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The Budget of 1909

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Source: *The Economic Journal*, Vol. 19, No. 74 (Jun., 1909), pp. 288-293

Published by: Wiley on behalf of the Royal Economic Society

Stable URL: <http://www.jstor.org/stable/2221457>

Accessed: 02-05-2016 13:07 UTC

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The Economic Journal

NOTES AND MEMORANDA

THE BUDGET OF 1909.

MANY of the important issues of financial policy are brought definitely into public notice by the proposals of the present Budget. Not for many years—probably not since Harcourt's recasting of the "death duties" in 1894—have so large a number of fundamental questions affecting the basis of the financial system been forced on the attention of the House of Commons. Such, however, has been the necessary tendency of the financial policies that have been put forward by the several parties during the last half-dozen years. The sharp contrast between the method of using the agency of taxation solely for revenue, and that which claims to employ it for the promotion of politico-social ends has had the further result of suggesting, even to those who incline to the stricter view, the expediency of recognising the political necessity of employing the resources of the community in the interest of the weaker classes of society. The fact that this involves greater pressure on the holders of property, and specially on those who have profited by the "opportunity" (*Conjunctur*) gains, so largely available in modern life, is, obviously, not a reason for refraining from this course; it may even act as an inducement. The spur of fiscal necessity—manifested in the shape of a prospective deficit—has proved the one thing hitherto lacking for the establishment of an active movement in this line. The whole Budget scheme is the outcome of the condition just indicated. Under more favourable circumstances of trade and industry the course of Liberal finance would have been in the direction of remissions of taxation; growing demands for expenditure have developed it in the line of expanding the charges on income and property.

Taking the elaborate exposition of the Chancellor—which rivals in length Gladstone's great speech of 1853—perhaps the first point for notice is the curious omission of any recognition of the really satisfactory results of the year 1908-9. In a time of general trade depression, when other countries found their receipts falling

far short of their outlay, the English revenue showed a substantial surplus of more than £7,000,000. One of the evils of the complicated Sinking Fund arrangements is the concealment of the true financial situation which results from them. But a few passing words would have made plain the existence of at least eight millions applicable to debt repayment, as against the £700,000 alleged to be the actual deficit. Possibly, the novel, though convenient, plan of issuing the figures of revenue and expenditure beforehand may account for this oversight. The great elasticity of the English system, in marked contrast with those of Germany and the United States, deserved some attention, as it confirmed the position adopted in the Budget plan.

Next it may be said that a doubtful part of the new proposals is the rather undefined change respecting the "old" Sinking Fund. Since 1829 the principle that all real debt repayment must come out of surplus revenue has been formally recognised by devoting the yearly balance to that object. Northcote's appropriation of a fixed amount to the debt service was severely criticised by Gladstone, as a departure from the salutary rule. Some obscurity hangs round the account given of the development fund, there is a suggestion of copying from one of the least happy expedients of Irish administration. The Finance Bill only can clear up this haze. If, as may be the case, it is intended to carry over the surplus to be distributed by Parliamentary authority in the following year for purposes of national improvement, there is little room for objection; but this might easily have been made plain.

Connected with the Sinking Fund is the reduction of the annual appropriation for the debt charge to £25,000,000, which is supported, though hardly justified, by the examples of Goschen and Harcourt. The best defence is the plea of immediate financial pressure; and it must be said that the reduction—£3,000,000—is less than was generally anticipated. It also comes after a period of large debt repayments.

