

CHAPTER IV.

THE REFORM ERA AND OUR FINANCIAL HISTORY DOWN
TO THE PRESENT TIME.

NATURALLY the first thing the nation expected when peace was at last secured was an immediate reduction in the national expenditure; but that was by no means the intention of its rulers, even had it been in their power. Castlereagh came home from hobnobbing with autocrats full of autocratic ideas, and spoke of an army of 150,000 men as the proper peace footing. But the minister had, in part at least, to give up ambitious dreams and attempt to reduce expenditure. It was not, however, the burdens of the poor that were first lightened. The first tax that went was Pitt's property and income tax, at the time of its abolition in 1815 bringing in over £14,000,000 per annum at its then rate of 10 per cent. In the following year the war malt-duty of 2s. 0 $\frac{3}{4}$ d. also went by the board; and these two remissions, both of which were made primarily in the interest of the ruling classes, although the latter to some extent benefited the drinkers of beer, left such a yawning deficit that the ministers had perforce to stop further remissions; nay,

they, so far as malt was concerned, retraced their steps partially three years later, adding 50 per cent to the then duty—making it 3s. 7½d. instead of 2s. 5d., to which it had been reduced. Without following the history of these years in minute detail, it may be said that down, at the earliest, to 1825 the fiscal policy of this country in all that related to the true principles of taxation and the freedom of trade was, for the most part, reactionary. There were enlightened men in the Government now and then, but they were unheeded by their stupid or lazy colleagues, and unsupported by an enlightened public opinion. Of these men the most notable were Mr. Huskisson, Mr. Wallace, and Mr. Goulburn. The last-named, when he held the office of Chancellor of the Exchequer under the Duke of Wellington, succeeded in 1829 in putting a period to the extravagances and waste of the “sinking fund,” and his voice was ever on the side of financial reform. Mr. Huskisson also did a good deal, for the time, to lessen the duties on many articles of import while at the Board of Trade in 1825. But all that these or any one did, either in the way of lightening and readjusting taxation or in reducing expenditure, was of little consequence compared with the great reforms by which Sir Robert Peel and those who supported him changed for ever, let us hope, the tendency and object of our revenue laws. Mr. Goulburn might be a free trader in 1829, and Mr. Poulett Thomson in 1834, but the nation was not so; and they and such men with them had to wait till it had learned wisdom by the things which it suffered. Notwithstanding the constant alternations of misery and plethora to which the Corn Laws of 1815 and 1828 subjected pro-

ducers and people, the sliding scale on which these laws were framed was not got rid of, nor the Corn Laws abolished, till the Irish famine of 1846-47 and the dread of troubles all over the kingdom frightened the landlords, and gave Sir Robert Peel the necessary courage. Parliament would have nothing to say to a reduction of the discriminating duties on foreign timber; coal bore down to 1846 its export duty of 4s. per ton; the duties on sugar and tobacco were but slightly reduced; that on wool was enormously increased in 1819, so was that on coffee, and although both were subsequently tentatively reduced by Mr. Huskisson and others, they were still heavy when Sir Robert Peel came into power, for the second time, in 1841. There were indeed few articles of any importance absolutely removed from the tariff before his day; and the changes, liberal as they in one or two instances had been, were mere heralds, as it were, of a better time. The object of this little work will therefore be best secured if the reader's attention be now directed to the legislation of Sir Robert Peel; but before taking up that subject it is necessary to trace briefly the progress of the income, expenditure, and debt from the close of the war downwards to 1840.

For the year ended 5th January 1817—the first year of peace—the revenue of the United Kingdom was £69,266,000, or about £10,000,000 less than in the previous year; and the expenditure, exclusive of debt manipulations, £71,600,000. There was consequently a deficit of £2,334,000 for that year. Next year the revenue fell off almost £12,000,000, as the full effect of the remission of the income and property tax and the reduction in the malt-duty were then first felt, and

there was again a deficit, although the charges for the army and navy had been brought down to £15,705,000. Between debt and these military charges, however, about £47,000,000 of the total income of £57,600,000 was taken up, and as the civil charges were steadily increasing, deficits were not to be wondered at. They continued, indeed, for years after this, for the charges of the army and navy again began to mount, and the debt charges also, as was inevitable, the refunding and other operations notwithstanding, while new debt was being contracted. In 1820 these two items took £48,740,000 of a gross revenue of barely £60,000,000, or, deducting cost of collection, of only about £55,000,000. So the malt-duty had to be raised again, and the nation staggered on with its load as best it could. Pressure of falling revenue, however, brought down the military and naval charges somewhat within the next few years, and in the year ended 5th January 1824 they fell to £14,353,000—the lowest point touched since the end of the war. That year the gross revenue was £58,625,000, but the free income, after paying debt charges £30,031,000, cost of collection £4,511,000, and these military expenses, was still only about £10,000,000. Sixty years before the total net income of the three kingdoms had barely attained this last sum. In the interval, while the population had perhaps nearly doubled, the taxation had increased almost fivefold, and it was taxation borne much more by the poorer masses of the people than it had been in 1765, although it was unequal enough even then.

One cause of the prodigious weight of the military charge of that time was the amount distributed in the

shape of half-pay and pensions paid to officers and men for various reasons—long service, wounds, meritorious actions, etc., besides compassionate allowances to widows and children of those who had been slain. At the close of the war these charges amounted to £3,398,805, exclusive of £221,752 of civil superannuations, and by 1823 the total had risen to £4,965,114, also exclusive of £343,871 for civil pensions. So onerous was this burden that an attempt was made to throw part of its weight on posterity by converting it into an annuity of £2,800,000 for 45 years; but this scheme, happily, was never fully carried out. The Government only managed to sell an annuity of £585,740 to the Bank of England, for which that institution gave £13,089,419 in payments spread over six years. A system of life annuities, however, had been started in 1808, and extended in subsequent years, by which the nation lost much money. They were designed, as Mr. Gladstone's modern annuities for fixed dates are, to facilitate the reduction of the capital of the debt. Stock was made receivable by the Commissioners for the reduction of the national debt in payment of annuities granted by them on one or two lives; but the tables on which these annuities were calculated were so erroneous, that as Mr. Finlaison, the Government actuary, calculated in 1827 the loss to the country was at the rate of £8000 per week. Up to January of that year he computed the total loss at £2,233,066, and said that the ultimate loss on the annuities in force would be £24,039,324, equal to £32,052,432 in 3 per cent stock. No wonder that this system was discontinued in the following year. Up to the date of the discontinuance,

only £11,630,000 of stock had by this means been cancelled, bearing £363,273 in annual interest, while the annuities actually in force in the beginning of 1829 came to £418,023.

