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The Exchequer Grants

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THE EXCHEQUER GRANTS.

SINCE 1860 the relation of local to national taxation has been a question acknowledged as deserving thorough treatment by Parliament, by which I mean, in this connection, the House of Commons. Governments meantime have come and gone, but the contributions by the Exchequer in aid of local burdens, while very different from those of that day, are even more unsatisfactory as a whole. I am not unaware, of course, of Mr. (afterwards Lord) Goschen's treatment of the subject in 1888, and the patches, large and ugly, laid since then on his somewhat questionable garment. His contribution is a failure because the question as a whole was not solved, viz., what is to be the relation of national to local taxation, if any. A slight study of our administrative institutions makes it quite clear that in plan the central and the local authorities are supposed to be, not independent of one another, but separate; and in regard to finance to be quite self-supporting. The first question in regard to Exchequer grants is this—shall we aim at preserving the separation of local from national authority, with the corollary of separate financial assessment and control, or shall we, deliberately, adopt the French and other Continental methods of centralising government and making the cost of government at the centre and in the localities only another fraction of the total burden of the self-same, identical list of contributing taxpayers? Our present practice is founded on a separation of the national and local powers, but it is of such a character as would be tolerated by no Government except that so expert at “muddling on” as our own British administration. Even among us evidence is plentiful that it is common opinion that Parliament should no longer defer a solution of this question—what shall be the relation of local to national finance? As it is announced that the present Administrative powers are of the same opinion, and propose to table a measure for the reform of local taxation, I should like to show what the Exchequer grants are at this moment,

TABLE I.—*Payments to Local Taxation Accounts, in the year ended March 31st, 1908, for England, Scotland, and Ireland.*

	England.		Scotland.		Ireland.		TOTAL.
	£	s. d.	£	s. d.	£	s. d.	
1. Agricultural Grant (<i>Scotland</i>) Act, 1898 (61-2 Vict. c. 56; 1 Ed. VII. c. 13; 5 Ed. VII. c. 8)	—	—	98,084	18 8	—	—	98,084 18 8
2. Exchequer Contribution (Land Purchase Act, <i>Ireland</i> , 1891, 54-5 Vict. c. 48, sec. 5)	—	—	—	—	40,000	0 0	40,000 0 0
3. Agricultural Grant (Local Government Act, <i>Ireland</i> , 1898, 61-2 Vict. c. 37, sec. 48)	—	—	—	—	727,655	0 0	727,655 0 0
4. Local Government Grant (<i>Ireland</i>) Act, 1898 (61-2 Vict. c. 37, sec. 58 (1) (a), equivalent of Local Taxation Licences, 1906-7 ..	—	—	—	—	214,736	13 5	214,736 13 5
Sec. 58 (b))	—	—	—	—	79,000	0 0	79,000 0 0
<i>Payments under Finance Act, 1907, sec. 17.</i>	—	—	£98,084	18 8	£1,061,391	13 5	£1,159,425 12 1
I. CUSTOMS.							
5. Additional Beer Duty	302	7 10	34	5 1	59	16 11	395 9 10
Additional Spirit Duty	144,511	11 7	19,372	6 10	16,264	11 1	180,148 9 6
Total Customs	£144,813	19 5	£19,406	11 11	£16,324	8 0	£180,544 19 4
II. INLAND REVENUE.							
6. Excise—Additional Beer Duty	329,310	8 10	44,380	11 11	37,290	15 3	410,981 16 0
Additional Spirit Duty	643,456	11 9	86,403	16 4	80,527	11 7	810,387 19 8
Licences and Penalties.. .. .	3,738,870	2 4	380,370	4 5	—	—	4,119,240 6 9
Total Excise	£4,711,637	2 11	£511,154	12 8	£117,818	6 10	£5,340,610 2 5
7. Estate Duties—Under Finance Act, 1894, Relief of Rates generally	2,242,395	11 9	322,640	10 10	266,887	14 4	2,831,923 16 11
“ “ “ Rates on Tithe Rent Charges, (62-3 Vict. c. 17)	134,107	17 9	—	—	—	—	134,107 17 9
“ Agricultural Rates Acts, and consequential Acts.. .. .	1,326,387	16 11	182,378	6 7	—	—	1,508,766 3 6
Total Estate Duties	£3,702,891	6 5	£505,018	17 5	£266,887	14 4	£4,474,797 18 2
Total Inland Revenue	£8,414,528	9 4	£1,016,173	10 1	£384,706	1 2	£9,815,408 0 7
Total Payments under Finance Act, 1907	£8,559,342	8 9	£1,035,580	2 0	£401,030	9 2	£9,995,952 19 11
TOTAL	£8,559,342	8 9	£1,133,615	0 8	£1,462,422	2 7	£11,155,379 12 0

