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Note on the Budget of 1900

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NOTE ON THE BUDGET OF 1900.

“FRAUD,” said an eminent Equity Judge, “vitiates everything.” The financier might pronounce a similar judgment on war. The best arranged and most elastic system of finance is unable to meet the exigencies of war without strain, and all the plans of reform which a competent Minister (or his permanent advisers) have formed must be laid aside for a happier time.

The English Budget of 1900 supplies a good instance of this influence. What would have been a large surplus available for the purpose of readjustment has been changed into a much larger deficit. The process of paying off debt at a premium (running at times to 14 per cent.) has been replaced by borrowing with a premium of $1\frac{1}{2}$ per cent. to lenders. The truth of course, is that a war budget has to be judged on different grounds from a peace one. The great essential is to secure adequate funds at once, without unduly affecting political conditions. To avoid causing discontent—“to carry the country with him,” as the phrase goes—is much more important to the politician than observance of the general principles of equality and economy, which are the maxims of the sober times of peace.

Regarding the matter in this way, we are led to the conclusion that the Chancellor of the Exchequer has acted with commendable prudence. His measures are not heroic, but heroic finance is both troublesome and expensive. An energetic section of public opinion (probably represented within the Cabinet) pressed for duties on sugar and corn. A great many persons would have liked to see the war expenses met altogether by borrowing. But neither of these courses has been taken. Existing duties have been made to yield more, and the special war impost—the income tax—has been increased 50 per cent. As to the soundness of this policy there can be hardly any question. To impose a fresh tax of a highly productive character, as the sugar duty would be, for a temporary purpose would be quite inexcusable,

more particularly as the thorny "bounty" question would have to be faced. A corn duty would have been in principle even more objectionable. The avoidance of any fresh taxation would have made a loan of 50 millions necessary, and would have been an abandonment of the policy established at the time of the Crimean war, and eloquently expressed in a famous speech of Gladstone's (March 6, 1854), viz., that a substantial portion of war expenditure should fall at once on the present taxpayers. The Budget measure accomplishes this, and it therefore deserves approval.

The chief points for criticism arise rather in connection (1) with the respective amounts raised by taxation and by borrowing, and (2) with the particular form of the new war loan. There was a good deal to be said in favour of immediately doubling the income tax (as proposed by Mr. Hirst in the March No. of this JOURNAL) from its level of 8*d.* Corresponding increases on the additional taxes on spirits, beer, and tobacco would also have been defensible, and then the remainder of the burden might have been added to the floating debt without raising it above the point at which it stood after Mr. Goschen's conversion of 1888. But though these drastic measures would have been in accordance with general principles, the balance of advantage appears on the whole to be in favour of the present Budget provisions. A very great alteration in duties on commodities, or even in the rate of income tax, is not desirable. A rate of 1*s.* for two years is preferable to one of 8*d.*, succeeded by one of 1*s.* 4*d.* Relative permanence of duty is most important in the administration of both customs and excise; so that the retention of the present rates, until the war burden is cleared off, will be more to the public advantage than very heavy pressure for a single year. It need hardly be said that political expediency told in favour of making the present charge as light as possible, or at all events of spreading out the burden over a fairly long period, and financial measures are the work of the Cabinet as a whole, not merely of the Minister of finance.

The second point is more serious. Looking at the matter from the financial standpoint, it is evident that the method of the war loan was faulty. The largest English stock is the 2½ "Consols," and it was quite possible to place any necessary amount of this stock on the market without submitting to a discount. The reduction of interest to 2½ per cent. would take place automatically in a few years, and the arrangements for redemption are in actual working. Granting, however, the expediency of a special war loan, there could have been no financial

reason for departing from the proper method of inviting tenders above a minimum price, and taking the highest. Judging from the premium the loan actually commanded, the total amount of 30 millions would have been taken at something over par, instead of 30*s.* under par, as actually happened. But every shilling meant a sum of £15,000, so that the loss may fairly be put at over half a million. The evil, moreover, is not so much in the actual loss as in the bad precedent created for the future. The attempt to intrude a patriotic element into the subscription to a loan offering a certainty of profit, though ridiculous in itself, yet showed the defect of the proceeding. The best to be expected is that in a few years the new stock will be redeemed, and be lost to memory.

A more interesting question suggested by the present situation is the financial methods by which a war with a leading power or powers would have to be supported. It is plain that future wars will be costly beyond any precedent, and that nothing but taxation of the most rigorous kind could meet the emergency. A 2*s.* income tax, with perhaps an additional charge on property, and high taxation of commodities in general use would be required. As a preparation for such a crisis, the best *financial* device is the reduction of existing debt. The present debt-charge is equivalent to an income tax of 8*d.*, and the redemption-charge is about 2*d.* more. But a further resource appears to be available in the contribution of the Empire as distinct from the United Kingdom. We can hardly doubt that the problem of the proper contributions from different parts of a realm, which vexed the minds of Adam Smith and Pitt in the case of Ireland, will recur in reference to a far wider area.

C. F. BASTABLE