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The War Budget

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THE WAR BUDGET

"In ordinary years, when nothing occurs to concentrate public attention on this branch of the budget, it will be observed that the expenditure on the services has a tendency to increase in proportion to the prosperity of the country. . . . It would seem as if there were some unseen power behind the Government, always able, unless held in check by an agitation in the country, to help itself to a portion of the national savings, limited only by the taxable patience of the public." The five closing years of the nineteenth century illustrate in a most remarkable way the truth of Mr. Cobden's observation. Allowing for further abatements, the yield of a penny in the income tax has improved by at least 10 per cent., and probably by as much as 15 per cent. There are many other indications of a startling expansion of trade. There has been not only a complete absence of agitation in the country, but a marked relaxation in the jealousy and vigilance of Parliament. Nor has the nation, so far as I am aware, given any sign whatever of taxable impatience. For a quinquennium taxation has remained practically stationary; and the revenue advancing by leaps and bounds was only last year for the first time caught up and passed by the expenditure. Then, that the burden of militarism might not yet be felt, the Sinking Fund was reduced by half, and the paying off of the National Debt retarded just as the country seemed to have reached the highest point of a commercial prosperity plateau. The forces of nature have conspired with the Chancellor of the Exchequer to reconcile a stationary system of taxation with a progressive rate of expenditure; but Sir Michael Hicks-Beach is forced to admit that his coalition has at last been beaten by Mars, Neptune, and the Agrestes Dei. His words have not received the attention they deserve. They were as follows:—

"Now, sir, I think one thing is quite clear, and that is that it is impossible, however great the prosperity of the country may be, for such increases as this—of £5,000,000 or £6,000,000 a year in our expenditure—to be met by mere automatic increase of our existing taxation, nor could they be met for long by any increase of existing taxes. If this rate of increase is to continue, Parliament and the country must make up their minds not only to large increases in the existing taxes, but also to the discovery of new and productive sources of revenue."¹

Sir M. Hicks-Beach added that he feared this increase of taxation, and the discovery and utilising of new sources of revenue would produce a deplorable reaction against the increase of public expenditure. Whether such a reaction would be deplorable may be open to question; but students of our political history will agree that his prediction is justified. The figures themselves are more eloquent

¹ Sir M. Hicks-Beach, *Hansard*, April 13, 1899.

than any words, and it may be worth while to arrange them in the following table. It covers a financial period of comparative peace, which concludes before even the notion of a war in South Africa had entered into the mind of Parliament or into the prices of consols.

	1895.	1896.	1897.	1898.	1899.
	£	£	£	£	£
Military and Naval expenditure.....	35,595,000	38,334,000	41,453,802	40,395,000	44,283,000
Civil expenditure..	58,323,421	59,430,357	60,022,867	62,540,994	63,867,236
Total expenditure.	93,918,421	97,764,357	101,476,669	102,935,994	108,150,236

Thus you get in the five years ending March 31, 1899, an increase of 9 per cent. in civil expenditure, and of no less than 25 per cent. in military expenditure. One may say without fear of contradiction that no parallel nor even the faintest analogy for such ratios as are here exhibited can be found in the financial history of this country. But our table excludes the expenditure out of loans. That expenditure is preponderatingly military in character; and it was more than six times greater in 1899 than in 1895!

Such was the position of British finances in the autumn of 1899, when our Government found itself involved in hostilities with the two Boer Republics. With the surpassing military and political interests of the war we have not to deal. Yet from a purely financial standpoint it is impossible to exclude its causes; for they must enter into the great question of how the huge liabilities now being piled up week by week and month by month are to be met. But whichever side should ultimately be successful (and an Englishman may not doubt), both are pledged to exact a large contribution to the expenses of the war from the goldfields—the English Government by the distinct declaration of the Chancellor of the Exchequer in October, the Transvaal Government by its own action and legislation since the outbreak of hostilities. With the latter we have no concern. The declaration of the Queen's Cabinet through the mouth of the responsible minister is, however, so seldom quoted, that it is well to remind ourselves of its exact terms:—

“The Transvaal is wealthy in its possession of gold. I know it has been among the complaints of those interested in the goldfields that their taxation has been excessive; but I believe at any rate from the best information that I can obtain, that under a pure and honest government it will be perfectly possible for the Transvaal not only to bear the ordinary expenses of government and to provide for the maintenance of peace and order within that territory, but also to provide a reasonable sum towards the expenses which we may incur in this war consistently with a reduction in the taxation of the goldfields.”¹

¹ *Hansard*, October 23, 1899.