Turning to the year 1909-10, a serious deficiency had to be met. If English financial methods were as lax as those of most other countries the difficulty would, for the moment, be got rid of (*a*) by taking the remainder of the new Sinking Fund—broadly, seven millions, and (*b*) by contracting a loan for the balance—about £6,000,000. The probable trade recovery in 1910-11 would then be relied on to prevent the recurrence of the strain. Happily, a sounder tradition has made anything of the kind as yet impossible in this country. "Deficit financiering," as the

Americans call it, is opposed to the established rule from the time of Peel. The same tradition, moreover, secured a wise moderation in the estimates of revenue for the coming year. Mr. Lloyd George adheres to the Peel-Gladstone principle, *viz.*, "To estimate expenditure liberally, to estimate revenue carefully, to make each year pay its own expenses"; and he accordingly has cut down the anticipated receipts, taken on the old basis, by over £3,000,000, thereby cancelling the advantage gained from the reduced Sinking Fund; *i.e.*, so far as the new year's balance-sheet goes. As the net outcome of these adjustments the uncovered claims of the current year presented a total of £13,500,000, and the problem of devising equivalent fresh taxation had to be faced. In former times—even under Gladstone's Ministry—additional duties on articles of common consumption would have been the first resource; increased tea and sugar duties would have been inevitable, and it must be said that they would prove decidedly productive. But the desire to relieve these objects of innocent use from taxation has been the reason for confining the new indirect taxation to increases of the already high duties on spirits and tobacco. In the case of both these commodities no extra interference with industry is entailed, and they are articles retrenchment in which does not affect efficiency.

The real grounds for question are rather (1) the difficulty of maintaining such extremely high rates on the products of special industries; (2) the unfairness of distribution as between England and both Ireland and Scotland: to which may be added possible difficulties with France, in consequence of the effect on the important Cognac industries, which are already complaining of the former rate of duty. The estimate of yield is also unduly cautious; neither spirits nor tobacco can be regarded as elastic in respect of demand. It is quite possible that either in this or in the next financial year some remission of the spirit duty will be conceded.

Closely connected with the advance in the spirit duty is the revised scale of manufacturers' licences. As the brewer's licence is to be based on output, it is evident that it amounts to a small excise charge, requiring an equivalent Customs duty; though so small that its transfer to the consumer will be somewhat difficult. A natural criticism is to note the danger of mixing up two distinct forms of imposition, possessing very different features.

The only part of the Budget which was foreseen by everybody was the increase of the licences on retailers of drink. The scale of 1880 was admittedly unfair and inadequate; the proposed

licence-charge of 50 per cent. on valuation is denounced as oppressive, and it will probably undergo modification. Bearing all the complications in mind, the transfer of these licences to the local authorities, with discretionary power of adopting lower rates, accompanied by equivalent reduction of the Exchequer Grants, would seem to be the line of least resistance. Such a step may well be a part of the contemplated reform of local finance, which is promised in the near future. Certainly, the drink licences appear to be a specially suitable form of local revenue.

By far the most vulnerable part of the complicated scheme is that which deals with the "stamp" duties. For many years there has been a decided tendency on the part of the Treasury to favour the development of duties on transactions and business. The small gains thus obtained are peculiarly attractive to the official mind; they are equally repulsive to those who are harassed by them. The new duties affect (a) the transfer of property, (b) bearer bonds, (c) contract notes. In each class there is a serious increase of burden, affecting the most varied interests. Thus the Irish purchasing tenant, the ordinary investor, and the Stock Exchange speculator, are all restricted in their free dealings with their particular interests or possessions. If, as is reported, Mr. Lloyd-George wanted "something to play with," the stamp duties are the best fitted for the purpose, and may be offered as a sacrifice to the opponents of the Budget.

In the sphere of direct taxation the changes are far more drastic, and are such as to excite the keenest hostility on the part of the holders of property. Put shortly, they are:—(1) An increase of 16 per cent. in the income tax on unearned income; (2) The adoption of a second, or supplementary, tax on incomes exceeding £5,000 *per annum*: the "super-tax"; (3) Considerable increase in the progression of the death duties; (4) Increased legacy and succession duties on collaterals; (5) A series of new taxes on land. The first head really amounts to a further development of the extra tax on receipts from property, introduced in 1907. Its effect is to make the special charge on property incomes $55\frac{1}{2}$ per cent. of the general levy. The super-tax supplies a mode of progression which is open to the objection that it singles out a small class for peculiarly rigorous treatment. But the grievance that seems most serious is that of the receiver of a moderate "unearned" income, which may have been secured by a long course of saving. In fact, it looks as if the question of relieving savings from income tax, as advocated by Hibbert and J. S. Mill, is one that recent changes must force on the

