not hold such stock. The whole question is mainly one of psychology at the moment when the loan is floated, and on what conditions you think the public will take it. Clearly, the Government which is issuing loan for war purposes finds its prestige involved in the whole loan being subscribed, and the more it is over-subscribed the better it looks, the more it discourages the enemy, and the more it encourages our own people to see that there is such a lot of money forthcoming to prosecute the war. Various devices were tried during the war to make loans palatable to the public. The financial authorities who were consulted by the Government of the day were grievously at fault in reading the psychology of the public when they advised Mr. Bonar Law to issue a loan at a higher rate than he thought reasonable; and when he insisted, in spite of them, on issuing it at a lower rate it was, to their great surprise, very readily subscribed. A patriotic impulse leads people in such a crisis to subscribe to their utmost ability, without regard to the little more or the little less of the inducement which is offered to them in the way of interest to take up the stock. So it was a mistake to sit down and look at the Money Market, to study the list of securities to see what gilt-edged securities were fetching in the market, and to say: "You must offer better terms than this if you want to get a lot of money out of the public." Loans offered in the United States at a very low rate of interest were readily over-subscribed by the public in their enthusiasm to help the Government to prosecute the war.

The Inland Revenue authorities must deplore the existence of Victory Bonds issued at £85 and receivable for Estate Duty under certain conditions at a face value of £100. The Estate Duty of one of our wealthiest financiers is said to have been greatly relieved in this way. Questions arise with regard to the movement of prices, what is called inflation and deflation, and the movements of credit, and the effect of

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the Bank of England policy and the Government policy on the rate of discount. Views are frequently expressed in favour of inflation, sometimes, perhaps less frequently, in favour of deflation. Sometimes the middle course is taken of saying that we do not want either inflation or deflation, but that we want stability. The utmost stability is desirable, but how are you to ensure that the pound will have the same purchasing value when the things that you buy with your pound are influenced by a hundred and one considerations which make them scarce or plentiful, dear or cheap? You can measure the variations in the value of the pound in a particular commodity merely by comparing its price at one time and another. If you want to measure its general variation in purchasing power you take a group of prices of a group of commodities, strike an average price for them, which is your index number, and strike an average price for the same commodities at a different time, and then you measure the changed percentages of one group against the other, and you have the variation from the index number.

You will find the whole subject of the *Purchasing Power of Money* fully discussed in a book of that name by Professor Irving Fisher, and in a later book on the *Making of Index Numbers* he examines, I think, a hundred and forty-three different kinds of index numbers which have been constructed in different countries and by different inquirers. The author tests how far they are trustworthy and scientific, and arrives at conclusions which are, roughly, that you should take a large group of commodities and weight them according to their respective importance—that is to say, if you suppose corn to be three times as important as tobacco then you should multiply the price of corn by three as compared with the single price of tobacco. When you have got all these commodities with their respective weights worked out and totalled up, and an arithmetical mean arrived at, you compare that with the mean or average for another year, and you get the percentage of variation. The whole subject in

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its higher flights is difficult and complicated, and I need not trouble you with, for instance, the question whether a geometrical mean is better than an arithmetical mean, whether you ought to take an average from a given starting-point as a base, and measure from this base as the years go on, or whether you should have what is called a chain system, where you measure from one year to another, and then from that year to the next, and so on successively.

Professor Irving Fisher has proposed that you should construct an index number, and that you should make the standard of value vary in its metallic content in accordance with the variation in the index number. You know that the Mint price of gold in this country is £3 17s. 10½d. per ounce. That means that if you take 480 ounces of gold to the Mint, 40 lbs. of gold, you can require the Mint to coin it into gold for you and to pay you out 1,869 sovereigns, weighing just as much as your 40 lbs. of gold eleven-twelfths fine. You will probably have to wait a little while the Mint manufactures your sovereigns. It would charge you nothing for coining them. It would give you weight for weight. But if you want cash down you take your gold to the Bank of England, and the Bank price of gold is £3 17s. 9d. an ounce, the odd 1½d. being reckoned as a discount for about a fortnight on the £3 17s. 10½d. What is called the Mint price of gold is in effect nothing more than the Mint weight of gold. It is the law which establishes the weight of the British sovereign.