It is obvious that, if the Rand should become British territory, instead of remaining after the war (as Sir M. Hicks-Beach assumed) within the Transvaal, the mines will have to pay a heavy contribution. The war has been so enormously costly that no conceivable Government which had brought it to a successful issue would be satisfied with a small indemnity; and the mining area being incomparably the richest taxable area in the Transvaal, the greater part of the indemnity, as well as the additional interest on the Boer National Debt, would be borne by the Rand. If, on the other hand, the Rand were absorbed into English territory, the case for special taxation would be overwhelmingly strong. For it must be remembered that, while consols fell considerably at the prospect of war—say 6 or 7 per cent. between June and November—Rand mines, Chartered, and similar securities rose from 30 to 300 per cent. The following table gives a few quotations at certain dates. The first is just before war began, when holders were still in doubt as to whether their hopes might not, after all, be shattered. Even at the end of January quotations were still in all cases higher than at the beginning of October.

	October 3.	October 20.	November 25.	December 16.	January 31.
East Rand	4 $\frac{1}{2}$	7 $\frac{1}{4}$	7 $\frac{3}{4}$	5 $\frac{3}{8}$	5 $\frac{5}{8}$
Rand Mines	27 $\frac{1}{2}$	38 $\frac{1}{4}$	42 $\frac{3}{8}$	32	30 $\frac{3}{4}$
Goldfields	5 $\frac{1}{4}$	7 $\frac{1}{2}$	8 $\frac{1}{8}$	6	6 $\frac{3}{8}$
Chartered	2 $\frac{5}{16}$	3 $\frac{1}{2}$	4 $\frac{1}{16}$	5 $\frac{1}{16}$	3
Modders	7 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{3}{8}$	7 $\frac{5}{8}$	7 $\frac{7}{8}$
Randfontein	2 $\frac{1}{4}$	2 $\frac{7}{8}$	3 $\frac{3}{8}$	2 $\frac{5}{8}$	2 $\frac{1}{8}$

Now at the third date the capitalists felt morally certain of British rule being substituted for Boer, and therefore it would be reasonable that a large share of the cost of this substitution (*i.e.* of the war bill) should be taken out of the enhanced value added to the mines. The most competent managers and directors estimate that the increase of dividends which would follow a change from the Boer system to the British would amount to several millions per annum. The reduction of wages and abolition of the dynamite and railway monopolies are the chief items. If, then, the war bill should ultimately mount up to £90,000,000, the British taxpayer would have a right to expect a contribution of at least £30,000,000 from the Rand.

What is the war costing? The estimates for expenditure up to the end of the financial year are only £23,000,000. This, of course, simply means that £23,000,000 is that portion of the liabilities incurred up to March 31, which the Government proposes to pay during the current financial year. If the contractors had been paid cash down, double that sum would, I feel sure, be within the mark. And since the Chancellor of the Exchequer decided that he would not increase the income tax last October—a course which Sir William Harcourt urged

upon him and which would have been in accordance with precedent—he certainly cannot be blamed for arranging to throw as much of the expenditure as possible upon the next financial year. But this makes it all the more imperative that the coming budget should be formed in the heroic mould cast by Mr. Pitt during the Napoleonic struggle, and copied by Mr. Gladstone and Sir George Lewis from the beginning to the end of the war in the Crimea. The income tax was doubled by Mr. Gladstone in 1854 in view of a much smaller expenditure than will have to be met in 1900. It should be doubled again, unless the taxpayers are less patriotic as well as more prosperous or the Government is intimidated by the size of its majority. The beer duty and the spirit duties should yield richly to the extraordinary expenses of the war. The license duties also demand revision; at present they are graduated in favour of the larger and richer houses. This is a public scandal which ought to be remedied. If these duties were revised and raised, the probate duties could be freed for Imperial purposes. Lastly, in order that all classes of citizens may feel the burden and responsibility of war, the duties upon tobacco, tea, and coffee should be increased. The Chancellor of the Exchequer has expressed his intention of paying for the war out of current revenue, and of drawing a specially large contribution from the income tax. This would indeed be sound finance. I am afraid, however, that his intentions will not be very fully translated into law. But if public credit is to be restored, and if we are to borrow at a reasonable rate of interest, the taxation for the coming year ought to be brought as nearly as possible up to the level of estimated expenditure. It is impossible to estimate as yet, even approximately, what will be the permanent addition to our civil and military charges traceable to this war. With regard to the fleet the extraordinary expenditure of last year has been made ordinary and another million added. An annual additional charge of not less than five or six millions seems to be the least that is contemplated for the army estimates. I think that the permanent incidence of this war in South Africa upon the British taxpayer is likely to prove even more oppressive than that of the Crimean war. Will there be as much consternation among the political financiers?

F. W. HIRST

February, 1900.

RECENT OFFICIAL PAPERS.

Strikes and Lock-outs of 1898. Board of Trade (Labour Department). [C. 9437.]

THE number of disputes in 1898 compared with the four preceding years was small, but the amount of working-days lost was large owing to the dispute in the Welsh Coal Trade, which alone caused a loss of more than $11\frac{1}{2}$ million days out of a total of some $15\frac{1}{4}$ million days.