The figures of income and expenditure continued much about the level given above for some years, and until Mr. Goulburn became Chancellor of the Exchequer in 1828, except that the military charges again rose to more than £16,000,000, pensions continuing a very heavy proportion. He effected substantial savings in this department; and more still was accomplished by his two immediate successors—Lord Althorp and Sir Robert Peel, the latter his own Chancellor of the Exchequer in the Tory Ministry of December 1834, of which he was head. In 1835 the naval and military charges were brought down to the lowest point since the war, being only £11,730,000, of which about £2,895,000 was for pensions and superannuation allowances. Lord Althorp, however, did one bad thing; he abolished the house-duty—save the land-tax, the only direct tax left of much importance—and retained the window-tax, though in a slightly modified form, the windows of small farm-houses being exempted. But in spite of patching here a bit and there a bit, in spite of small economies and the shifting of the burdens of the then generation on to the shoulders of its successor by the creation of terminable and life annuities, deficits again appeared. Hard times, dull trade, bad harvests, and abominable navigation laws, by which our merchant shipping was being driven from the seas, just as by similar laws the, at one time, flourishing mercantile marine of the United States has been in recent years,

caused the revenue to shrink. Remissions did not go far enough to unfetter industries or give elasticity to the consuming power of the people. Reduced taxes and economies did not go hand in hand. Thus in the year ended 5th January 1836, with a gross income of little more than £50,000,000, the net debt charges were still £28,619,000, and the naval and military charges £11,657,000. Deducting £3,684,000 for the cost of collecting the revenue, we get but £6,000,000 left to meet the charges of the civil list, Court pensions, salaries, etc., amounting in all that year to upwards of £8,000,000. In this and the succeeding two years the country, moreover, had its burdens further increased by the payment of £21,000,000 as compensation to our colonial slave-owners for the abolition of slavery. As this money had to be borrowed, the national debt charge at once rose again to over £29,500,000; and although the revenue was also a little improved, deficits continued. Driven desperate, the Whig Ministry in 1840 carried proposals to increase by 5 per cent most of the excise and customs duties, and by 10 per cent the assessed taxes. These additions yielded little additional revenue, and what they did yield was more than counterbalanced by the decline in the income of the post-office. Sir Rowland Hill's penny postage was adopted in 1839, and came into operation next year. At first so great a change naturally involved loss, and for this loss the Government had made no adequate provision. The country was weary and in a manner exhausted. Many troubles and hopes blasted had made it ripe for more sweeping fiscal changes than the Whigs could make up their minds to carry. In 1842, therefore, Sir Robert Peel got at length his opportunity.

• He had before him no ordinary task. According to the accounts summarised in the blue book of 1869, the three years preceding that ending on 5th January 1842 had brought an aggregate deficit of more than £5,000,000; the debt charges had risen fully £1,200,000 from the lowest figures of the previous decade, and there were likewise serious increases in the military expenditure, in consequence of the insurrection in Canada and the China War. They were £15,240,000 for that year as compared with the £11,657,000 to which they had been reduced in 1835. Yet the nation clamoured for lower taxation, for a complete revision of the tariff, and greater freedom of trade; the Corn Laws agitation led by Mr. Cobden and Mr. Bright had begun to take hold upon the great industrial centres of the North, and must soon leave its mark on the laws of the land. But how was Sir Robert Peel to be the man to carry out the necessary reforms?

One part of his task was simple enough. There were in the customs tariff a number of prohibitions or duties so high as to be prohibitory. Many, or as M'Culloch has it, hundreds of other articles yielded so little that it was not worth the cost of collection. These he might sweep away without much opposition from anybody; and of the twelve hundred odd items still in the tariff at that date he did, in the course of four years, thus deal with a great number. Some things, however, such as the duties on live cattle and fresh provisions, touched interests long accustomed to dominate; but he triumphed. Between 1842 and 1846 he repealed altogether the duties upon between five and six hundred articles, including raw cotton, flax, hemp, hides, indigo, sundry

oils, raw silk, sago, cattle, sheep, hogs, beef, and bacon, and reduced the duties on a great number more. With all this there remained a tariff of nearly one thousand items. Sir Robert Peel's greatest difficulty, however, was not with this side of his task. He had a large deficit to cover, as revenue and expenditure stood before he began; and it seemed, therefore, a piece of wanton foolishness to remit taxes at the very time when taxes needed to be put on. There was but one way of meeting the difficulty short of a direct increase in the land-tax, which was an impossibility. Sir Robert Peel decided to reimpose the income and property tax abolished in 1815, not as a war-tax, but in order to fill the gap in the revenue, and afford a means of reforming the obsolete and obstructive customs tariff. In this he was opposed by the Whigs, led by Lord John Russell; but after some debate his proposals were carried, and the spring of 1842 saw the first great step in the fiscal reform that has since been carried so far. How greatly that reform was needed will be understood when we state that the reduction or abolition of duties on 750 articles only involved a loss of revenue to the estimated amount of about £1,600,000. It was not, however, from their importance as sources of revenue that the reduction or repeal of these taxes was significant, but because the fiscal policy of these four years was the beginning of a new era. Henceforth taxes were to be maintained for purposes of revenue alone. The death-knell of monopolies had been struck. I do not mean to say that the spirit of monopolies was then and there slain. Far from it; that spirit exists still, and promises to continue to exist for many a day to come.

The struggle was indeed but beginning, but the first victory was scored for progress, and everything else was, and is, only a matter of time.

It has been among other things a common subject for regret that the new property and income tax was conceived in the unfair spirit of the old. It was, and is beyond doubt, an injustice to assess the casual salary, the professional income, the holder of a terminable annuity, and the recipient of a permanent income from the funds or from land all on the same lines, and the exemption of small incomes then and since made on varying scales by no means removes this essential injustice. It must, however, be recognised that but for this inequality of treatment the tax might never have been reimposed at all. Neither Whigs nor Tories liked it. Lord John Russell was not ashamed to raise the pitiful cry against it, that other nations would think the tax a sign of our decadence, and had it been imposed equitably on the rich alone, the rich of both parties would have coalesced to defeat it. The unequal incidence of the tax smoothed the way to its re-adoption, and by its help we have secured the reforms through which our trade has been emancipated. That should make us willing to forgive much. Theoretically a tax of this kind ought to fall only on realised wealth or secured incomes, and if it were possible to distinguish between the various classes of that wealth it should press most heavily on the class most assured. Practically, however, taxation on such lines is impossible in any civilised country, and statesmen can only deal with what is practical. If it was impossible for Peel to increase the land-tax, it was certainly not practicable for him to

confine the income-tax to the wealthy alone. The fact, however, that he was able to impose an income-tax in any shape speaks well for the docility of the English people. So far as I know, there is not a democratic country in the world that tolerates such a tax, and this has to be borne in mind when the reluctance of other nations to follow our free trade policy is under discussion.

By the substitution of the property and income tax, which then applied to Great Britain only, for the lowered customs duties, the deficits which had been chronic were made to disappear within two years; although owing to the fact that but little of the income-tax was received in the year in which it was imposed, the immediate result was a deficit of nearly £4,000,000. Next year, 1843, however, the revenue rose fully five and three quarter millions, customs and excise showing an elasticity that justified the highest hopes of those who advocated the change, and the result was a surplus of about £1,400,000. In the succeeding year the surplus became three and a half millions. But in 1847 the expenditure again overtook the revenue, and the account closed with nearly three millions of deficit, although the revenue, in spite of commercial crises and everything else, continued to grow. This is hardly to be wondered at since the expenditure was swollen by heavy additions to the military charges, consequent chiefly on the disturbed state of Europe, where thrones began to totter to their fall; the discontent of Ireland; and the agitated condition of Great Britain, which suffered like the sister isle, though to a less extent, from the untoward seasons and bad harvests. The military expenditure had been only £15,664,000 in 1845, but it rose to £16,865,000

in the succeeding year, and in the years 1847 and 1848 reached fully eighteen and a half millions. A similar and nearly proportionate increase took place in the civil expenditure, so that for these two years there was an accumulated deficit of nearly £4,000,000.