Professor Irving Fisher's proposal is that the Government should issue an index number, compiled by independent, trustworthy, responsible officials, at frequent intervals, and that every time the index number is issued the Mint weight of the dollar should be varied. If the index number varied by 1 per cent. then the Mint weight of the dollar was also to be varied by 1 per cent. It would operate upon the gold dollar and the Mint price of gold in America would vary from time to time in accordance with the index number.

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The effect of that would be that a new 20 dollar gold piece, if it were coined, would vary in weight but would always have the same general purchasing power, whatever the movement in prices might have been. In other words, instead of having a pound or sovereign which purchased sometimes a little more and sometimes a little less, you would have a sovereign of varying weight which would purchase always the same amount of an average list of commodities. The coins would, of course, not be struck. Gold certificates would replace the gold coinage in general use, and the power to demand gold for them would seldom be exercised.

The object of that proposal is to ensure what is regarded as the sanctity of contract. If a man promises to pay £100 in six months' or twelve months' time, and if the pound has shrunk a good deal in purchasing power in the interval the £100 which he pays back will not go so far as the £100 went at the time he borrowed it. The lender is then damaged by the change, and the borrower has had an undue relief. On the other hand, if the pound becomes more valuable, if you have a period of falling prices and the pound will buy more and more as time goes on, then the debtor is overburdened, and has in effect to pay back more than he intended to do, because he is paying back in dear pounds although he borrowed in cheap pounds.

The proposals which have been put forward by such writers as Mr. Hawtrey and Mr. Keynes, that the Government and the Bank of England should influence prices by variations in credit and the rate of discount, aim more or less at the same result. It is said that an expansion of credit brings about a rise of prices, that a rise of prices stimulates trade, that if a dealer buys in a rising market, by the time he comes to sell he finds that he makes a bigger profit than he anticipated and that his stock of goods in hand is appreciating in value, and so a rising market and a rise in prices are said to be good for trade, and tend to increase employment of labour. Conversely a restriction of credit

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tends to bring about a fall of prices, and to that extent has a depressing effect upon trade and industry and commerce, and it is concluded from these general considerations that Government holds in its hands in this power of increasing or decreasing credit an engine which is capable of minimising fluctuations, preventing crises and great changes in prices, and preventing unemployment due to bad trade in times of falling prices, and that Government ought, therefore, with the aid of the bankers, to inflate credit in bad times and to contract credit in good times. That theory appears to be what the French call *trop simpliste*—too simplified. It omits the consideration of many complex factors, some of them small in themselves, but as important as the element of friction in engineering. It would be quite simple for an engineer to solve the problem of perpetual motion if you would allow him to neglect the element of friction. But the element of friction will not neglect him, and there are little things of that kind which upset the best laid schemes of this character.

One of these is the fact that while units of money are homogeneous and the quantity theory of money, properly stated, is perfectly sound, credit varies in quality. It may be good and self-liquidating. It may be a bubble which bursts. As an example of the over-emphasis and over-simplification of view in the exaggerated claims made on behalf of this panacea—the State regulation of credit—we may take a lecture at the Summer School of the Independent Labour Party on the 23rd August, 1924. The lecturer asserted that “the banker has become the autocrat of civilisation. He governs the bank rate and he governs the birth rate.” Apparently Emerson was wrong when he wrote “Things are in the saddle, and ride mankind.” He ought, it seems, to have added “except bankers, who override everything and everybody.” You are not in need of any commentary upon statements of that kind. At a time of expanding credit if you have rising prices the

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two things synchronise ; but it is dangerous to generalise as to which is the cause and which is the effect. If you had a great failure of the wheat harvests throughout the world and a great rise in the price of wheat, followed probably by a demand for higher wages on the part of people who found that they could not get enough bread to eat, and a general rise of prices consequent upon the operation of nature and not upon anything inherent in the standard of value itself, you would have a rise of prices independent of credit. The appearance of a rash is one of the symptoms of measles, but it would be grossly unscientific to say that the rash is the cause of the measles, or that if you can make the rash disappear you will cure the measles. If you drive it in it may strike at some vital part, and in your attempt to heal the patient you may destroy him.