how they are made, and to discuss one or two issues which arise on a survey of the whole subject,

Such a table requires several annotations, if only by way of a reminder of legislation on the subject. I have chosen the table of payments as at 1908 because it includes the licences which have since then been transferred for collection to the several local authorities concerned, together with £40,000 a year in lieu of the cost of their collection. There is also the important interference with the collection of revenue caused by the Finance Act, 1909-10, which make the figures for that fiscal year unsuitable for my present purpose, which is to show what grants local authorities receive under normal conditions.

The agricultural grants of the first section of the table are equivalents for Scotland and Ireland of the Agricultural Rates Grants of 1896 for England and Wales, while the £40,000 to Ireland under the Purchase Act of 1891 is a sum to "grease the wheels" of purchase. Under the former it will be recollected that it was reckoned that these sums would cover the owner's portion of the local burdens, which were thereby transferred to the State. Of the second portion of the table—payments under the Finance Act, 1907—it should be recollected that Act directed that instead of intercepting the revenues specified in Mr. Goschen's Act of 1888, and other grants, on their way to the Treasury they should be paid into the Treasury, and an equivalent sum paid into the Local Taxation Accounts. These latter grants consist of the "whiskey money," being an extra 6*d.* a gallon on spirit, and an extra 3*d.* a barrel on beer, and the licences are those specified in the Act of 1891, which are now collected by the various local authorities of counties and boroughs. The remaining grants are payable out of the proceeds of the estate duties, and are the equivalent of the duty on one and a half per cent. of the net capital value of the free personality upon which estate duty is payable, and on the same fund there was also laid the one-half of the rates on agricultural land by the Acts of 1896, for England, Scotland, and Ireland, the Irish portion being exchanged for a provision in the Act of 1898 (61 and 2, c. 37). The estate duty thus transferred in 1909-10 was £4,614,630.

The table on p. 7 should be perused with care, for it does not pretend to include all the contributions of the central authority toward local burdens. That fact alone is one reason for the urgent need of attention to the question. For years the garment has been subject to patching: a new garment is much to be desired. Since the 'sixties of last century the House of Commons

has been paying occasional addresses to the subject; ever since 1840, when Sir Robert Peel passed the Act exempting personal property from local rates, efforts have been made, not unsuccessfully, to get an indirect contribution to local burdens from personal property. Hence the various forms in which we find the Exchequer grants at the moment. The sovereigns in the Treasury are all from the same Mint, but it appears to be a satisfaction to some to earmark the revenue. As will be shown later, there is good reason for that, though the earmarking is not more than a pretence. The £11,155,379 is soon found to be considerably below the "total" contribution of the central to the local authorities. Though the table represents the actual state of these grants in 1908, it is quite as representative of the same grants in 1910-11, for none of them have been withdrawn. To that total we have to add the sums shown in the summary to the Civil Service Estimates as "charges transferred from local to Imperial funds, and certain other expenditure of a local character," which amount for 1910-11 to £3,753,780. The total may then be exhibited as follows:—

TABLE II.