public attention. A graver matter from the fiscal point of view is the doubt whether these heavy increases will prove productive. It is not necessary to sympathise with the oppressed rich man, who has to abandon his "charities" (?), in order to recognise the danger of pressing on the larger incomes in such a way as to lead to avoidance and evasion. The "tax-dodging," so prevalent in the United States, might easily arise if a hostile feeling were really excited. Moreover, the absence of elasticity in the yield of the death duties suggests that the limit in that direction is not very far off. It has further to be remembered that even in the wealthiest countries property taxation *tends* to trench on capital. With such large repayment of debt as in the years 1906-9, this objection to death duties lost a great deal of its force. The curtailment of the new Sinking Fund brings it again into prominence.

On the whole, it may be said that the new Budget carries on the line of policy marked out since 1906, perhaps since 1894, as essentially that of liberal finance. To increase the contribution from direct, in order to moderate the weight of indirect, taxation is the aim which has in the main been followed.

The land taxes belong to a somewhat different category. In the competition of party programmes, as one side has favoured protective taxation so has the other leant towards the imposition of special burdens on land. Projects of taxation of "site-values," or of charging the "unearned increment," have won a great deal of favour. But they now, for the first time, appear as one of the divisions of the national taxation. How speculative is the basis on which the new proposals rest is clear from the fact that the total revenue expected from this group of taxes for the current year is only £500,000. A larger return is, indeed, indicated in the future, but with no great confidence as to its realisation. In spite of the very strong weight of opinion in circles which were influential, it may be reasonably held that if the special taxation of land is to be made thoroughly effective it must be as a form of local revenue. The problems of valuation and securing due allowance for special circumstances are safest in the hands of those on the spot, subject to the control of the general provisions of the law. As with the licence duties, so with the land taxes: both belong to the class of charges that seems provided for local use. Besides, as a mere question of expediency, the allocation of these taxes to the local authorities would remove a considerable body of opposition, and secure further support. There is, however, no reason for thinking that the present duties are anything

more than the germ of a fuller system. That the whole question of land taxation raises serious issues, especially in respect to the position of land as an article, limited in quantity, and therefore acquiring a "scarcity" value, is a reason for caution in its treatment; but to those who accept the arguments of Mill and Cairnes, the grounds on which the taxation of increased land-value is based are sufficiently weighty to justify the proposed taxation of fresh increment value and reversions. The great complications surrounding the actual holding of land, and especially urban land, make the attempt to intercept some of the surplus value for the public use, without disturbing just claims, an extremely arduous task. A highly tentative measure, like the present, is probably the most in accordance with English traditions, as it allows a field for experiment, and does not involve any heavy loss to those coming under its operation. The very exaggerated claims put forward in some quarters as to the advantage of bringing land into the market will also be tested, without undue sacrifice. As a fiscal expedient the land taxes will not, in all probability, prove of service, unless they are carried much farther than is contemplated by anyone outside the circle of Socialism.

No really satisfactory judgment can be formed on the more technical parts of the Budget until the Finance Bill is introduced, for a good deal depends on the precise wording of the provisions of the projected law. The broad outline is easily discernible, and it leaves the impression of a scheme, framed on the lines of the policy shown in the whole course of recent liberal financial ideas. The limitation of indirect taxation to spirits and tobacco, the great expansion of the direct taxes, and the conception of obtaining funds for social reform, are so many indications of this character. As an agency for accomplishing the desired aims, the Budget chiefly fails in its excessive complication, and perhaps also in its want of proportion. Nearly every side of the revenue system is touched, but in a way that renders it hard to perceive the results to be expected. The great Budget of 1853 was, indeed, a vast and complicated performance; the conditions of that time were, however, entirely different, and Finance Ministers of the calibre of Gladstone are not easy to find.

C. F. BASTABLE

INCOME TAX AND DEPRECIATION.

THE following is the text of a speech made by Mr. P. D. Leake on the occasion of a deputation to the Chancellor of the