When the Royal Commission on Vivisection was sitting, the late Lord Moulton gave evidence in favour of vivisection, and the ground upon which he put the necessity for it was that in order to deal successfully with disease you must know its cause and nature, and that if you deal only with symptoms there may be the most terrible consequences. He told the Commission of a doctor who was called in to treat a patient suffering from some obscure malady, and he found the patient's pulse was not beating as rapidly as a normal pulse should do. So he gave him a drug to stimulate the heart's action and quicken the pulse to what is regarded as normal. Had he known, he would have understood that the patient was suffering from some internal trouble, which caused nature to make a great effort to deal with the difficulty, and that nature had deliberately slowed down the action of the heart, a thing which can be done for a time without any serious consequences, and borrowed some energy from it to export to the seat of the trouble. By forcing the heart to beat faster the doctor was actually fighting against nature, and preventing the patient from getting on so well as he otherwise would have done.

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That is a simple example of the troubles which arise from treating the symptoms instead of the cause. You must know the cause and deal with the cause, and not content yourself with dealing with the symptoms. Rising prices may be a symptom of good trade, but they are not necessarily the cause of it. Cheap credits may be stimulating to trade, but if our European customers cannot afford to buy from us, and if, as Sir Robert Horne told the House of Commons when he was Chancellor of the Exchequer, the Customs and Excise receipts have fallen off because the spending power of the people is exhausted, you have a state of affairs where it is useless to encourage manufacturers to produce if people are unable to buy what they produce, and even if you give them credit for nothing, if they are unable to sell their increased output either in this country or to foreign countries, the artificial reduction in the rate of credit is not going to give you a new heaven and a new earth. We have for some time had a Bank rate of 4 per cent., which is not so serious as to prohibit sound business. You know by what considerations the Bank of England is moved in altering the rate of discount. To substitute an arbitrary decision of Government would expose us to many of the dangers of fiat money.

You may read with advantage Professor Foxwell's *Papers on Current Finance*, which were published in 1919, in which you will find most of these questions of the action of Government on credit and currency and questions of that kind dealt with at greater length. A Professor who was very fond of impromptu examinations, once called his students to attention and said : " I wish you to sit down and write me an English essay. The subject is the History of Civilisation, and the time allowed is five minutes." I feel some sympathy for those students when I am asked to give you four lectures on British Government Finance. The subject is so large, the canvas is so vast, that I can only pick out one or two details in outline, and offer you something

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to think about rather than something to burden your memory with. The facts, the figures and the details are accessible in the *Statistical Abstract*, in the *Finance Accounts*, *Whitaker's Almanac*, the *Daily Mail Year Book*, and many handy books of reference, and what I am trying to do is rather to stimulate your own individual, personal, original thought. If you give a bone to a puppy it is not with any idea that he is going to be able to break it and get the marrow out of it ; but it does his teeth and his health good to gnaw it a bit and to develop himself. So I have given you, not statistics and dogmatic opinions to be noted down in a notebook and remembered as if they were pieces of arithmetic, but something to think over for yourselves as individuals and citizens, and to take an intelligent interest in.

I was very much struck in America with a large organisation called the Knights of Columbus, numbering hundreds of thousands of members. Before members are admitted to that society they have to take an oath, of which I have a copy. I commend to your attention one phrase : " I pledge myself as a Catholic citizen and Knight of Columbus to enlighten myself fully upon my duties as a citizen, and to conscientiously perform such duties entirely in the interests of my country and regardless of all personal consequences." The study of national finance is something which is incumbent upon us all as citizens of this country, and it would be a patriotic act if we all registered a vow to enlighten ourselves fully upon our duties as citizens in respect of our understanding of the financial matters of the country.

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THE conclusion of the whole matter is that Financial Reform calls, like the dying Goethe, for "Light ! More Light !"