In the meantime, however, another great step in the reform of our fiscal system had been gained. Sir Robert Peel succeeded in wiping the Corn Laws off the statute book; or rather he had discernment enough to understand the will of the nation, wrought to the highest pitch as it was by the vigorous exertions of the famous Anti-Corn Law League and the stimulus of hunger, and he, to his honour, obeyed it. I have not followed all the tinkering and contortions which the sliding scale law of 1815 underwent in the vain efforts from time to time made to construct by its means a perfect guarantee of the gains of the land owning and holding classes and a certain producer of middling dear bread. The most notorious of these patchings, already mentioned, was that of 1828, which constituted the price of 62s. per quarter the cardinal figure, the centre pivot for wheat. At that price it was admitted from foreign ports on payment of a duty of 24s. 8d. per quarter, and for every shilling the price fell, 1s. was added to the duty. If the price went higher then the duty fell, until at a price of 73s. it reached its minimum of 1s. per quarter. The ascending scale was more arbitrary than the descending, as the duty went on and off by more irregular steps. No trade could be conducted safely under this or any such rule, and after various attempts to make the wretched law better, the last being in 1843, it had finally to be swept away. To the late Richard Cobden and to John

Bright, more than to any other men, the nation owes this reform, which has probably done nearly as much as all the successive revisions of our tariff taken together, to make England the greatest manufacturing nation on the face of the earth. To-day we are sure of cheap bread, no matter what our own fields may yield. The world has been by this emancipation made our granary. But the struggle was prolonged and bitter to a degree of which we now have little conception. And even at the last the duties on grain were not abolished at once. It was necessary to treat the landed interests more gently than manufacturers, and three years were given them to turn round, during which the duties were to fluctuate between 10s. and 4s. per quarter, according to price. After 1849 a "registration" duty of 1s. per quarter continued to be charged down to 1869, when that too was finally swept away by Mr. Lowe. So recent is the date when this essential article of food was set completely free.

Looking back over this decade of fiscal legislation, one cannot sum results up more concisely than by quoting a statement made by Mr. Gladstone in his budget speech of 1860. Contrasting that brilliant period with the darker time that preceded it, he said:—"I take the ten years from 1832, the crisis of the Reform Bill, down to 1841, during which our commercial legislation was upon the whole stationary; and I take the twelve years from 1842-53, within the circuit of which are comprehended, generally, the great and beneficial changes that Parliament has made. In the ten years from 1832-41 this was the state of things. You imposed of customs and excise duties £2,067,000, and you

remitted £3,385,000, exhibiting a balance over and above what you imposed of £1,317,000; or at the rate of no more than £131,000 a year. Now, observe the effect on the state of the revenue. During these ten years the customs and excise increased by £1,707,000, or at the rate of no more than £170,000 a year; while the increase of the export trade was £15,156,000, or at the annual rate of £1,515,000. Let us take the twelve years from 1842-53. You remitted during that period of customs and excise £13,238,000, and imposed £1,029,000, presenting a balance remitted of £12,209,000, or an annual average of £1,017,000. What was the effect on the revenue? The aggregate proceeds of the customs and excise increased by £2,656,000, or at an annual rate of £221,000. When you remitted practically nothing, your customs revenue, in consequence of the increase of population, grew at the rate of £170,000 per annum; and when you remitted £1,017,000 a year your customs and excise revenue grew faster than when you remitted nothing, or next to nothing at all. I ask, is not this a conclusive proof that it is in a great degree the relaxation and reform of your commercial system, which has given to the country the disposition to pay taxes along with the power also which it now possesses to support them? And as to the foreign trade of the country during the same period, instead of growing at the rate of £1,515,000 a year, it grew at the rate of £4,304,000.”¹

• Various attempts were made during this period to reduce the debt, and good resolutions were from time

¹ Mr. Gladstone's Financial Statements of 1853, 1860-1863, pp. 126, 127.

to time formed without bearing much fruit. After the abandonment of the cumbrous sinking fund of Mr. Pitt and its various modifications, some efforts were made to realise the ideal of the Finance Committee of 1828. It recommended that a real surplus revenue of not less than £3,000,000 in each year should be aimed at, the money to be applied in reduction of debt. This ideal was never reached. The new sinking fund established on this principle did little to reduce the amount of the debt capital between the years 1829 and 1869. If we exclude the years 1860 to 1867, when Mr. Gladstone worked marvels with the nation's finance, and take the time from 1829 to 1859 only, the budget of the first-named year alone shows the ideal surplus of £3,000,000. Without reckoning the three Crimean War years, there were five years of that period which showed a large deficiency, and only two—1830 and 1846—in which the surplus exceeded £1,000,000. Throughout the whole twenty-seven years of peace the total surplus revenue amounted to no more than £19,400,000, or an average of about £650,000 per annum. Throughout the entire period down to 1869, a period of thirty-seven years—excluding the Crimean War years—an average of only about £1,300,000 was applied out of revenue in reduction of debt. This, however, is exclusive of the reduction effected by the operation of the life and terminable annuities which, between the years 1808 and 1869, redeemed £98,003,189 of the capital of the debt and reduced the annual charges by £3,017,436.

The method of reducing debt by terminable annuities has always been a favourite one with Mr. Gladstone. It veils the operation of debt-reduction, and, by elevating

the reduction of capital to the same level of obligatoriness as the payment of interest, compels the nation to pay its debts. In time of peace no engine could be more efficient or powerful, and it is to be regretted that of late years untoward circumstances have prevented greater foundations from being laid in this way for the future reduction of debt charges. Since the mistakes of 1808 were corrected, and the conversion of stock into terminable annuities placed on a sound basis, there has been much less danger of loss to the nation by the operation.* We may therefore hope to see even greater progress made in the payment of the national debt by this method than anything hitherto done.

Going back to the subject of taxation, it may be said that Sir Robert Peel only opened the doors for our imprisoned industries, great as the progress of the twelve years 1842-53 had been. It was left principally to Mr. Gladstone himself to carry on the work of knocking away their fetters. He had, I suspect, more to do with the reforms of Sir Robert Peel than most people suppose, and at all events he learnt his lesson well in Sir Robert's school. Before, however, proceeding to sketch the further taxation reforms and changes in the revenue and expenditure of the nation, it is necessary to mention one other great emancipation, although it affects indirectly rather than directly the subject in hand. This was the abolition of the navigation laws, which, in one form or other, had sought to control the sea carrying trade of England since the days of Richard II. Born of jealousies, and upheld by false principles of public policy, these laws had especially curbed our trade since the time of the

Commonwealth. Their root-principle was the exclusion of foreign shipping from a share in the carrying trade of this country, and Cromwell's "Act of Navigation," which formed the groundwork and model for all subsequent enactments, was levelled especially at the maritime prosperity of the Dutch. For just two hundred years after his law was passed the foreign trade of the country was hampered by this spirit of exclusiveness, and only when the United States took to retaliation in 1817, and when maritime nations in Europe threatened to follow suit, was any serious step taken to modify restrictions, which for a century or more economists and actual facts had been proving to be suicidal. In 1821, 1825, and 1826, first Mr. Wallace and then Mr. Huskisson procured modifications in the rigour of the laws, but only to a limited extent, since, still principally with a view to crush the Dutch and Danes, European goods continued to be importable in British ships alone, and a number of foolish or futile restrictions were maintained upon our trade with other parts of the world. Some of the evils were got over by a kind of reciprocity policy—"I will let in your ships if you let in mine;" but it did not work well, and our foreign trade was not really thrown open to the world till 1850, when an Act passed the year before, under the guidance of the late Mr. Labouchere, then at the Board of Trade, came into force. Four years later our coasting trade was, on the motion of Mr. Cardwell, also set free, and since then, as every one knows, not only has our commerce expanded, but our shipping has developed to an extent never dreamt of thirty years ago. In unshackling the trade of other nations we, in short, unshackled our own.

