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The Budget of 1908

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NOTES AND MEMORANDA

THE BUDGET OF 1908.

OWING to the special circumstances of the political situation this year's Budget, by a return to a course deserted for sixty years, has been "opened by" the Prime Minister himself, and this unwonted proceeding has added piquancy to an occasion sufficiently interesting on other and more substantial grounds. Improvements in financial returns and the wider circulation given to their contents by the Press have taken away most of the mystery that used to surround the national finances. Receipts and expenditure are made known to the public during the progress of the financial year, and at its close the balance of the accounts is obvious. Further, the estimates for the expenditure of the coming year are published, and supply data for a calculation as to the revenue needed. Thus the expounder of the modern Budget has only to place in a clear light a series of facts already known in detached parts. His constructive task begins with the alterations in administration and taxation that he may propose, and these were awaited with keen expectation. In the present case the narrative has proved a cheerful one. In spite of declines in excise and stamps, the revenue has decidedly exceeded the estimates, while expenditure, even with supplemental estimates approaching a million, is lower than the amount provided for. As the outcome of these facts the year shows a surplus of £4,726,000. But this figure, large as it is, gives a very inadequate idea of the real excess of receipts over outlay, for the terminable annuities and the new Sinking Fund have paid off large accounts of debt amounting in the aggregate to nearly fifteen millions,¹ and this figure must be added to the so-called "realised surplus" in order to get the true excess of income over

¹ The precise amount is difficult to state, for (1) the funded debt has been redeemed under par and so has the portion of the war loan of 1900 bought in; (2) the terminable annuities are a complication in framing the true account.

outlay. After allowance has been made for the "old Sinking Fund," or realised surplus of 1906-7, it appears that the true surplus for 1907-8 is between £14,000,000 and £15,000,000, or more than the total yield of the duties on tea, coffee, cocoa, and sugar. Were the country resolved to leave the debt at its present level and disinclined to increased expenditure, the free breakfast-table might be at once brought into existence. But neither of these sentiments is felt by the administration which is prepared to continue the policy of debt-reduction, though at a lower rate, and is likewise ready to incur fresh charges for the purpose of social reform.

Before dealing with the principal parts of the Budget scheme two less prominent but really important points may be noted, viz., (1) the absorption of the local taxation account in the general finance, and (2) the proposed reconstruction of the revenue departments. By a clause of the Finance Bill of 1907, Lord Goschen's unfortunate device of assigning parts of special taxes to the aid of local finance has disappeared, and it would seem that in the future the allocation of the amount quoted for this purpose should be voted by Parliament after due explanation by the Minister accountable. The advantage of bringing all revenue collected by the State into the Budget account is obvious, though the fact that central expenditure does in this way supply a part of the local receipts should not be disregarded in estimating the total burden imposed on the country. As to the second, it cannot be denied the duties of the Excise and Customs Departments are closely akin. Even at present "the two departments, though nominally independent, transact much of each other's business."¹ The wisdom of placing the taxation of commodities under a single department ought to be manifest. It was implied in Walpole's excise scheme, and is specially important in a free-trade country. The proposal in the Budget to transfer the excise from the Inland Revenue to the Customs is therefore to be welcomed as tending to greater clearness and higher efficiency.

The great interest of the Budget, however, centres in the long-announced plan for old age pensions, and to this topic the Prime Minister devoted a large part of his speech. Nevertheless, it is true that, strictly speaking, expenditure on pensions of any kind is, as such, on the same line as military or naval expenditure and therefore the policy does not belong to the financial department. A pension measure is like the territorial army plan of the War Minister, to be considered on other than financial grounds. But

¹ *Dictionary of Political Economy*, Art. "Customs."

if justification of the course actually taken be needed it is to be found in the dependence of the pension scheme on sound finance. Unless due provision is made for adequate funds, there must be a disastrous collapse. The basis of the measure is to be found in the largeness of the surplus revenue. It is this cardinal fact which governs the situation. Whether old age pensions are desirable or not is a question, not of finance, but of social policy. Their possibility rests on the guarantee of a revenue sufficient to meet the charge. It is accordingly unnecessary to deal with the difficult question of policy, and we need only note that the scheme set forth in the Budget does not impose a burden beyond the power of the existing revenue to meet. The sugar duty at the rate at which it was imposed, a 6*d.* duty on tea, or half the present duty on tobacco would suffice to give the required £6,000,000. The financial danger lies in the pressure for increasing the amount of pension or lowering the initial age, which will undoubtedly come into active operation. The growth from £6,000,000 to threefold the amount seems as likely as the growth of the cost of education or the naval estimates. We may take a hopeful view of the growth of the country's income, but the risk of war cannot be overlooked, in which case the difficulties of a heavy Pensions Bill would be keenly felt, unless the unpopular course of reducing it were resorted to. The truth seems to be that the competition of the rival parties has made old age pensions inevitable, leaving to the financier only the duty of securing a proper adjustment of the scheme to the available revenue.

The only unexpected feature in the financial proposals was the reduction of the sugar duty by more than one-half. The large interests concerned in the use of this commodity had given up all hope of relief for this year, and were consequently peculiarly pleased. The remission is as prudent as it is likely to be popular. The experience of the last seven years has shown that the sugar duty is harassing to many manufactures, and that it operates almost as an income tax on the poorer classes. It has been steadily condemned by many members of the Government, and its complete removal appears to be one of the next steps in Liberal financial policy, even if direct taxation has to be further developed.

Taking the policy of the Budget as a whole, its characteristics are easily ascertained. It maintains the sound rule that, in addition to meeting the expenses of the State, the revenue shall be sufficient to provide for substantial repayment of debt. It equally shows adhesion to the cardinal principle that the taxes

imposed shall be comparatively few and all productive, and even indicates a further application of this principle in the future. It recognises the weight of opinion in favour of social reform by providing the basis for gradual development in this direction, and finally it marks a step in the process of removing the taxes that the South African war made necessary. In a word, it continues the traditions of Peel and Gladstone under the altered conditions of a new time. Regarded in another way, or from the negative side, it has done nothing to encourage the idea that fresh resources are to be found in new, or in the revival of old taxes, and it has left to the future to deal with the grave problem of increasing the proportion of direct taxation. As the super-tax on large incomes has been postponed, so has the generally anticipated tax on motor vehicles. We may, indeed, conjecture that had there been no change in the Chancellorship of the Exchequer there would have been other important adjustments in the financial system. But the consistent carrying out of a settled and definite policy, the initiation of a difficult and debatable measure of social relief, and the planning out of a considerable administrative change are tasks quite great enough for a single year. When the completed record of the present chapter of national finance comes to be written it will be interesting to compare it with the results of the very different methods of the preceding period, and also with the expedients that the supporters of an opposed policy announce themselves ready to carry out.

C. F. BASTABLE

THE PRINCIPLE OF RATING : A REPLY.

I DO not propose at present to reargue the question whether the exemption of buildings from local rates would encourage the growth of the population in highly-rated towns as compared with the low-rated country.¹ Mr. Harper, who, in the March number of the *ECONOMIC JOURNAL*, has criticised my views on the subject, cannot see that if we remove a big "discouragement" to house accommodation from one place and only remove a small "discouragement" from another place, we shall encourage people to live in the former rather than in the latter. I, on the other hand, cannot see how anyone can doubt it, and will content myself with pointing out that when Mr. Harper complains that I confuse "the reduction

¹ *ECONOMIC JOURNAL*, March, 1907, pp. 36—46.