More light is needed by the Cabinet upon the financial aspect of policy. Every Minister who is worth his salt is anxious to improve his department as an instrument of Government. Every Cabinet is favourably inclined to measures of social welfare of which the object is evident and appealing. Each proposal may appear to cost little in itself. What is insufficiently considered is the cumulative effect upon already heavily burdened taxpayers. A strong swimmer may support a heavy weight, but when he is at the limit of his power each extra ounce will add so greatly to his difficulty that he will rapidly be submerged. When taxation handicaps the productive capacity of a country so heavily that it can barely keep afloat, every additional weight, small though it be, results in disaster far outweighing in importance apparent advantages which the country, in its perilous situation, cannot afford. Even if taxation is fairly distributed regard must be paid to its effect in the mass. If its total weight is disproportioned to the financial strength of the community, if it increases prices and costs of production, deters enterprise, discourages accumulation, and causes widespread unemployment, Government is paying too much for its whistle, and retrenchment, however unpleasant, is imperative.

More light is needed by the Chancellor of the Exchequer upon the amount and distribution of income and capital throughout the country and the changes which take place

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in them from year to year, upon the incidence of taxation on the several classes of the community, upon its justice—not judging each tax separately upon its merits but the whole system of taxation synthetically. He needs more light upon the possibilities of effecting economies. The ability of Germany to pay has been much discussed and examined by experts. What is the capacity of Great Britain to pay? What is it expedient, in present circumstances, to spend on Government services? After the American Civil War the Treasury urged upon Abraham Lincoln the necessity for increased taxes. He was reminded that the country, which had no pre-war debt, must now find interest on the debt, provide pensions for the victims of war, their widows and orphans, call in and redeem the inconvertible paper notes (greenbacks) issued during the war, and make provision for rebuilding, maintenance and repairs which had been allowed to fall into abeyance. Lincoln refused his assent. He pointed out that the country had just emerged from a terrible struggle, stricken and bleeding, almost exhausted. "Give it a breathing space," he said, "to bind up its wounds and recover its exhausted energies. This is not the moment to impose fresh burdens upon it." The result abundantly justified his foresight. Trade and commerce came to the aid of finance. The Budget surpluses sufficed not only to meet the needs of Government without new taxation, but in a comparatively short time enabled the United States to resume specie payments and get rid of its inconvertible paper.

The same policy has at last found acceptance in the Dawes Report, which looks at finance primarily from the proper angle—the economic aspect. Germany is to have a breathing space, to be let off lightly for a few years, and to have a loan of 40 millions sterling to set her on her feet and enable her in due time to pay more adequate reparation instalments. But the policy good for America after the Civil War and good for Germany after the greatest of wars,

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has not seemed to our Chancellors of the Exchequer good for our own country. If the war taxation chastised us with whips the post-war taxation has chastised us with scorpions. Heavier imposts, ten figure Budgets, colossal surpluses since the Armistice have taxed the country beyond necessity and beyond reason, and given us the unenviable handicap of being the most heavily taxed community in the world. If it be said that it was a common error to mistake the first rush of post-war business for the beginning of a flood-tide of prosperity, we might at least have taken a leaf out of Lincoln's book and been content to allow the revenue to benefit automatically by the revival of prosperity instead of adopting a course likely to nip it in the bud. If it be said that our foreign customers were too impoverished to buy from us and that our export trade and employment were bound to suffer, let it be noted that if the spending power of our people had not been exhausted by excessive taxation they would have consumed more food-stuffs, raw material, manufactured and partly-manufactured goods, and in so far as these came from the Continent, would have enabled and compelled our European customers to take our goods in exchange. To paralyse the home trade is to handicap the foreign trade. Our financial policy has, to this extent, retarded not only our own economic recovery but that of Europe.

Lincoln acted contrary to the proposals of his Treasury advisers from mere sagacity. A flood of light is now available which was not to be had seventy years ago. From all quarters of the globe information is now instantaneously flashed as to production and consumption and the probable course of prices and trade. Expert statisticians and economists now provide an economic barometer of which our Chancellors need to take heed.