• All these changes told with great force upon the wealth of the population, and upon the yield of the taxes. The gross revenue of 1841, with the dead weight of an unwieldy tariff oppressing the country, was little more than £52,000,000; in 1852, the year before Mr. Gladstone began, as Chancellor of the Exchequer in Lord Aberdeen's Administration, his great work of continuing the task of Sir Robert Peel, the gross income was £57,727,000, and of that the income-tax yielded only £5,655,000. As he points out in the extract given above, with each fresh remission of taxes the yield of the customs increased. The years immediately succeeding 1853 are burdened by the expenses of the Crimean War, and to a slight extent also by those of the Indian Mutiny; but they at least justify all that Mr. Gladstone said in 1853 in praise of the income-tax as a means of preventing unwieldy deficits. A change in the date of making up the public accounts was introduced in 1854, the fiscal year being made to end on the 31st of March in each year instead of on the 5th of January, as had been the practice since the beginning of the century, and this once more raises difficulties in the way of making satisfactory comparisons. It may, however, be stated that Mr. Gladstone in 1853 repealed customs and excise duties to the net amount of £2,088,000, and in doing so got rid of the soap duty, and reduced the customs duties on many articles of import, including tea and fruits. Tea had been paying 2s. 2½d. per lb. Mr. Gladstone at once reduced it to 1s. 10d., and had war not intervened, his scheme would have brought the duty to 1s. in 1856. Part of his reforms was the entire remission of customs duty on 123

articles, which, although allowed to clog the tariff till then, brought in a revenue of only £53,000. On a further 133 articles he made reductions involving an estimated loss of only £70,000. Nothing could better show how much had remained to be done.

More notable, perhaps, than his remissions were the duties he imposed or altered. For the first time the income-tax was extended to Ireland, and incomes of £100 were made subject to the tax, though at a rate of 5d. in the £, as against 7d. paid by incomes of £150 and upwards. But the 7d. rate was only to endure for two years, down to April 1855, then for other two years it was to be 6d., and finally, for other three it was to be 5d., after which Mr. Gladstone expected to have no more need of an income-tax. He did not know what lay before him and before the country. Another important proposal made by him that year was a modification of the legacy duty, which amounted in effect to the creation of a new duty on successions to life interests in real and ratable property, and an abolition of distinctions in the rates charged to legatees of personal estate. Out of this new duty alone Mr. Gladstone in time expected to get £2,000,000 a year of additional revenue, although for the current year he only expected to get an additional £500,000. We must also mention the introduction of the uniform penny receipt stamp as a reform of this year's budget, involving an immediate loss by an ultimate gain. The results altogether of the changes introduced in customs and excise alone was a remission of taxation of £2,568,000, although Mr. Gladstone calculated that £900,000 of that loss would be at once recouped by increased con-

sumption. But the succession duty was, as will be seen later on, too limited in its scope ever to become the source of income he expected.

Probably his anticipations would have been justified in almost every other respect but for the war. At all events, the revenue of 1853 showed no loss of elasticity, customs and excise yielding fully £900,000 more than in the preceding year. We, however, became involved in the Crimean War, and had in the beginning of 1854 to provide for a tremendous war outlay. Our military and naval forces cost the country only £16,326,000 in 1853. Between 5th April 1854 and 31st March 1863—a period which may be said to have been one of war almost throughout, for when the Crimean War was over the Indian Mutiny began, and ere the Indian Mutiny was well ended, we had to conduct a new war with China—these services cost the nation no less than £281,000,000, or an average of £31,200,000 per annum. The highest year was 1855-56, when the total reached £51,661,000.

Such an expenditure led, of course, to an increase in the debt, and in a few months the effects of the scrapings and debt-payments of many years were completely wiped out. The debt charges had been but £27,977,000 in 1854-5; in 1856-7 they were £28,786,000. No wonder, therefore, that the financial year 1854-5 was a deficit year. The budget unfolded in March anticipated a deficit of £4,506,000, but the actual shortcoming at the year's end was more than £6,000,000, and with the heaviest part of the war bill still to be paid. This deficit occurred, too, although in the beginning of April the income-tax was doubled, 1s. added to the

spirit duty (8d. only on Irish whisky), and an extra 1s. 3d. laid on malt, raising the tax to 6s. per bushel, besides some additions made to the sugar duties. These taxes were expected to add eight or nine millions to the revenue, but did not yield quite so much, and next year the new Chancellor of the Exchequer, Sir George Cornewall Lewis, estimated for a deficiency of £20,000,000. The revenue he reckoned at £63,000,000, and £16,000,000 was raised by loans through the Rothschilds. The terms were £100 in cash for each £100 in 3 per cent stock; but an annuity of 14s. 6d. per £100, terminable in thirty years, was granted to the lenders in addition, so that the Government borrowed in reality at over $3\frac{1}{2}$ —reckoning, that is, the capital value of the annuity on a 3 per cent basis at about £14; and including this capital value of the annuity, the increase in the debt was actually nearly £18,250,000. This year, 1855-56, ended with a deficit of over £22,700,000, and the year following with one of £3,250,000. In subsequent years, down to 1859-60, the income and expenditure either about balanced or left a slight surplus; but in 1860-61 and 1861-62 the heavy charges of the allied expedition to China again produced deficits. The nation, however, was very prosperous, and scarcely felt small disturbances of this kind. On the whole, too, the various Governments of that period followed with tolerable fidelity the policy of making current taxation bear as much of the war cost as possible. The Crimean War added only about £41,000,000 to the public debt burdens, although it involved a total addition to the national expenditure of, I estimate, about £73,000,000. Allowing for discounts

on the money raised by loan, it would thus appear that in the three years ended 31st March 1857 about £35,000,000 of this cost was met by additional taxation. Of this, fully £24,500,000 was drawn from the additional property and income tax, and about £7,000,000 from additional customs and excise duties.

As usual, too, war brought with it a general augmentation of expenditure, and the peace that succeeded did not see the figures brought back to their old scale. In 1853 the total cost of the military and naval forces of the kingdom was but £16,326,000, including £260,000 paid on account of the Kaffir War, but in 1858-59 the total was £21,728,000, exclusive of £392,000 on account of the China expedition and £391,000 "extraordinary expenses of the late war with Russia." Including this China War, which is put down in the accounts as costing from first to last £5,524,000, the kingdom spent £111,000,000 on its army and navy in the four years ended 31st March 1862, or an average of £27,767,000 per annum. Besides the wars, a small part of this outlay was due to the great "fortification" scheme, born of one of the "invasion panics" which Mr. Cobden charged Lord Palmerston with periodically raising in this country. But allowing for all this, and for any expense that England may have incidentally borne in suppressing the Indian Mutiny, the normal peace cost of our army and navy had been increased by fully £10,000,000 a year between 1853 and 1863. This part of the national expenditure has never at any subsequent date fallen below £25,000,000 a year. The plea for this expense is, of course, the need of greater efficiency, the Crimean War having proved the army

organisation to be in the highest degree imperfect; but however accounted for, it is a significant fact, and apparently an unavoidable result of war, so far as this country is concerned.