	England.	Scotland.	Ireland.	Total.
As in Table I.	£8,559,342	£1,133,615	£1,462,422	£11,155,379
Transferred charges ...	1,669,669	242,017	1,842,094	3,753,780
Total	£10,229,011	£1,375,632	£3,304,516	£14,909,159

The total of about £15,000,000 a year is quite as remarkable for the proportions of grant to the various countries as for the sum total, and particularly do the grants for Ireland attract attention. Much as the grants to local taxation require a systematic review, so also do all the various grants of all kinds to Ireland invite an overburdened House of Commons to a discharge of its characteristic duty in the supervision of the national treasure. Again, it must be added that these acknowledged grants do not represent the total contribution from the central to the local authorities. These acknowledged grants go to the relief of local rates formally. There are other charges on central funds which are of the same character virtually, though it is no doubt easy to show that the objects aided bear a national aspect. Such grants as the £179,000 annually to the Irish Development Grant, and £400,000 annually to the Development Grant under the Finance Act, 1909-10, are of a character which must not be overlooked when seeking the State's total contribution to local purposes. More to be questioned still, and by far the larger

aspect of the whole question, is the education vote, which stands at £18,651,483 for 1910-11, of which $17\frac{3}{4}$ millions go to elementary education and the cost of administration. Of course, this last sum is the State's contribution, and does not include the amount raised by local authorities for education. Local authorities raise about £13,500,000 more, in the United Kingdom, for education and educational purposes, almost wholly in England, Wales, and Scotland.

These subventions in aid of local taxation raise the delicate question of the incidence of the various taxes and rates. Since 1840 none but real property is rateable throughout the United Kingdom, and the burden of the rates, apart from the subventions, may be regarded as borne, in England and Wales more especially, by the owners of land in the general case, and by them and occupiers of property, perhaps, in certain cases where population presses hard in an area. The case is very different with our national taxation. There a very large proportion of the tax revenue is raised indirectly, raised from many who cannot be regarded as ratepayers. The two taxed constituencies overlap unquestionably, but many taxpayers in the one are but remotely concerned with burdens charged to the other class—the ratepayers. It is evident then that the subventions from national resources which are in question relieve the burdens of the ratepayers as such, and relieve them by causing non-ratepayers to bear a portion of the local burthen. The incidence is shifted in part from the landowner, and from the occupier in populous towns, to the taxpayer who contributes to revenue through his consumption of tea, coffee, cocoa, sugar, tobacco, and various alcoholic drinks. On the principles of 1840 this is a departure of moment, and the question should be faced deliberately whether we should reverse in this cumbrous and circumlocutory manner the decision that local burdens should be borne by local real property, or rather by the owners of such property. For many years this issue has been avoided, and the challenge of the whole question is, and has been, that Parliament should decide this question of the responsibility for local expenditure. Is that expenditure to remain a local burden, on what conditions, and in what proportion (if such a question arises)?

The data of the last Royal Commission are becoming obsolete, so dilatory are the ways of an overburdened Parliament. The questions which occupied the attention of the Commission remain the problems calling for solution to-day; and the crux of the question respecting the Exchequer grants is the nature of the

services for which local authorities spend money, whether it should be deemed a national or a local service, whether, in short, any of the services which are onerous should be transferred, in whole or in part, to the national treasury. It is somewhat significant that there are no suggestions of services which should be made local which are now deemed national. There is also, as a rule, a tendency to slur over the question of benefits, and to concentrate attention chiefly on burdens; but it is obvious that in order to solve the question of burden an indispensable preliminary is to examine the question of benefits, in other words, the nature of the particular service, once more.