The House of Commons needs more light upon the facts of public finance and upon the methods by which it can better discharge its duty as trustee for the taxpayers. It

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needs a national balance-sheet drawn up on commercial principles to supplement the present finance accounts. Such a balance-sheet might fitly, as in America, be based upon function, and show the approximate totals spent upon various Services—War Services, Justice and Police, Education, Relief of the Poor, the aged, lunatics, workless and others, instead of a mere list of payments by Departments, which frequently overlap in the discharge of these functions. It needs to overhaul its machinery, which is antiquated and complicated—so complicated that Mr. Godfrey Locker-Lampson has written a much-needed explanation for the benefit of his fellow-members.¹ Foreign critics consider that our division of public expenditure into Consolidated Fund Services, provided for by Standing Acts of Parliament, and Supply Services which are voted annually, are an unnecessary and undesirable complication, and there is undoubtedly something to be said for bringing under annual review by the House of Commons the total national expenditure in one account and in one mass. The Committee of Supply, the Estimates Committee, and the Public Accounts Committee labour to ascertain facts which should be provided for them in advance. The post-mortem examination of the public accounts might be transferred to an extra-parliamentary and quasi-judicial body like the French *Cour des Comptes*, whose report should be presented to the House in order that Members may concentrate upon what is important instead of exhausting their energies in groping after information. The Committees of Supply and of Ways and Means might be amalgamated into a single Finance Committee whose detailed report to the House should be the subject for full-dress debate extending over a large number of days. The various stages of authorising expenditure—a recommendation from the Crown, a Committee and report,

¹ Godfrey Locker-Lampson, M.P., *An Outline of Financial Procedure in the House of Commons* (London: Hatchards, 1924, Second Edition).

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a first and second reading, a report stage, and a third reading upon the various Supply Services, excess votes, supplementary estimates, etc., is not necessarily justified by historical explanations. "The exclusion of the King's emissary and spy—their Speaker—was the sole motive why the Commons elected to convert themselves into a conclave called a committee, that they might meet together as usual, but without his presence."¹ The motive no longer exists, but the formality of moving that the Speaker do now leave the Chair, which offers occasion for lengthy debate, still remains.

Above all, the House needs such light upon expenditure as can only be supplied through an efficiency audit to supplement the present formal audit. Devolution of the drudgery of finance would both leave the House more leisure to devote itself to essentials and supply it with better materials for forming a judgment upon them.

The House should set its face sternly against the lazy and cumbrous legislation by reference which disfigures our statute books. An Act which repeals a section of one Act, amends another, and incorporates another, compels the student to refer to a bewildering series of statutes. Sir Mackenzie Chalmers, to whose expert draftsmanship we owe the admirable codification of the Bills of Exchange Acts, says: "Customs, under our free trade system, are regulated by some ninety Acts of a more or less general character. What will they run to if and when we have protection? Excise requires another fifty Acts, and particular commodities are dealt with by very numerous special Acts. A man cannot fill his pipe with the harmless necessary tobacco until the provisions of thirty-two Acts have been complied with. . . . The Income Tax Acts were consolidated in 1918, but no attempt was made to simplify them. The Act has already been drastically amended five times. It fills, without the amendments, 180 pages of the Statute Book and has an

¹ R. F. D. Palgrave, *The House of Commons*, p. 11.

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appendix of six unintelligible schedules—a bad case of appendicitis.”¹ He adds that the House Tax, a purely local impost, is governed by 41 different Acts, and the so-called Land Tax by 59. What light does financial legislation afford to the House of Commons, which makes it, or to the public for whom it is made, when a distinguished lawyer, who has been a judge in England, held high office in India, and been the permanent head of our Home Office, declares the Income Tax Acts, in their latest form, to be unintelligible?