Mr. Gladstone in 1853 had indulged in several pleasant anticipations of progress besides the abolition of the income-tax, amongst which was a conversion of a considerable portion of the 3 per cent debt, if not the whole of it, into a $2\frac{1}{2}$ per cent stock; but war nipped them all in the bud, and when he came back in 1859 to his old post of Chancellor of the Exchequer, a post he has adorned more than any man who ever held it, his task was to provide for a new war, and a normal expenditure of nearly £70,000,000 per annum. His difficulties did not restrain him from again attempting to improve the incidence of taxation, and in the three budgets of 1860-63 we have a brilliant record of work accomplished in the face of difficulties. Seizing in 1860 the vantage offered by the falling in of £2,146,000 of terminable annuities, and emphasising the fact that the year 1859-60 would close with a surplus, but for the cost of the new China war,¹ he began to lay the foundation of many important fiscal changes to take effect when peace should be restored. Few changes seemed possible that year, but the commercial treaty with France had just been concluded, and left the Government no choice but to lower considerably the duty on French brandy

¹ There was actually a surplus shown for this year by reason of a payment by Spain of a debt of £496,385, part of which came to hand before the financial year 1859-60 closed. The surplus, however, was only estimated at £65,000, whereas the blue book accounts show an actual surplus of £1,594,000.

and on wine, as well as to abolish wholly the duties on manufactures not subject to excise in this country. By retaining the war-duty on malt, and by adding 1d. to the income-tax, and at the same time providing for the collections of three-quarters of it within the financial year instead of two, Mr. Gladstone was able to propose a relief to the taxpayers, which he estimated at nearly £4,000,000. One part of his scheme, however, the abolition of the excise paper-duty, by which £1,000,000 of revenue would have been surrendered, was thrown out by the Lords in its first form, and Mr. Gladstone was able that year merely to readjust the import-duty; but in the succeeding year this tax was wholly abolished.

The effect of the free trade changes introduced in 1860 was, roundly speaking, to knock some 370 articles off the tariff, and to reduce and readjust more equitably those that remained. In short, the era of customs reform might in one sense be said to have nearly reached its close, because of the few articles that now remained to operate upon. And the progress, all things considered, had been rapid. "The number of articles subject to customs duties," said Mr. Gladstone, "on the first of January 1842 was 1052. In 1845 it amounted to 1163 articles, for the first operation of the reform of the tariff was to multiply the number of articles in consequence of the transition from duties *ad valorem* to rated or specific duties, which of necessity caused an increase of the headings under which they were described. In 1853 the number of articles was 466; lastly, on the 1st of January 1859 it was 419."¹ His new budget reduced the number of principal articles to 48, divided into three classes.

¹ Budget Speeches as cited above, p. 179.

Such, however, was the elasticity of the revenue from the increase of consumption and of population, as well as from the expansion of trade, that the loss to the revenue from changes of this kind was extremely temporary. The whole of our recent fiscal history is a complete vindication of the policy of remitting and reducing duties so that nothing should remain on the tariff which did not contribute a substantial sum to the revenue, and in order that it might do so should bear no duty high enough to preclude its passing into general consumption. By the remissions of 1860 that ideal was nearly attained. As an example of how the remissions worked, I may mention that the imports of French wines increased at once by 127 per cent on the reduction of the duty. On the whole of the articles on which the customs duties were repealed in 1860 the immediate increase in the import was $40\frac{1}{2}$ per cent, although the year 1861 was in some respects a highly unfavourable one in which to judge of the purchasing capacity of the nation.

Henceforth the chief task of Chancellors of the Exchequer when in a position to remit duties lay in the readjustment of the internal revenue. In 1861 Mr. Gladstone accordingly felt justified in taking off the additional penny of income-tax imposed the year before, his original estimate of revenue, £71,000,000 odd, being about the largest till then ever made in time of peace—for except in China we were then at peace—in our history. This brought the tax back to 9d. on incomes of £150 and upwards, and 6d. on incomes between £100 and £150, the scale imposed in 1859, and with the repeal of the paper-duty constituted the chief reforms of the year. The China War caused a deficit in

1860-61, a vote of credit amounting to £3,800,000 having been taken for it in July 1860, of which £3,000,000 was spent within the year, and a further £1,000,000 was asked for in the estimates of the current year 1861-62. Yet Mr. Gladstone felt able to remit taxes to the net amount of fully a million and a half within what remained of that year, and equal to at least £2,000,000 on a whole year's revenue. He also made minute changes all tending to relieve the population or unfetter trade, such as the reductions in the cost of hawkers' licences, and in sundry descriptions of stamps; changes, however, which had little effect on the revenue.

Nothing of importance occurred in the budget of 1862 except the abolition of the customs and excise duties on hops, and the readjustment of the wine-duties in the form that has been retained till the present day. In 1860 four different duties were established—1s., 1s. 9d., 2s. 5d., and 2s. 11d., the lowest being payable on wine under 18 degrees of alcoholic strength. Subsequent to 1862 the duties were 1s. per gallon on wines below 26 degrees, and 2s. 6d. on all above that strength up to 42 degrees. This, though imperfect still, was an important simplification of a cumbrous, though much reduced tax. Brewers' licences were also readjusted in such a manner as to make them compensate in a measure for the loss of the hop-duty; but altogether the changes did not affect the estimate of revenue to an amount worth mentioning one way or another. The absence of further great reductions this year was not due to any growth in the ordinary expenditure of the nation. On the contrary, that was becoming upon the whole reduced in spite of the large amounts

devoted to fortifications; still it was about £70,000,000 all told, and represented an enormous expansion on ten years before. Once rid, however, of the China War charges, the country began to enjoy some taste of the benefits accruing from the large reductions in the debt and other charges, and the expenditure for the year 1863-64 was only £67,849,000, including £800,000 spent on fortifications. That of the succeeding year was less still by about £800,000, and that of 1865-66 fell to £66,467,000. A slight increase took place in the expenditure of the succeeding year, but the revenue insured, notwithstanding, a large surplus at the year's end. In these two years £1,180,000 was spent on fortifications. As the revenue continued to maintain its level of over £70,000,000 in each of the two first years, and as — always except in China — peace was maintained throughout the whole six whose budgets were introduced by Mr. Gladstone, it follows that this was one of those happy periods, all too brief and infrequent, of taxes remitted and of debt reduced. The progress would probably have been greater than it was in both directions had not the American Civil War put so severe a strain upon our cotton industries; and yet the effects of the cotton famine were marvellously slight upon the revenue. Directly the pressure was taken off our commerce bounded forward faster than ever; but even in 1864 Mr. Gladstone was able to declare that our foreign commerce was nearly threefold what it had been in 1842, when the free trade policy first began to take solid effect. In 1863 Mr. Gladstone, so far from being embarrassed by the cotton famine, was able to foresee a surplus of over £3,700,000,

and on the strength of it he reduced the income-tax from 9d. to 7d., readjusted its incidence on small incomes, proposed to reduce the tea-duty down to 1s., and equalised the duty on chicory and coffee. He tried also to tax public charities and trust-corporations, but the clamour raised in the name of charity against that proposal insured its defeat. The amount thus lost to the revenue Mr. Gladstone estimated at £216,000 per annum, taking the income-tax at 7d. in the £, and it was and is no doubt an anomaly that property of this kind should go tax free. Public opinion, however, has never expressed itself very forcibly on the subject, and the question is not likely to come up again now until the much greater one of the misuse of charitable funds grows burning.