Roughly, the services of which the local authorities have charge are in three classes, which may be enumerated in historical sequence, viz., the relief of the poor, sanitary matters, and education. Here at once we get face to face with the fact that in the application of the national and local test to the several services undertaken by local bodies the line to be drawn is not always clearly seen. It is a fine question whether any local service is wholly local, whether the national and local elements of such a service can be sundered. The question seems to resolve itself in each application to the less or more, national or local, as the case may be. Relief of the poor has, indeed, been a charge on local authorities for three hundred years and more, and Lord Goschen taught that it was one of the ancient charges which were like a rent-charge fixed upon the land: it is undoubtedly a more ancient charge on such property than the well-known charge called "the land tax," of 1692. Here the more is unquestionably local. The same might be said of sanitary charges, which, indeed, have a national aspect of great moment, but even more direct are they local than the poor relief charges, because there is a benefit accruing to the local property by the work of which the charges are incurred. The charges for education are in a very different position historically and economically. No economic settlement is disturbed when remodelling or transferring a charge which has grown up since 1870. In this case also it has been acknowledged from the first that the cost of education is, in part at least, to be deemed a national charge, and it has been assumed as such in ever-increasing proportion. Taking England and Wales for 1906-7, the latest complete accounts, the expenditure on education, including loan charges, were £24,692,000, and the grants-in-aid from national sources were £12,097,000. This grant, of course, is over and above the grants summarised in Tables I. and II. on pp. 7 and 9. The

demand for the transference of this service wholly to the national charges is made confidently by many, and it is possible to admit that in this case the more does make for the national side, without agreeing to a simple unconditional transfer from local resources.

To obtain a clear view of the services which are already admitted practically to be of a national character, it is of some importance to dwell upon the objects for which the grants in Table II. are made. Here then we find grants, in England and Wales, for rates on Government property, for one-half of the expenses in ascertaining the demand for small holdings: eighty-eight per cent. on account of the diseases of animals, grants on account of the salaries and expenses (less the yield from stamps) of District Auditors, and for pensions to them, and also for vaccination expenses; grants for salaries and expenses of Clerks of Assize in criminal prosecutions; grants toward the Metropolitan police; grants to maintain the prisons and reformatories and industrial schools, and to maintain Berwick Bridge. The objects to which the grants transferred in Scotland and Ireland refer are much of the same nature, save that in Ireland there is the police service, both the Dublin and Royal Irish, which is made wholly into a national service. These are not inclusive of all the charges "of a local nature" to which grants are made from the national purse—such as those for the police, the salaries of local medical officers, and so forth. They do avail us, however, in judging of the nature of the services toward which aid is granted now.

The decision which appears to press itself upon our authorities is as to the relation between the national and local powers, the national and local purses. Shall that be overlapping as at present, some of the expenditure of local bodies being borne by the central authority, or shall an attempt be made to define and delimit the spheres of responsibility and charge?

There is common ground among students of this question which, while far from being the whole of the local taxation problem, is acknowledged to relate to that which is seriously contentious about it, and to be essentially one of the matters requiring a solution, or at least a decision respecting it. The common ground is this, that a system by which the central authority supplies the cost of a service which is administered by a local authority is open to strong objection, and that in particular our practice is wasteful. Let any student take our accounts, and he will find that the arrangements of 1888, in the Local Government Act, were followed by a great expansion in

charges incurred by local authorities. That expansion is due to more than one cause probably, and especially to a revulsion from the spirit of the poor law reform of 1834. Allowing for that, it is yet acknowledged by those who have experience of our local affairs that divided financial responsibility has led to lax and wasteful administration. The position, also, in which local bodies have been induced every now and again to appeal to national powers for aid in their work is evidently a precarious, unhealthy one. Self-reliance is as healthy for public bodies as for an individual. In short, our constant applications to national resources are debilitating and costly, resulting in a state of profuse expenditure regretted by all who know it. What should be done?