The Civil Service needs more light in order to become a more efficient steward of the public purse. After 40 years of experience in it I am reluctant to exhibit in detail its seamy side to the public and will offer only one general suggestion. Mr. Hughes, when Premier of Australia, stated that one of the books which had most influenced his life was *The Brain of the Army*, by Professor Spenser Wilkinson. From this he obtained his first insight into what organisation really means. Army officers are selected for special training at a Staff College, where they learn the principles of tactics and strategy, military history, the art and science of making an army an efficient fighting machine, and of using the instrument so fashioned to the best advantage. From these officers the General Staff—the brain of the army—is recruited. A companion volume deals with *The Brain of the Navy*, which has also its Staff College and General Staff. There is no volume on The Brain of the Civil Service, no Staff College to which officials are sent to receive special training in economics, statistics, finance, constitutional law and history, the art and science of civil and financial organisation and administration. Civil servants must pick up their knowledge empirically as they go along in their day-to-day routine. The German Government requires from candidates for its higher Civil Service a knowledge of political science in its various branches. Such knowledge, if not a condition precedent to appointment, should be re-

¹ *Edinburgh Review*, April, 1924.

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garded as an indispensable qualification for the highest administrative posts in the British Civil Service, and steps should be taken to supply it by systematic instruction. The rank and file, instinctively re-acting from the anodyne of bureaucratic routine, has laudably founded an Institute of Public Administration, under whose auspices occasional lectures are delivered and a quarterly journal is published. This effort indicates rather than supplies the real complete need.

The people at large need more light upon public finance and all that it implies. Thousands of citizens read every word of a full report of a sensational murder trial but give no more than a perfunctory glance at a meagre summary of the Budget speech. Little is done to enlighten them. The French Government educates its masters. Speeches deemed to be of national importance are placarded throughout the country. Lectures on public finance are delivered free at the Collège de France. The Ministry of Finance publishes regularly a Bulletin of facts and figures about public finance not only in France but in other countries. The British Treasury should have an Intelligence Department or Bureau of Research capable of producing something equally enlightening. It might give us, for example, a translation of the text of the important Income and Property Tax Bill now under consideration in the Argentine Republic. It might publish the annual Budget speech with an appendix of tables in pamphlet form and put it on sale for a penny or present it to each taxpayer with his demand note for Income Tax. It might do for us what is done by the *Revue de Science et de Legislation Financière* in Paris, without its critical comment. In education the supply creates the demand. Study of public finance in this country is severely limited by the difficulty of getting hold of the facts.

Finance, says Bacon, is the key of government. A dim realisation of the fact leads to requests for lectures on financial topics at the summer schools of the political parties.

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The subject is not to be mastered in this fragmentary way. Members of Parliament in their speeches to their constituents, candidates in their addresses to the electors, offer little or nothing of value to popular education upon a subject of which they are too often themselves ignorant. The Secretary of the American Treasury has recently written a book entitled *Taxation : The People's Business*.¹ He pleads for taking taxation out of party politics. It should never, he says, "be made the football either of partisan or class politics, but should be worked out by those who have made a careful study of the subject in its larger aspects and are prepared to recommend the course which, in the end, will prove for the country's best interests." He points out that what is regarded as the high taxation in America and the nuisance taxes² not only add to the cost of living but are actually drying up the revenue. He gives a portion of a speech by President Coolidge (12th February, 1924) from which I extract the following : "An expanding prosperity requires that the largest possible amount of surplus income should be invested in productive enterprise under the direction of the best personal ability. This will not be done if the rewards of such action are very largely taken away by taxation. If we had a tax whereby on the first working day the Government took 5 per cent. of your wages, on the second day 10 per cent., on the third day 20 per cent., on the fourth day 30 per cent., on the fifth day 50 per cent., and on the sixth day 60 per cent., how many of you would continue to work on the last two days of the week ? It is the same with capital. . . . It will refuse to take the risk incidental to embarking in [new] business. This will raise the rate which established business will have to pay for new capital, and result in a marked increase in the cost of living.

¹ Andrew W. Mellon, *Taxation : The People's Business* (London : Macmillan, 1924).

² War taxes on entertainments, sales, stamp duty on cheques, etc. The last is already repealed.