The three years 1864-66 were uneventfully prosperous, and their budgets do not need to be detailed. Each year Mr. Gladstone had to deal with great estimated surpluses, and each year he reduced taxation, paid off debt, and increased the economical working of the administration. Reforms in this last direction were much needed, but the range over which they could be applied was very limited. Debt and so-called national defence absorbed together about 83 per cent of the free revenue, leaving only 17 per cent for civil purposes, and in the matter of the debt and the military services economies were very difficult. Some progress, however, was made in reducing the debt charges, which were £250,000 less in 1866-67 than in 1860-61. The cost of the army and navy was also considerably reduced between 1863 and 1867—about £2,280,000, if we exclude the annuities paid each year for “fortifications.”

But very little was done to reduce the civil charges, some of the items in which, such as salaries and cost of collecting the revenue, had an irrepressible tendency to grow.

More might have been done to reduce debt had taxes been retained, and the surpluses employed to buy in and cancel stock. Mr. Gladstone, however, preferred to remit taxation, and only in his last year of office did he retain any considerable sum with which to pay off debt. The remissions of 1864 amounted to more than £3,000,000, including another penny taken off the income-tax, and considerable reductions of duty on sugar and molasses, that on refined sugar being reduced from 18s. 4d. to 12s. 10d. per cwt. In 1865 the remissions were larger still, the estimated surplus being over £4,000,000. Twopence more was taken off the income-tax, reducing it to 4d., and bringing in sight once more Mr. Gladstone's goal, its total abolition. The tea-duty was reduced by one-half from 1s. to 6d., and the duty on fire insurances was lowered to the uniform rate of 1s. 6d. per cent. These remissions amounted in all to about £5,344,000, and yet, in the succeeding year, such was the elasticity of the revenue, Mr. Gladstone could again count on a surplus, which he estimated at £1,350,000. With this he abolished the duties on timber and pepper, and reduced the customs duties on bottled wines of less than 26 degrees of strength, making also various other changes involving a loss of revenue to the estimated amount of £601,000. The balance of the surplus was to be directed to sinking fund purposes by Mr. Gladstone's favourite method, the creation of terminable annuities; but the commercial crisis, the war between Prussia and Austria, and Italy and Austria,

with the disturbed state of the Continent which these struggles induced, and above all, the enfeebled state of the Government, sorely tried by the opposition and the "Adullamites" on its reform measures, led to the abandonment of the scheme. Next year, however, it was partially adopted by Mr. Disraeli, who was at first Chancellor of the Exchequer in the short-lived administration, of which he became the head on Lord Derby's resignation of the Premiership in the beginning of 1868. He converted £6,000,000 of stock, costing £180,000 per annum in interest, into an annuity of £444,000, expiring in April 1885. Of the gross estimated surplus of £1,200,000 he proposed to keep £250,000 or so against contingencies; and the resolution was wise, for owing to the Abyssinian War, and to the increase in the general costliness of the public services, the year ended with a considerable deficit. Mr. Disraeli estimated his revenue at £69,340,000, and the actual income was £69,600,000. But the expenditure, instead of being only £68,134,000 as estimated, reached £71,759,000. Deducting £2,000,000 charged that year to the war, the ordinary expenditure still exceeded the estimate by fully a million and a half, about £700,000 of which was due to the increased cost of the civil administration.

The period of surpluses was thus for the time at an end; that of free expenditure, deficits, and increased debt, again in full swing. A November session of Parliament was necessary in 1867 to sanction the credit of £2,000,000 asked for the Abyssinian War, and in April 1868 the new Chancellor of the Exchequer, Mr. Ward Hunt, had to raise the income-tax to 6d. He estimated the total cost of the war at £5,000,000, and thought that,

with the help of the additional twopence of income-tax and £1,000,000 of Exchequer bills issued in anticipation of the proceeds of that tax, he would not only pay everything, but leave a surplus of more than £700,000 at the year's end. He was far too sanguine. The war cost £2,000,000 more than he counted on within the year, and when the accounts were made up at the year's end they showed an income of £72,592,000 from ordinary sources, and an expenditure of £75,491,000. The deficit, therefore, was nearly £3,000,000, and this the new Government had to face when it came into power. This was a marked change from the years that preceded 1867, and it is worth while looking back a little to sum up the results of one of the most prosperous periods in the financial history of the country.

Between 1859-60 and 1866-67 Mr. Gladstone repealed and reduced taxes to the net amount of more than £12,200,000. Granting that £2,146,000 of this was made possible by the falling in of that amount of terminable annuities in 1860, there still remains fully £10,000,000 of taxation remitted, in spite of several adverse circumstances, chief among which was the China War. This figured in the estimates, as has been already stated, for £5,524,000, but Mr. Gladstone put its total cost at £7,554,000, and it was met from revenue. Considerable additions were during this time made to the cost of the national debt through the creation of new terminable annuities; but, except for the "fortifications" scheme, this implied no addition to the debt capital. On the contrary, a steady reduction went on, of which the country is even now reaping, or will very soon reap the fruits. All this was done, and yet the ordinary

expenditure was brought down from about £70,000,000 in 1860-61, to £66,467,000 in 1865-66, the last complete year of the then Government.

In two years' time the good effects of this economy were nearly obliterated, in part by the war, but also perhaps partly because, in 1866, the nation suffered from a financial "panic," not exceeded in severity by that of 1825. Its effects lingered till 1869, and without doubt told upon the revenue. But the expenditure likewise grew. Excluding the Abyssinian War charges altogether, and deducting besides the £264,000 net added to the debt charges by Mr. Disraeli's annuity, we find the ordinary expenditure of 1868-69 back again at almost exactly £70,000,000. Deducting the outlay on fortifications for both years, as well as every other "extraordinary" outlay, and Mr. Disraeli's annuity charge, the exact figures were—1865-66, £65,907,450; 1868-69, £69,701,909. This gives a difference of £3,794,459 in favour of the earlier date, certainly a rapid expansion, for which it is difficult wholly to account. It may, however, be mentioned that the outlay on public buildings was greater by £300,000 in 1868-69 than in 1865-66; that nearly a million more was spent on law and justice; and that the cost of collecting the revenue rose by nearly £400,000. "Superannuations and charities" also took about £50,000 more, and there was a slight increase in the charges for salaries in the public departments, but these minor alterations are merely incident to the conditions upon which the public departments are established. And as for the greatest increase of all,—that under the heading law and justice,—it was due, for the most part, to the arrangements

then being made for the erection of the new central Courts of Law, now nearly completed. The "Carey Street site," ultimately purchased, cost about the sum represented by the increase.