There can be no question that the position has changed somewhat since the report of the Royal Commission on Local Taxation was issued in 1899. Since then considerable changes have been made in the national taxes, changes which have touched both the direct and indirect taxes leviable throughout the United Kingdom. In a survey of taxation which can never disregard the whole field, and include both national and local imposts, it is not unimportant to consider the share of national taxation which is levied indirectly. That becomes of much importance obviously when the plea upon which demands for aid from the Exchequer is made is borne in mind. That plea is usually that local burdens are levied upon one kind, viz., real property : in other words, it is an attempt by means of grants to circumvent the decision of 1840 that only real property shall be liable to the poor rate. It is true, as has been said already, that since that date charges have been laid on the same basis as the poor rate, which have nothing to do with the maintenance of the poor; but it is also true that in the allocation of grants-in-aid the charge for the poor has been brought into account, and in 1888 it was proposed that the allocation in England and Wales of the proceeds of the transferred revenue should be in proportion to the indoor paupers. Though that was not accepted ultimately there can be no doubt that those grants do cover some portion of the charge for the poor, and do bring relief to owners of property rated for the poor. The more this question is probed the more obvious it becomes that what is required is a delimitation, if possible, of the spheres of national and local taxation respectively. There is no finality in politics; but it is desirable that Parliament should take up this task, and declare what shall be borne by local taxation and what by national taxation, or take a decision as to what the relation shall be in the future between the two. A

situation in which one is always begging of the other, especially when the incidence of burden is taken into the account, is becoming intolerable. Recent applications to the Treasury by the L.C.C. and other local authorities show us very clearly how undesirable are arrangements which invite such local authorities to cover up a growing expenditure by seeking aid from the central authority. This declaration does not, of course, touch the merits of the demands now made by these authorities on the Treasury, but is directed to the necessity of a change in the law, which should aim at a healthier state of things, a state in which those who incur an obligation should be responsible for the money to discharge it.

In addition to the separation of national and local taxation and finance it is very desirable that such grants as are made should be reviewed in correlation with expenditure for similar objects. Cross-spending should be eliminated. This is only secondary in importance to the separation of national and local finance. A capital instance of this is found in regard to education. When Government grants to education are referred to the grants made by the Board of Education are usually thought of—a series of grants much in need of review as a part of the cost of public education—but it is often overlooked how that a very large sum is applied by local authorities under the “whiskey money” (Local Taxation, Customs and Excise Act, 1890) for what the Local Government Board deems “higher education.” Such a method of applying public money cannot be defended. The same public local authority gets sums of money for educational purposes from two departments of State, just as at present a central body dispensing Government funds and the county councils are spending money on public roads, and in this case of education the local authority has but to spend this grant money. That is an objection which applies to such a grant as that of 1896 to agricultural rates also. The grant itself is part of the question as between national and local burdens, but that local authorities should, say in England and Wales, receive about £1,350,000 a year from Government towards their expense is, *per se*, a premium on extravagance, while the grant may be objected to on other grounds.

We may revert to the education grants to consider the problem of a settlement of the relation to be established between national and local finance. As was said, already the basis of these grants to education needs a thorough review, but in this place their position as aids to local taxation is the chief point of view. We