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If new capital will not flow into competing enterprise concerns tend towards monopoly, increasing again the prices which the people must pay." After urging that the present high surtaxes imposed on the rich are paid indirectly by the whole people and that lower rates would produce a larger revenue, he pleads for the adoption of the Government Bill to reduce taxation. "I am for it because it will reduce taxes on all classes of income. I am for it because it will encourage business. I am for it because it will decrease the cost of living. I am for it because it is economically, socially, and morally sound.

"But the people of the nation must understand that this is their fight. They alone can win it. Unless they make their wishes known to the Congress without regard to party this Bill will not pass. I urge them to renewed efforts."

Compared with ourselves America is lightly taxed and highly flourishing. Have we nothing to learn from the fact that the highest official authorities in America, advised by the most eminent scientific experts, plead with the people to insist upon lower taxation in the interest of the country as a whole?

This light, so much needed by the Cabinet and the Chancellor, the House of Commons and the Civil Service, and by the people at large, whence is it to come? It should radiate from the higher centres of learning—the Universities—but must first be installed there. As a young man the present writer was compelled to enter himself at the University of Berlin to study Finance under Adolf Wagner and go to Paris to attend the lectures of Paul Leroy-Beaulieu because he was unable to find a teacher of Finance in this country. With the remarkable exception of the London School of Economics things are not much better here now in this respect than they were 30 or 40 years ago. In 1908 I was informed by the Chancellor of one of our oldest Universities that the University would favourably consider the appointment of a Professor of Finance for an experimental

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period of five years if an initial donation of £2000 were forthcoming. I endeavoured to find 19 persons ready to join with me in offering £100 apiece. The late Mr. Charles Booth, the late Mr. Lockett Agnew, and one distinguished friend still alive consented with alacrity, but we could not add to our number and the project fell through. Sixteen years later the newspapers announce that a Professor of Salesmanship is to be endowed at Oxford or Cambridge! If some of our wealthy magnates would visit the American Universities and see for themselves what is done there we should probably soon have a Professorship of Finance endowed here to the immortal memory of the founder and the lasting benefit of the country. Such a Professor, palpitating with actuality, with the financial problems and conditions of different countries at his fingers' ends, should soon surround himself with assistant Professors, Lecturers, Readers, post-graduate researchers, and students who would take their place in politics and the public services, in banking, commerce and industry, and the teaching professions with adequate training in the use of the "key of Government." In public finance we are often confronted, as Mr. Mellon says, not with a principle but with a condition. A vitalised and applied study of Finance must be thoroughly realistic. Starting with a training in economics and statistics it must go on to investigate facts with the painstaking industry of the naturalist. Its field is as wide as the world. Its conclusions should connect cause and effect, put beyond controversy things as they are, and point with assurance to things as they will be in pursuance of financial policy. Once such proof of its value is forthcoming the wonder will be that we have been so long in following the example of other countries. The Universities of Oxford and Cambridge have still but one Professor of Economics apiece and no Professor of Finance. One of our greatest commercial cities—which proudly claims to be the second city in the Empire—with vast interests in cotton, grain, shipping and

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other industries has no Professor of Finance in its University and is dispensing for some years with its solitary Professor of Economics. How shall we remove this defect in our financial education? Finance is indeed "the people's business"—their vital and intimate business. If private patriotism will not endow this branch of civic education Government itself should take the matter in hand and require those Universities which receive grants of public money to supply adequate financial instruction in their courses of study.

It would expand this tract unduly to set out and examine such objections as may be offered to its suggestions. The advent of a Labour Ministry has already modified in some respects the force of the criticisms contained in the lectures. It has shown a wholesome desire for illumination by setting up Commissions on the National Debt and on the Condition of Trade to ascertain facts which it is not to the credit of previous administrations to have left in the dark. It has decided (conviction perhaps joining with expediency) to leave the House of Commons free to differ from it upon points of secondary importance without tendering its resignation. It has moved in the right direction in its first Budget. It has secured a Chancellor of the Exchequer whose previous studies of public finance may prove to be a better preparation for his office than experience in commerce or law or political warfare. Those who desire financial reform accept it gratefully from what quarter soever it may come. But it must in the last resort come from the people themselves. "This is their fight," here and everywhere.

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