The financial history of the years 1869 to 1880, over which we must not linger long, is fully as chequered as that of any time within the Reform period. After 1868 surpluses were again for a time the rule, and they for the most part coincided with a time of unexampled prosperity. The trade of the country, to use a phrase become hackneyed, moved forward by "leaps and bounds," and attained dimensions never before heard of. The revenue was therefore elastic, and the management of the national finances reasonably adroit and economical. Hence, up to 1874, the remissions of debt were large, and the reforms in taxation considerable, notwithstanding a few rather untoward circumstances. There were no wars, but sundry bills arising out of old strifes fell to be paid. When Mr. Lowe, as Chancellor of the Exchequer in Mr. Gladstone's Administration, formed in December 1868, brought in the budget for 1869-70, he had to provide for a further £2,000,000 on account of the Abyssinian War. Originally estimated to cost £3,000,000, and then various sums up to £7,000,000, it ultimately cost about £9,000,000. Mr. Lowe would therefore have had no surplus worth mentioning had he not followed Mr. Gladstone's example at an earlier period, and rearranged the collection of sundry assessed taxes, and the land and income tax, and house-duty, so as to make them payable in one sum in the first quarter of the year. This readjustment, much cried against at the time and since, but, on the whole, a most economi-

cal and satisfactory one for the people, gave him a surplus of £3,382,000, with which he proceeded to repeal the "registration" shilling duty on imported corn, the fire insurance duty, and a penny of the income-tax, reducing it to 5d. Sundry petty duties, on hair-powder, post-horses, cabs, and carriages, were also either repealed or largely reduced; and licences for the sale of tea were abolished—the whole of the changes involving an ultimate remission of £3,060,000 of taxes, and giving for the current year a relief of £2,940,000, and an estimated surplus of £442,000. But with every readjustment this great relief could not have been accomplished without a return to administrative frugality. The charges for the army and navy, which had been £26,367,000 in 1868-69, without reckoning the war expenditure, were at once reduced to £23,323,000, and were kept down until the abolition of army purchase, and the reorganisation scheme of Mr. Cardwell, again brought up the cost of the army alone by about £2,400,000 a year, from £13,430,000 to £15,862,000, including the expenditure of the new army purchase commission. Since 1871 down to 1879, the last year for which the item is separately given, the abolition of the purchase of commissions in the army has alone cost the nation £4,392,000.

Although the remissions of taxes were so large in 1869-70, and the change in the mode of collection so much to its advantage, the prosperity of the country was so great that next year Mr. Lowe was again in a commanding position for dealing with the national finances. He had estimated for a surplus of over £5,300,000; the actual surplus was £7,869,000. Out of that, £4,300,000 had been paid for the Abyssinian War, and various

other debts were wiped out, the total reduction being £7,886,000, against which, however, had to be set £7,000,000 raised on consols issued to pay for the internal telegraph system then taken over by the Government. For the current year 1870-71 his estimate was a surplus of £4,337,000 ;—revenue £71,450,000, and expenditure £67,113,000, the latter being once more back to something like that of five years before. With this surplus—forestalling it, as the budget manner is, for the Chancellor of the Exchequer, it must never be forgotten, always deals with the coming year in his treatment of taxation—he took another penny off the income-tax, making it 4d., reduced the sugar-duties by fully one-half—to 6s. per cwt. for refined kinds—and made various minor changes, involving a net remission of taxation to the amount, ultimately, of about £4,000,000, and causing an actual loss of about £3,260,000 within the year, which, such was the elasticity of the revenue, was nearly half a million less than his estimate. The receipts for this year were £69,945,000, and the expenditure £69,549,000, so that there was again a small surplus, although within the year £1,350,000 had been voted to provide for contingencies that might arise out of the Franco-German War.

Next year the changes in the army already mentioned—changes induced and hurried on mainly by the successes of Germany—involved a heavy increase in the expenditure, which the Government at once met by increased taxation, not by debt. Mr. Lowe estimated that the deficit would be £2,713,000, and proposed to meet it by partially rearranging the legacy and succession duties, by which he hoped to get £350,000 more ;

by increasing the income-tax through a conversion of this tax into a rate of 8s. 4d. per £100 for each penny levied; and by taxing matches. But these proposals were not accepted. The wealthy classes objected to any increase in the legacy and succession duties, and the match-makers in the East End set up a dreadful outcry against the match-tax, although it is a tax levied in many other countries, and in principle as unobjectionable as the tax on tobacco or beer. Both these proposals, however, had to be abandoned, and ultimately 2d. was added to the income-tax. The prosperity of the country again brought the year out with a handsome surplus, and Mr. Lowe was able to estimate that on last year's basis the year 1872-73 would give him a surplus of £3,600,000; so the 2d. imposed the year before on the income-tax was at once taken off again, and the limit of abatement raised from £200 to £300 per annum, while the abatement itself was fixed at £80 instead of £60. He likewise reduced the duty on coffee and chicory, and extended the exemptions from inhabited house duty to shops and warehouses. With all these reductions the actual income of this year was £76,609,000, or more than that of the year before by fully £2,000,000. From actual taxation the income was £1,000,000 more. The total was £76,609,000, and the total expenditure £70,714,000. Next year, 1873-74, Mr. Lowe was therefore once more able to look forward to a great surplus, but the further remissions it might have made possible were stopped by the necessity of paying the Geneva award of £3,000,000 to the United States on account of the *Alabama* claims. This was met out of revenue, and still there was room for some remission

of taxation, for the estimated surplus was £4,746,000, such being the marvellous result of the immense business activity of the country. The sugar-duties were accordingly further reduced by one-half—to 3s. per cwt. on refined kinds, and from 2s. 4d. to 2s. 10d. on the leading classes of raw—and another penny was taken off the income-tax, making it 3d., the lowest figure it had touched since its reimposition by Sir Robert Peel in 1842. Still the revenue grew, especially the excise revenue, which, with never a break, mounted from about £20,500,000 in 1868-69 to more than £27,000,000 in 1873-74. Allowing for the transfer of sundry assessed taxes, such as the dog-tax, from the heading "taxes" to that of excise, through the substitution of licences for duties in 1870, which may represent about £2,000,000 of this increase, here was surely a marvellous elasticity, justifying Mr. Lowe's sarcastic remark that the country had drunk itself out of debt. Though sarcastic, it was in a measure true. The spirit-duties alone yielded fully £3,200,000 more in 1873 than in 1868, and the malt-tax rose in the same time by nearly a million and a quarter. So in spite of remissions the year 1873-74 showed a gross income of £77,336,000; the *Alabama* claims were paid out of the year's income, £800,000 provided for the Ashantee War, and yet the year finished with a surplus of nearly £1,000,000.