may assume that the cost of education, publicly provided, in the United Kingdom is about £27,000,000 to £30,000,000, a vast sum, the vastness of which has not been considered by the tax- and rate-payers. Some one-half¹ of that is derived from national sources; perhaps the sum may be under that. In any case, the quota of the cost borne by the taxes has grown very considerably since 1870. But those who speak for certain interests, and it is significant of much, also, that local authorities without an exception join in their representations, demand that the education charges should be borne by the Exchequer. It may be that some of our local authorities do not insist upon the transfer of the whole charge to the Exchequer; but that there is a demand for aid to the rates from all points of the kingdom is well known. In the case of some individuals, and of some local authorities, it is probable such a demand is simply the desire for relief to the ratepayers, whose complaints trouble the members of the authority, rather than a conviction gained as the result of a study of the incidence of taxes and rates, and of the relation of taxing power to the power to spend. Leaving that for a moment, it is becoming more common to find opinion in harmony regarding the national rather than local character of the educational services, and consequently a readiness to consider once more the State's obligation toward education. When the whole cost is said to be due from the State, an evident difficulty appears. No experience is better read than that administration and financial responsibility should be yoked together. Our local authorities spending £27,000,000 to £30,000,000 of national funds, without any fear of a rate- or tax-payer, is not a vision to please any cautious man. Our experience of present grants-in-aid forbids such an extension. The most that could be entertained with safety as an extension of the aid to education would be some portion of the cost short of the whole, an arrangement by which local bodies would be left with an incentive to good and careful administration. The form of grant will be important; that form should be such as will leave the whip in the central authority's hand, for, of course, authorities will differ as to the sums they may desire to spend on buildings and other matters. On the whole, however, in the case of education there is a disposition to regard the charge for it as national, and to require the national authority to assume it.

¹ One-half of the cost to local authorities, but in addition the central authority bears the cost of central administration, and of grants to educational institutions of various kinds.

The readjustment required between national and local finance cannot be regarded, however, as a pure matter of transferring local charges in larger measure to the Exchequer. It is true that a regard for the age of various local charges is necessary, and a reconsideration of modern charges; but it is necessary to consider also the effect of the grants now made, and the effect of the most recent legislation. The last available report of the Local Government Board for England and Wales shows the proportion of public rates and imperial taxation, as the sources of the expenditure paid for by local authorities. It is only necessary to cull the effect of this table, which shows that in 1879-80 88·9 was raised by local rates, and 11·1 per cent. paid for from national sources. In 1906-7 these figures became 73·9 and 26·1 per cent. respectively. So that while thirty years ago local authorities in England and Wales found all they spent locally save 11 per cent., in recent years they have not been at any pains with regard to no less than 26 per cent. of their expenditure. That is an outstanding fact not to be forgotten in any readjustment. Another is that a revision will reconsider the aid given severally to town and country authorities, which are not treated at present quite according to the facts of the case.

This aspect of the matter is by no means completed without a glance or two at very recent legislation. The Treasury's expectation from the Land Duties of the Finance Act, 1909-10, is as yet somewhat undefined, but in a few years may be expected to reach a sum of about £5,500,000, the half of which will be devoted to the relief of local burdens. In any readjustment of Treasury grants, however, it may be assumed that this grant will be brought into the account. Much more important in every way is the effect of the Old Age Pension Act, by which, and the extension to paupers of its benefits, a sum of from £11,000,000 to £12,000,000 a year will be spent from the Treasury. Very little, much too little, has been said of this large departure in its relation to the Poor Law and the Poor Rate. That it may, and probably will, have a very important effect ultimately upon the burden from the poor is seen clearly by all who have given any attention to the matter. Now the charge for the poor is one of the old local charges which Mr. Goschen regarded, not as a rate, but a rent-charge upon all lands, all real property. That the cost of maintaining pensioners should be borne wholly by national funds means that owners of real property have been relieved of an actual and, probably more important still, of a very substantial contingent liability. When the readjustment of grants

from the Exchequer is made, it will be impossible to overlook the *per contra* account to be taken of the pension fund, not to speak of the half of the Land Duties.

Such a paper as this cannot be made exhaustive without enlarging its scope, in excess of the reader's patience. Sufficient has been given of the outlines of the question to establish the need of inquiry and action upon the relation of national to local taxation. That a term should be assigned to grants from the Exchequer, that a delimitation should be made of present grants, and that the whole should be settled with a due regard to economy and care by local authorities, are put forward as the chief objects to be aimed at. Our present practice and position, it is submitted with general consent, are such that people of every opinion (and of no opinion) are agreed that "something should be done," and that something, it is to be hoped, will be done at an early day, before the roots of the mischief cause us greater harm.

W. M. J. WILLIAMS