Defeated at the polls, Mr. Gladstone's Government went out of power in the beginning of 1874, and the Conservatives took its place. They found, on the basis of the previous year's taxation, a prospective surplus of nearly £6,000,000—the surplus in which Mr. Gladstone

saw the realisation of his long-deferred abolition of the income-tax. Mr. Disraeli's Cabinet did not carry out that programme, and on the whole it was wise in not doing so, for, if unequal in its incidence, it is a just and necessary tax when viewed as a counterpoise to the other great sources of national income which are "indirect," and therefore levied, for the most part, upon the masses. But his Chancellor of the Exchequer, Sir Stafford Northcote, took off yet another penny, bringing the tax to 2d., thus keeping it alive. He likewise abolished the sugar-duties and the horse-duty and horse-dealers' licences. This did not swallow all the surplus, but the rest was devoted in part to the relief of local burdens, comprising a payment of £240,000 for lunatics, £600,000 for police rate, and £170,000 of augmented rates on Government property, or £1,010,000 in all given out of imperial to local revenue at one sweep. In succeeding years that sum was to be raised to £1,250,000 by further payments towards the cost of keeping lunatics. This was, taken altogether, a very dubious use to put the surplus to, and the bad features of the budget were not much relieved by the creation of £450,000 of terminable annuities, and the slight reduction of debt thus provided for. However, such as it was, this budget embodied the last of the great surpluses. Henceforth the country was to enjoy for a time experiences of another kind. The tide of trade had turned, and the wealthy classes, as well as some of the great industries, were, for the succeeding half-dozen years, to be impoverished and crippled by the collapse of foreign loans and the severe fall in prices. But although these told upon the revenue to some extent,

there was no substantial or important reduction in the income for 1874-75. On the contrary, nearly half a million more than the budget estimate came in, and with economy the Chancellor of the Exchequer ought to have been able to look forward to another large surplus. But he modestly and sensibly, knowing the drift of things, contented himself with looking for almost none at all, and the only notable feature of the year was his institution of a new sinking fund, to take effect from 1877 onward in the purchase and cancelment of stock. This fund consisted in the difference between the amount required annually for the interest, etc., of the debt, and a fixed sum of £28,000,000 to be set aside each year out of revenue sacred to its service. It, in fact, put this £28,000,000 into the position of a terminable annuity, but this arrangement only served to demonstrate the impossibility of paying debt except by means of actually realised surpluses. There is no such thing possible as an automatic "compound" reduction of national liabilities by any other "plan."

This the inexorable logic of facts very soon proved, for with the outbreak of troubles in Turkey our Government was drawn into various unlooked-for expenditures. These immediately exceeded the revenue which had begun to show inelasticity through the dulness of trade, and was, through the usual growth of expenditure, beginning to prove insufficient in any case. By 1876 the Chancellor of the Exchequer, therefore, had to face a deficit, and saw in prospect his "sinking fund" vanishing. It would soon be nearly all required to pay interest on the new debt. Before the end of 1875 some

£4,000,000 was spent in the purchase of a number of shares in the Suez Canal from the then Khedive of Egypt, by which means he was saved from immediate bankruptcy. This investment has hitherto paid, but other expenditure did not, and in 1876-77 the Chancellor had to put a penny on the income-tax to meet an expected deficiency. In the succeeding three years ending with 31st March 1880 the expenditure mounted to such figures that the revenue was totally unable to cope with them, although the income-tax was raised in 1878 to 5d. in the £, and about 4d. per lb. added to the customs duty on tobacco. These, and one or two minor changes, constituted all the additional taxation proposed, and the state of the country hardly justified much increase of taxation. Ever since 1874 its trade had been to some extent depressed, and no longer "bounded" forward. A time of stagnation in the customs and excise revenue consequently followed the brisk period, when a lavish people joyously drank themselves out of debt, and the difficulty of the Chancellor of the Exchequer was to know what to do with his surpluses. The agricultural interest especially began to suffer from a variety of causes at the time when Sir Stafford Northcote was most in need of money, and that rendered the Government still less willing to directly burden the people. In short, they followed the middle course of slightly increasing the taxes, and leaving the major part of the deficits to be made up by borrowing. Partly because of this course, but also because of the variety of the claims made upon the Government, and the arbitrary setting aside of £28,000,000 a year for the service of the older debt, the constituent parts of the new debt be-

came a little ravelled. Money borrowed through the Government for local purposes, and repayable at distant dates, was raised by the issue of Treasury bills with three or six months' currency, and a so-called temporary loan of £2,000,000 to India, repayable without interest in three yearly instalments, was raised by an issue of perpetual consols. In one form or other the floating debt grew till it amounted on 31st March 1880 to £27,345,000, including the unredeemed capital of the Suez Canal shares. When Mr. Gladstone retired in 1874 the floating debt was under £4,500,000. At that date the revenue was nearly £77,000,000, and a surplus of £6,000,000 was anticipated. In 1880 the revenue had risen to £81,250,000, and there was an anticipated deficit on the year of about £3,000,000. Such was the change that a time of agitated public feeling, of wars and rumours of wars, of bad trade and changes in the treatment of the national expenditure, had produced in six short years. The contrast may be summed up in a sentence.

During the five years ended 31st March 1874 the revenue aggregated £374,000,000, or an average of £74,800,000 per annum, and the expenditure £357,000,000, or an average of £71,400,000. On the other hand, during the six years ended 31st March 1880, the aggregate income was £474,800,000, or rather more than £79,100,000 per annum, while the expenditure amounted to £481,000,000, being an average of fully £80,000,000 per annum. Thus roughly contrasted, the first period shows an average expenditure of fully £8,500,000 per annum less than the second, and an aggregate realised surplus on the five years of £17,000,000, as against an aggregate deficit

of £6,000,000, exclusive of the greater part of the war costs in Afghanistan and South Africa.

This, however, is not nearly a complete statement of the case, for we must look at the amount of debt paid off or added in each period, and at the amount of taxation repealed or imposed, before a just estimate of the altered circumstances can be formed. In this respect the contrast is also marked, for whereas about £6,000,000 was paid out of revenue on account of the Abyssinian and Ashantee Wars and the *Alabama* indemnity during the first period, it was still found possible to remit taxation to the net amount of £12,500,000, while the necessities of the six succeeding years both added to taxation and prevented any sensible reduction of debt. The net remission of taxation, down to and including the surplus of 1874, was £16,500,000. At the same time the debt was reduced in amount, not merely by the steady operation of the terminable annuities, but by actual purchases of stock out of surplus revenue. In the year 1873-74 alone stock of the nominal value of £4,545,000 was thus bought and cancelled, and the estimated reduction of the debt by all agencies was £27,000,000 during the five years then ended.

In the succeeding years, notwithstanding the augmented resources furnished partly by increased taxation, the outcome was very different. After 1874 there were no remissions of taxation worth notice, but taxes to the net amount of £5,500,000 per annum were imposed between 1875 and 1880, and the creation of new debt went on so fast, in one form or other, as almost to neutralise both the operations of the terminable annuities and the new sinking fund. The official figures place the

debt at £774,000,000 on 31st March 1880, as against £776,000,000 in 1874, showing a reduction of only £2,000,000 by every agency in the entire period; but it would not be fair to say that the microscopic amount of this reduction is merely the product of war and waste. Some £4,000,000 of the new debt was, it must always be remembered, the price of the Suez Canal shares. The broad fact, however, is as has been stated. And the pressure has continued, for succeeding budgets have presented none of the features made familiar by the prosperity periods of 1860-66 and 1869-74. A slight change has been made in the form of a tax by the substitution of a beer-duty for the previously existing malt-tax, but another penny had to be put on the income-tax in order to find means to do that. This penny has since been taken off, without, however, affording any solid abatement of the public burdens, which are now of such a magnitude as to cause anxiety for the future, although, as I shall have to explain presently, the enormous growth in the totals of income and expenditure within the last ten or twenty years is by no means wholly the result of increased taxation.

We have now arrived at the end of the historical part of this essay, so far as the national finances are concerned; and brief and fragmentary as is the story here told, it may, I trust, enable the reader to comprehend more readily the position of the income and expenditure of the present day, which is, after all, the most important subject to be handled. To that we shall therefore now turn.